Guidance Note

**LFA Terms of Reference for Finance Spot-Checks[[1]](#footnote-1)**

**Background**

1. In line with the Combined Assurance Approach to fulfill the country- or grant-specific information needs and risk management requirements of The Global Fund, LFA provides independent assessment and verification services through risk-based approaches at various stages of grant implementation. One of such services is finance spot-checks carried out by LFAs.
2. A finance spot-check represents a limited in scope and scale review and verification of certain, very specific program activities (interventions) or implementers that are considered high risk, high importance (for the delivery of the program) or for which limited information is available through other means (e.g. regular standard grant reports).
3. The LFA spot-checks is an assurance activity in the Global Fund risk management cycle. The outcome of an LFA spot-check also complements grant/implementer capacity/risk assessments and informs the Country Team as to the required changes thereof and additional mitigation actions as needed. Further to this, spot-checks may be helpful to unveil additional critical issues and risks that might have eluded the LFA and other assurance providers’ attention earlier. Consequently, the scope and scale (sample size) of spot-checks needs to be tailored to specific finance management aspects or areas requiring scrutiny.
4. To verify whether implementers are fulfilling their roles and responsibilities within a grant program, the LFA is requested to review various aspects/areas of the program implementation as selected by the Country Team from the indicative scope (Annex 1). Such review is expected to be undertaken mostly outside of the PR head office, at the sub-implementer level, but may still cover PR in cases where PR has regional, local or field offices not otherwise covered by other regular standard LFA deliverables (such as review of the PU/DR for instance).
5. Also, the specific aspects/areas to be reviewed during spot-checks can be proactively identified and proposed by the LFA during the course of the implementation but shall be discussed, agreed with the Country Team and approved by the FPM. No spot-checks or verifications shall be undertaken without an explicit approval, for it is critically important to avoid duplication of work and verifications done by the LFA and other assurance providers.
6. It is for the Country Team to decide upon the frequency, coverage, nature and scope of such spot checks depending on the risk profile of a particular grant program or implementer, as well as other circumstances. The scope of work and Level of Effort (LOE) will be different in each individual case considering specific aspects pertinent to the objectives, nature and location of the requested spot-check, and shall be agreed between the Global Fund and the LFA with the TOR approved in writing.
7. This document represents a pro-forma TOR for LFA financial spot checks that should be tailored by Country Teams to specific needs in each particular case and agreed with the LFA prior to the assignment. It outlines aspects/areas to be verified by the LFA in performing financial spot checks (see Annex 1), expected deliverables and reporting requirements thereof (see Annex 2).

**Objective of LFA Spot Checks**

1. The objectives of undertaking LFA spot checks are to verify:
2. Whether specific program activities have been implemented as expected, in line with the approved work-plan and budget and in compliance with the Grant Agreement and other applicable requirements of the Global Fund;
3. Accuracy of financial information reported by the implementer, availability and adequacy of documentation supporting program activities and the implementer’s reports;
4. Quality, effectiveness and efficiency of program implementation where relevant;
5. Whether the implementer has any critical internal control and/or capacity gaps;
6. Whether critical issues/risks are duly mitigated by the implementer, and to proactively identify additional matters requiring attention.
7. Spot-checks should aim at gathering a meaningful, representative view on activities. As such, planning of such reviews should include considerations for the selected sites with the view to ensure that the sites reflect the reality of the program implementation (rather than serve as a showcase), the sample size and the pertinence of extrapolating findings. As with all LFA services, verifiers must be independent and have the requisite expertise to evaluate the substance of the activities verified.

**Announced/unannounced Spot-checks**

1. The LFA spot checks can be:
2. Announced – when the LFA provides an advance notice to those implementers, organizational units, facilities etc. that are to be spot-checked (as well as to the PR when spot-check covers their sub-implementers);

1. Unannounced – when no advance notice is given and spot check comes unexpected to the implementer (however, PR would normally need to be informed when spot-check covers their sub-implementers unless the nature of the spot check requires otherwise).
2. Generally, the LFA should give the PR and other implementers advance notice of its intention to meet with program staff and/or review program records and sites. In cases where the spot check needs to be unannounced (e.g. suspected irregularities), this has to be authorized by the Country Team and reflected in the TOR.
3. In some cases, unannounced spot checks are not possible due to legally restricted access (e.g. prisons, certain medical facilities etc.). In such cases, all necessary authorizations should be obtained well in advance, as necessary.

**Scope of Work and Selection of Implementers**

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| Grant to be reviewed: | *Standard name of the grant(s) concerned* |
| Principal Recipient: | *The name of the PR to be covered by the spot check* |
| Implementers: | *The names of the implementers to be covered by the spot check* |
| Geography: | *Specific geographic area(s) or site(s) to be covered by the spot checks* |
| Type of spot check: | *Specify whether the spot check is announced or unannounced* |
| Period covered: | *Where relevant, specific time period that will be under the LFA scrutiny* |
| Sampling methodology: | *Specific details of the sampling methodology to be used by the LFA in the spot check* |

1. The Global Fund Country Team and the LFA will agree, where relevant, the sample size for each spot check. The sampling methodology and the sampling approach and criteria should be discussed with and endorsed by the Country Team before the sites are selected given that the sampling approach, the types and the number of sites selected need to make sure the specific risks in the program are addressed appropriately and will have implications for the LFA LoE, as well as other direct costs.
2. It is important however to underscore that spot-checks are not intended as any kind of audit, full-scale review of implementers’ expenditure or internal controls, or a thorough capacity assessment. Therefore, the sample size (of financial transactions, inventory etc.) selected for LFA testing shall be reasonable to arrive at an informed conclusion but targeted and tailored to high-risk, mission-critical aspects.
3. Financial spot-checks should be undertaken by the LFA finance experts under the supervision of the LFA Team Leader. They can be further supported, as needed, by other LFA team members in the planning and during the verification. The final list of LFA experts should be discussed and agreed with the Country Team before the spot check commences.
4. The LoE for this assignment, including report writing, depends on which specific aspects[[2]](#footnote-2) are requested by the Country Team to be included in the review, as well as on the number of sites and their geographic location. The Country Team should amend the ToR to reflect only those specific aspects/areas that are relevant and need to be reviewed by the LFA during the spot check.
5. As in most cases, the LFA will be required to travel to the implementer’s field sites. The LFA is encouraged to maximize efficiencies in terms of travel logistics etc., for example by combining spot-checks and other verification work (e.g. review of budgetary revision/reprogramming requests, other verifications requiring field visit).
6. The spot check will involve review of documentation including but not limited to invoices, bills and receipts, work plans, budgets, training records and results, per diems, meeting minutes and reports, disbursement request, bank statements, payment vouchers, interviews of key officials. Depending on the specific scope of the assignment as agreed between the LFA and Country Team, the overall procedures could also involve review of financial reports, evaluating policies and procedures, general management structure, internal control environment, business processes and workflows, lines of accountability for compliance with the Global Fund’s requirements, as well as for financial and programmatic results.
7. The data sources will be the financial and, where needed, programmatic records[[3]](#footnote-3) (e.g. patient registers, site visit reports etc.) kept by the implementer(s), as well as interviews with clients, employees, other stakeholders and concerned parties involved (e.g. suppliers, contractors etc.) where necessary.
8. If there are any specific aspects or important relevant information that are not reflected in the implementer’s records and grant documents (e.g. other donors’ financial assessment report(s), new grant proposals that recently came in etc.), the TOR shall outline key background materials for LFA to review before commencing the spot check so that the latter is adequately contextualized.

**Carrying out Spot-Check**

1. After the final scope of work (SOW) and LOE is agreed with the Global Fund Country Team through the TOR, the LFA shall plan the execution of the spot check (including meetings and travel arrangements accordingly).
2. Some assessment areas may be focused at the central level, undertaken only at PR and/or SR head offices, while others may require work at the regional level, district level, health facility or community level where relevant. Some aspects could be verified solely based on a document review while others could require additional procedures. In any case, should the spot check be focused at the PR head office level, the verifications performed by the LFA and aspects covered should not duplicate those already performed as a part of PU/DR review.
3. Each aspect/area that has been pre-selected[[4]](#footnote-4) by the Country Team for review and included in the ToR shall be considered thoroughly using the agreed and reflected in the ToR sampling methodology, and findings should be presented based on the LFA’s document review and/or interviews. The LFA should review supporting documents/evidence of the responses further provided by the implementer’s management and should note such evidence in their final feedback in the respective section of the report on findings.
4. Good practice of verification includes checking the reliability of supporting/underlying documents for any evidence of irregularity or non-compliance. While performing spot checks, including verification of supporting documents, the LFA should pay attention to signs which could be an indication of fraud, e.g. the use of the same handwriting, same ink, fake names (e.g. celebrity names) etc. If the LFA identifies any evidence of falsified documents/fraud it should immediately alert the Global Fund Country Team and provide details of its findings in its report.
5. The approach to be used for the spot check will be informed by the perceived level of risk of aspect/area under review. Thus, this may include the following methods, as well as anything else the LFA may deem necessary to draw a conclusive finding and provide an actionable recommendation:
* Inspection that involves examining internal or external records/ documents where relevant and available (e.g. public record of past tenders), or a physical examination of assets/inventory;
* Observation that involves looking at a process or procedure being performed by the implementer spot-checked;
* Inquiry that involves obtaining information from knowledgeable individuals, within or outside of the implementer spot-checked; in some cases, LFA may want to obtain a written representation to serve as supporting evidence;
* External confirmation – where some irregularity or wrongdoing is suspected, if necessary and practical, obtaining a written confirmation of the transaction authenticity with responsible officers or third parties, or other partners;
* Re-performance - independent execution by the LFA of procedures or controls that had been done by the implementer;
* Recalculation (if needed in the scope of the spot check) that is checking the mathematical accuracy of documents/records.
1. In some cases that involve verification of certain large-scale activities that are crucial for achieving program objectives (e.g. mass trainings of health workers, insecticide spraying or bed-net distribution campaigns), the LFA may also be required to observe the entire process, of activity delivery. Normally, such an assignment would be done as a part of a larger spot-check that should also involve a programmatic, monitoring and evaluation or another relevant technical expert from the LFA team.
2. Following field work, review and preliminary identification of findings, the LFA shall organize a debrief meeting with the implementer’s management where such findings should be presented and discussed with the management of the implementer. The latter should be given an opportunity to comment on the LFA findings, provide additional supporting documents within reasonable time if so necessary, which may then also require LFA to reconsider/reevaluate some of the findings to a certain extent.

**Spot Check Report and Recommendations**

1. A report should be compiled covering the main emerging themes by implementer spot-checked, where the LFA should strive to provide a holistic analysis of the findings, which takes into consideration all relevant financial and non-financial aspects and risks. Depending on the annual work-plan, number of spot-checks etc. the Country Team may agree with the LFA to have periodic (e.g. quarterly) reporting where necessary.
2. The LFA report shall describe the purpose, nature and scope of the spot check assignment in sufficient detail to provide an appropriate basis for information included and to allow the readers of the report to understand the work done. The report shall include the following:
* the background and context;
* objectives;
* scope of work;
* sources of information and supporting documentation;
* main findings; and
* LFA recommendations and conclusions.
1. The LFA report shall also reflect what the transaction population size was in the period under review (no of transactions and $ amount), what sample size has been chosen from this population and basis for choosing this sample, what transactions were non-compliant and therefore ineligible, reasons for these ineligible transactions which should be grouped by their nature, e.g. absence of adequate supporting documents, unbudgeted/unapproved expenditure, value for money concerns or any other key additional reason that may arise.
2. Reporting findings and observations, the LFA shall make sure to provide a brief and concise description and analysis of issues and/or risks identified, be clear on the context and possible root causes of the issues providing relevant background information where necessary (and at the same time without overloading the report with unnecessary or irrelevant details).
3. Findings and recommendations in the report shall be prioritized as outlined in Annex 2, findings shall be sufficiently elaborate, unambiguous and conclusive, while recommendations– specific, measurable, realistically achievable, relevant, time-bound and contextualized. The LFA should also recommend an adequate timeframe for the implementation of each recommendation. An illustrative format of the report is presented in Annex 2.

**ANNEX 1. INDICATIVE SCOPE OF FINANCE SPOT-CHECKS BY SPECIFIC ASPECT/AREA**

*The Country Team and LFA shall agree on and choose* ***only*** *those aspects that apply to the specific spot-check requested from the LFA as relevant to the objectives of the particular spot check being undertaken.*

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| Specific aspect / areas to be verified |
| Capacity of the finance function | * Determine if the capacity of the finance function of the organisation in terms of staff number, qualifications, and experience is adequate to the nature and volume of work, and assigned responsibilities;
* Assess to what extent the automated systems are used for budgeting, controlling, treasure management, purchasing, asset management, accounting and reporting and determine if these are adequate to the nature and volume of transactions;
* Enquire whether capacity building and/or technical assistance was provided to the implementer, its adequacy to the implementer needs and identify potential capacity gaps and critical areas for further improvement.
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| Implementer governance and sub-implementer oversight | * Confirm that the implementer timely and duly takes appropriate action on recommendations and management actions arising from internal and external audit, performance letter (from the Global Fund and/or PR/SR as relevant) and that there is an effective system in place to track and follow up thereof;
* Validate that sufficiently detailed minutes are kept for Board and management meetings that reflect discussions around the use and control of the Global Fund program resources (e.g. funds, assets and inventory, delivery program activities etc.), identified risks and mitigating measures, and that such measures are subsequently put in place;
* Verify that the implementer undertakes regular and detailed risk/capacity assessment of its sub-implementers and ensures that the latter put in place adequate controls and arrangements before undertaking any program activity and/or receiving program funding, and that capacity building is provided to sub-implementers as needed;
* Verify that the implementer has sufficiently detailed sub-implementer management policy which is in line with the best practices, statutory and the Global Fund requirements, the Grant Agreement and which is complied with in day-to-day sub-implementer management;
* Determine if the implementer has a periodic plan for and undertakes regular supervision/oversight site visits to its sub-implementers, if these are adequately documented, if performance issues get identified and duly and timely resolved;
* Verify that sub-implementer reports are submitted timely and duly checked for presence of all required supporting documents, compliance of sub-implementer expenditures and activities with the Grant Agreement, approved work-plan and budget(s) and the Global Fund requirements, and that deficiencies, if any, get duly and timely addressed;
* Confirm that the implementer performs regular periodic reconciliations of its sub-implementer’s bank balances, disbursements received and expenditures reported, that these are supported by original primary third-party documents, and that such expenditures are correctly allocated to the program activities;
* Confirm that conflict of interest, anti-fraud, non-discrimination policies are captured in the implementer’s internal policy manuals and enquire if staff undergoes regular training on these aspects;
* Verify that there are regular coordination meetings with other implementers, stakeholders to ensure that similar work is not duplicated in the same geographic area with the same client population etc. by more than one implementer.
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| Grant income | * Validate that interest income received on the bank account(s) where the Global Fund funds are kept is properly accounted for and reported in accordance with the Grant Agreement and the Global Fund requirements;
* Validate that refunds (e.g. from staff, suppliers etc.) and any other income (e.g. proceeds from sale of inventory or disposal of assets etc.) is properly accounted for and reported in accordance with the Grant Agreement and the Global Fund requirements;
* Verify that translation of income denominated in foreign currency is done accurately and fully in accordance with applicable accounting standards and the Global Fund requirements;
* Verify that bank accounts for ended or closed grants have been de-activated and that remaining funds (as well as subsequent refunds that might have taken place after grant end date) have been fully and timely accounted for and returned to the Global Fund;
* Verify that third-party disbursements made on behalf of the implementer directly by the Global Fund (e.g. Pooled-Procurement Mechanism, Affordable Medicine Facility Malaria payments etc.) have been timely and accurately recorded in the program accounting records.
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| Cash and banking | * Confirm that grant bank account(s) are held in a reliable and reputable bank with no going concern issues (based on publicly available information);
* Verify that grant funds received are kept in a separate bank account(s), are not commingled with other funds and recorded timely and accurately in the program accounting records;
* Based on a sample selected and interviews with the key personnel, determine if the dedicated grant bank account(s) is used solely to pay for the grant-related expenditures in accordance with the approved budgets and work plans;
* In specific cases where grant funds are commingled (which should have been pre-approved by the Global Fund in writing), verify that the implementer concerned has an appropriate mechanism to single out Global Fund funds;
* Verify that payments made from grant bank accounts are recorded timely and accurately in the program accounting records;
* Verify that bank reconciliations are prepared accurately and regularly, at least on a monthly basis;
* Verify that any reconciling items are followed up and resolved on a timely basis in line with the requirements of the procedures manual and that there is a system/process in place to address such matters;
* Validate that the amount of petty cash is reasonable considering the need for small purchases and is in line with the best practices and the implementer’s internal policy;
* Determine if payments are predominantly made by electronic means (e.g. wire transfers, mobile money etc.) and that cash payments to the end recipient/payee are minimized to the extent practicable (e.g. purchase of inexpensive items in small quantities) and if such payments are in line with the best practices, the implementer’s internal policy and the Global Fund requirements;
* Confirm that payments are duly authorized in accordance with the approved implementer’s signatory authority.
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| Advances | * Determine if there is an adequate policy and system of accounting and follow-up of advances, and that there are established thresholds and time limits thereof;
* Verify that accounting for advances, the established limits and the time between advance and settlement are reasonable and in line with the implementer’s internal policy;
* Determine if there are old balances still outstanding from organizations and individuals, and if so, validate adequacy and timeliness of follow-up by the implementer’s management to resolve these;
* Validate that outstanding advances are duly accounted for and reported in line with the applicable accounting standards and the Global Fund requirements;
* Verify that settled advances are compliant with the terms of the Grant Agreement and duly supported by appropriate primary documents.
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| General expenditure | * Review the sample of expenditure selected to ensure that they are compliant i.e. in line with the Grant Agreement, approved work-plans and budgets and other Global Fund requirements
* Verify that expenses are appropriately authorized, approved, recorded in the implementer’s books timely, correctly and in accordance with the applicable accounting framework, and that all expenditures are duly supported by third-party primary documents in accordance with the implementer’s internal policy, statutory requirements and best practices;
* Verify that paid invoices are duly stamped as paid, that no “double-dipping” exists and that the risk thereof is adequately mitigated by the implementer’s preventive and detective controls;
* Where apportionment of certain expenditure takes place between different project(s) and/or implementers and/or donors, validate that it has been done fairly (i.e. based on the fair-share principle which would usually be based on the project’s share in total expenditure) and in line with the implementer’s internal policy and the Global Fund requirements;
* Verify that primary third-party documents are genuine and authentic, not exhibiting any evidence of forgery and, where a reasonable suspicion exists, verify that their issuers are genuine individuals/entities whose existence and good business standing can be ascertained through government register or other public records;
* Verify that expenditures paid are free of taxes (e.g. VAT) and duties and, in cases where tax exemption is provided on a reimbursement basis, determine if the system the implementer maintains to track taxes/duties paid and recovered is adequate for the nature and volume of transactions and if there are sufficient controls over consistency and accuracy of the follow-up on reimbursements;
* Where price of goods/services purchased is time-sensitive due to their nature (e.g. long-distance travel, advertising campaigns in media etc.), determine if such activities are planned and organized effectively (e.g. there is an annual and periodic plan, last-minute requests are minimized and limited to cases of extreme gravity and duly authorized by the implementers senior management etc.);
* Determine if expenditures are paid in accordance with the terms of the contract (e.g. no payments before contract is concluded, no overdue payments etc.) and that the goods/service paid for are delivered in full and with the required specification and, if not, that the implementer’s management follows up on such matters in adequate and timely manner;
* Determine if the implementer’s contracts with suppliers of goods/services provide for penalties payable in case of delays with delivering goods/services in accordance with regulations and local customs/practices and if the implementer claims these in cases where such delays actually occur;
* Verify if the nature of goods/services received and paid for under the program are exhaustively and unambiguously described in primary third-party documents and that such goods and services can be traced through the implementer’s books and records from the moment of tender initiation to purchase requisition/order creation, to their acceptance and disposal;
* Validate that price of goods/services purchased with program funds is in line with prevailing market rates and that the implementer has adequate controls to ensure this is the case;
* Where the implementer uses multiple currencies (e.g. to report to the Global Fund), verify that translation of expenditures is in line with the applicable accounting framework and the Global Fund requirements.
* Verify that early payment discounts are provided by suppliers in accordance with local customs/practices and, where provided, are used by the implementer;
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| Human resources (including consultants) | * Validate that the staff posts, job types and staff salaries are in line with the approved work-plan and budget, and that these are paid in accordance with the staff contracts, implementer’s internal policy, statutory and the Global Fund requirements (e.g. that no bonuses are paid, that top-ups or performance based incentives are pre-approved etc.);
* Enquire whether, unless exceptionally and explicitly authorized, the implementer’s staff paid at full time from the program does not provide consultancy or other paid service to this or another implementer of the Global Fund program;
* Confirm that payments to consultants are in line with their approved and signed contracts, that such contracts and consultants’ invoices are sufficiently detailed thus allowing identification of the nature and volume of service provided/billed and that payments are made only upon completion and acceptance of the service delivered;
* Validate availability and completeness of staff and consultant files in accordance with the implementer’s internal policy, best practices, statutory and the Global Fund requirements (e.g. availability of the job description, individual’s resume, personal and contact information, contract, performance appraisals, timesheets etc.);
* Determine if recruitment of new staff and consultants is timely, competitive, unrestricted and non-discriminatory (e.g. sufficient time is given for applicants to apply for a vacancy posting, job description is not tailored to a particular candidate etc.), and that recruited staff/consultants are sufficiently qualified to do the job as per their terms of reference and that the latter is relevant and adequate to their role and activities performed under the program;
* Enquire whether the implementer’s staff is provided with sufficient training to perform their job duties as these relate to the nature and scope of the program implemented and the Global Fund policies, reporting and other requirements, as well as that there is an effective performance assessment and feedback system for the implementer’s staff and consultants;
* Verify that payments to staff and consultants are done electronically and if the implementer has sufficient controls in place to prevent fraud and abuse (e.g. that there are no “ghost” employees);
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| Travel | * Verify that the nature, purpose and cost of travel are in accordance with the approved budget and work-plan, and that there is evidence to confirm the work performed in the form of trip reports, event attendance registers, meeting minutes etc.;
* Validate that imprest advances, if any, are accounted for timely and accurately including due recovery of unutilized amounts in accordance with the implementer’s internal policy, best practices, statutory and the Global Fund requirements;
* Verify that travel allowances are paid in accordance with the implementer’s internal policy, the Global Fund approved rates and requirements and, for expenditures reimbursed at cost, are adequately supported by invoices and other relevant documents (e.g. hotel invoices, receipts, boarding passes etc.);
* Determine if travel was duly authorized in accordance with the implementer’s internal policy and the Global Fund requirements (e.g. any international travel is normally required to be pre-approved by the Global Fund);
* If travel relates to monitoring/supervision/oversight visits, determine if it was undertaken based on a concrete plan, had specific objectives and deliverables, was carried out within the timelines as per the approved workplan/budget and resulted in an action plan to address identified issues;
* If travel relates to monitoring/supervision/oversight visits, determine if the frequency and number of travelers on such visits were reasonable and that such visits were organized in the most efficient manner (e.g. joint visits by different technical specialists, combined visits to different sites within one geographic area at a time etc.), as well as effectively coordinated at different levels (e.g. national, regional, local visits are complementary to each other).
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| Trainings, meetings and other events | * Validate that the training activities conducted by the implementer are in line with the approved training plan and budget(s) including the location, criteria for selection of trainees etc.;
* Determine if the provider(s) of the venue, transport and other services for the event has been selected in accordance with the implementer’s procurement rules and the Global Fund requirements;
* Determine if the fee charged for the venue, transport, printing and other services for the event is reasonable and commensurate with the event’s nature and location and that such services are adequate (e.g. venue can accommodate the planned number of participants, meals and refreshments are provided in reasonable quantities etc.);
* Verify that training events have actually taken place (e.g. by referring to reports, publications, audio-visual materials from the training, telephone calls to randomly selected participants etc.) and are duly supported with appropriate and genuine primary documents i.e. signed attendance sheets, invoices/receipts for meals, refreshments, hire of venue, transport and equipment, travel tickets, contracts with facilitators etc.;
* Confirm that daily subsistence allowances (DSAs) are paid in accordance with the implementer’s internal policy, with the Global Fund approved rates for the implementer/country and other requirements;
* Determine if DSAs are paid to end beneficiaries in cash or electronically and, for each mode of payment, if the implementer has sufficient controls in place to prevent fraud and abuse;
* Confirm that DSAs are paid to eligible individuals (e.g. residential vs non-residential participants, that these individuals are actually the target audience as per the original training plan etc.), that these individuals are unique (e.g. by checking names, handwriting, signatures in the attendance sheet) and actually exist (if necessary, LFA should selectively contact trainees for a brief interview);
* Verify that there is no hidden double charge for attendees’ subsistence when some aspects thereof are covered by the implementer and some – by the DSA (e.g. where a hotel room and breakfast is pre-paid centrally, these are deducted from the DSA paid in accordance with the approved DSA rules);
* Where facilitation fees are paid for conducting the training/workshop, validate that the facilitator is qualified to conduct such trainings (e.g. an expert in the field), is not an employee of the implementer and, in cases where the facilitator is a government employee, that such an arrangement has been pre-approved by the Global Fund (since such payment has to be classified as a “top-up” with all resulting implications);
* Determine if the organization of the event, transportation of attendees to the site and other aspects were done in the most efficient and reasonable manner (e.g. attendees are not transported to the site by individual vehicles where alternative transport options exist, attendees arrive just in time and leave immediately upon conclusion of the event etc.);
* Confirm the relevance and quality of programmatically critical and/or high-value trainings (e.g. training for lab technicians, medical staff, outreach workers etc.), it is recommended that, on a regular basis, a joint team consisting of one LFA finance and one program expert carries out an unannounced site visit to the actual training session(s);
* Determine if the implementer established controls to ensure quality assurance and continuous improvement of the training content and delivery (e.g. were the objectives of the training met? Were participant feedback forms adequately designed, timely reviewed and resulted in action taken by the implementer to improve the quality of the training etc.);
* Verify if the implementer(s) maintains an adequate database that captures all individuals trained and trainings conducted with a sufficient level of detail, and that there are adequate controls to prevent unauthorized access to and modification of such database.
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| Renovation and construction[[5]](#footnote-5) | * Verify that land/building ownership titles, construction permits etc. are valid, belong to the implementer or another stakeholder involved in the program implementation as approved (e.g. government agency, sub-implementer etc.);
* Determine if the provider(s) of the renovation/construction and other services, suppliers of materials have been selected in accordance with the implementer’s procurement rules and the Global Fund requirements;
* Validate that project expenditures are in line with the work-plans and budget, quotation and bill of quantities provided and that these are reasonably priced;
* Observe the physical evidence of the project(s) and verify that it is done in accordance with the approved technical plans and specifications including the location, volume of works; confirm that specifications (quality) and quantity of materials and equipment are adequate and reasonable for the type, nature and purpose of the facility renovated
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| General procurement | * Verify that the procurement method, technical specifications, terms and conditions, evaluation criteria, format etc. of procurement solicitations are compliant with the applicable regulations and the implementer’s procurement guidelines as well as with the Grant Agreement and GF requirements and that all tender files are available and complete;
* Validate that a segregation of duties between purchasing, payables, and other material control functions exists and is functioning according to the implementer’s internal policy and best practices;
* Where any potential conflict of interest exists, confirm that it is fully disclosed and duly authorized at the appropriate level (including the Global Fund where necessary);
* Determine if applicable thresholds are complied with, exceptions are limited, duly authorized and reasonably justified, and if sourcing activities take place prior to order placement;
* Verify that there are sufficient controls in place at the implementer to ensure the validity and competitive pricing and that price paid for goods and services is line with (or lower than) the supplier’s initial quotation, contract as well as prevailing market price;
* Determine if the implementer’s goods/services receiving process, system(s) and related internal controls are adequate to the volume, value and types of transactions processed;
* Determine if the implementer has due procedures and controls in place to ensure that only those goods that are ordered and that are received in good condition are processed into the inventory/asset management system;
* Verify if the implementer has a system to perform variance analysis of actual procurement versus budget and ascertain if a quantity or price variance exist and, if so, if it is timely and duly justified.
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| General fixed asset management | * Confirm if purchased program assets are duly recorded in the fixed asset register with all the required details that allow tracing thereof to individual unique item with its unalienable features (e.g. precise asset item specification, serial number etc.);
* Verify that assets reflected in the register exist, are placed at their designated location, duly labeled and numbered, and assigned to a responsible staff member;
* Determine if safeguards to protect assets are adequate to the type of each particular asset item including storage conditions and insurance coverage;
* Validate that assets procured are in line with the approved budgets and work-plans, procurement plans and that their specifications are reasonable adequate for the intended use (e.g. no expensive “gaming” computers are purchased for office use etc.);
* Verify that asset disposal, if any, took place in accordance with the implementer’s internal policy, applicable regulations and the Global Fund requirements, and that proceeds from their disposal have been duly accounted for and reported as grant income.
 |
| Vehicles | * Determine if the implementer’s internal policy covers aspects of the management and use of vehicles (and other means of transport) and if such provisions are sufficiently detailed and adequate;
* Determine if vehicles (and other means of transport) are managed and used in accordance with respective provisions of the implementer’s internal policy and relevant official regulations;
* Verify that program vehicles in possession of the implementer are sufficiently covered with accident, third-party liability and other types of insurance, duly and timely serviced by qualified providers (e.g. official dealership);
* Confirm if the implementer has an adequate system in place to record and track condition (including mileage), availability and location of its vehicle fleet, as well as a periodic vehicle travel plan and that the latter is prepared with due attention to efficiency;
* Validate that vehicle log books are maintained and that records are made timely sufficiently reflecting the nature, purpose, distance of travel, fuel consumption and other required details, and that copies thereof are regularly made and available for verification;
* Verify if there are any irregularities in trip plans, vehicle use and travel records (e.g. fuel consumption does not commensurate with the distance and type of the vehicle) and that the implementer’s vehicle fleet is used efficiently and for program purposes (e.g. no personal use of program vehicles, travel of different individuals to remote locations is combined where possible etc.);
* Determine if the implementer’s controls around vehicle use including expenditures on fuel and maintenance are sufficient and effective, that fuel consumption is regularly reviewed to be in line with normative (as provided by vehicle manufacturer), that fuel price is in line with prevailing market rates, that fuel is duly accounted for and that cash payments for fuel purchase are minimized.
 |
| General inventory management (non-health products) | * Verify if the implementer’s system of inventory accounting is adequate to the nature of inventory and volume of transactions, in line with applicable accounting framework and that movement of inventory within the implementer and outside is duly supported with required documents (e.g. internal transfer records, third-party receipts etc.);
* Confirm that regular periodic stock counts are performed by the implementer in accordance with the internal policy and best practices and are sufficiently documented, that the inventory register reconciles to deliveries and transfers, verify with a sample of outside recipients their actual existence, the receipt of inventory, its condition and use;
* Validate that the implementer’s inventory management duties are adequately segregated and that access to the records is limited;
* Verify if the physical and storage conditions of the warehouse are suitable for the type of inventory stored (e.g. cleanliness, temperature, humidity etc.);
* Verify that appropriate safeguards are in place to restrict access to warehouse/inventory to only authorized personnel;
* Validate that inventory held in locations other than the main location/warehouse of the implementer is recorded and exists;
* Determine the loss of inventory due to expiry and adverse events;
* Where inventory is stored in a third-party warehouse, determine if the contract for warehousing is in place, sufficiently detailed and adequately covers such aspects as terms of fee determination and payment, insurance, care and handling of inventory, performance metrics etc.;
* Determine if disposal of scrap inventory (e.g. expired food parcels, broken equipment etc.) is in line with the implementer’s internal policy, regulatory and the Global Fund requirements, if accounting for its disposal is in line with the applicable accounting framework and, in case it is disposed through sale, if income is duly paid to the program bank account;
* Confirm that instances of shortage/surplus are timely and duly investigated and resolved.
 |

**ANNEX 2. ILLUSTRATIVE LFA FINANCE SPOT-CHECK REPORT**

**1. Background**

* Overall objectives of the spot-check as per approved TOR
* List of the implementers spot-checked, their background information, reason(s) for their selection and other relevant information:

|  |  |  |  |
| --- | --- | --- | --- |
| **Grant:** | *Standard name of the grant(s) concerned* | **Implementer:** | *The name of the implementer spot-checked* |
| **Interventions:** | *Specific program interventions the implementer is responsible for* |
| **Trigger(s):** | *Reason(s) for selecting this particular implementer, as well as specific areas LFA focused on spot-checking this particular implementer (if any)* |
| **Spot check type:** | *Whether spot check was announced or unannounced (in which case state the lead time)* | **Locations visited:** | *Specific location(s) of the implementer that were visited during the assessment* |
| **Geographic area covered by the Implementer:** | *Specific geographic area covered by the implementer* | **Period covered by review:** | *Where relevant, specific time period that was under the LFA scrutiny*  |
| **Assessed by:** | *Name of the LFA specialist(s) who undertook the assessment* | **Assessment date:** | *Date(s) on which the spot-check of the implementer took place* |

**2. Methodology/approach**

Considering the nature of this specific assignment, which is [*state goals, objectives and requirements of the specific assignment as stated in the TOR*], the LFA used the following methodology: [*describe specific aspects of the LFA approach/methodology not referred to in the TOR if any, e.g. basis for the selection of specific implementer’s site(s) to visit, sample size of expenditure subset(s), specific risks that the LFA paid additional attention to etc*.]

**3. Findings and recommendations**

Findings should be sufficiently elaborate and conclusive for the Global Fund to fully understand the root cause of the issue reported by the LFA and its implications on the implementation of the program (with regard to both, its financial and non-financial aspects). Recommendations should be sufficiently detailed, contextualized, specific, actionable and realistically achievable by the implementer.

Finding should be classified in accordance with the following system of grading:

* **Grade I** (high priority) findings are those which are particularly significant, and the involvement of management may be required for their resolution; these are high level issues which impact seriously on the achievement of overall grant goals;
* **Grade II** (medium priority) – those that may have significant impact on the control environment, i.e. risk factors derived from management’s attitude to risk as regards operational activities within the implementer organization; and
* **Grade III** (low priority) – those that are less significant than Grade I and II but nevertheless merit attention and resolution.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Findings** | **Implications** | **LFA Recommendations** | **Benefits** | **Management’s Response** |
| HIGH PRIORITY (GRADE I) |
| 1 | *The condition or issue presently resulting from non-compliance with the assessment criteria. Where possible, the reason(s) and/or the rationale for the identified non-compliance to the criteria or factors contributing to the finding should be also stated.* | *The effect of the finding on the implementation of the program from both, the financial and non-financial perspectives.* | *Practical and specific recommendations relevant to the finding; these should be aimed at eliminating or reducing to an acceptable level the stated implications of the finding to such an extent that there is no negative material impact on program implementation.* | *The advantages of implementing the stated recommendations from both, the financial and non-financial perspectives.* | *During an LFA de-brief following the review, implementers may provide some comments on LFA findings stating whether they agree or disagree, the reasons thereof or provide some background information allowing to better understand the issue. LFA should document such responses and, where relevant, report these to the Global Fund in this section to allow for better understanding of the context and nature of the issue.* |
| 2 |  |  |  |  |  |
| MEDIUM PRIORITY (GRADE II) |
| 3 |  |  |  |  |  |
| 4 |  |  |  |  |  |
| LOW PRIORITY (GRADE III) |
| 5 |  |  |  |  |  |
| 6 |  |  |  |  |  |

**4. Potentially Non-Compliant Expenditures[[6]](#footnote-6)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **#** | **Nature of Expenditure** | **Reason for Non-Compliance** | **Reviewed Expenditure Sample Size** | **Amount Potentially Non-Compliant** |
| 1 |  |  |  |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |

**5. Individuals Interviewed**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **#** | **Name** | **Job Title** | **Location** | **Contact Information** |
| 1 |  |  |  |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |

**6. Documents Reviewed**

|  |  |  |
| --- | --- | --- |
| **#** | **Document Title(s)** | **Format/Location** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |

**Illustrative work-plan of the assignment**

For each individual spot check assignment, the Country Team should discuss and agree with the LFA scope, level of effort, timing etc., details whereof may be different from the example below.

|  |  |
| --- | --- |
| **Activity** | **Days / LOE (hrs)** |
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **Total** |
| Planning meeting with the implementer’s management | … |  |  |  |  |  |  |  |  | **…** |
| On-site document review – site #1 | … |  |  |  |  |  |  |  |  | **…** |
| On-site document review – site #2 |  |  |  |  |  |  |  |  |  |  |
| On-site document review – site #3 |  |  |  |  |  |  |  |  |  |  |
| … |  |  |  |  |  |  |  |  |  |  |
| Verification of finance aspect/area #1 |  | … |  |  |  |  |  |  |  | **…** |
| Verification of finance aspect/area #2 |  | … |  |  |  |  |  |  |  | **…** |
| Verification of finance aspect/area #3 |  |  | … |  |  |  |  |  |  | **…** |
| … |  |  |  |  |  |  |  |  |  |  |
| Exit meeting with the implementer’s management |  |  |  |  |  |  |  | … |  | **…** |
| Review of management responses / additional evidence |  |  |  |  |  |  |  | … |  | **…** |
| Preparation of the report for the Global Fund |  |  |  |  |  |  |  |  | … | **…** |
| **Total (hrs)** | **…** | **…** | **…** |  |  |  |  | **…** | **…** | **…** |
| **Total (workdays)** |  | **…** |

1. Finance spot-checks can be standalone thus limited to finance aspects only or, ideally, combined with other technical areas such as Monitoring and Evaluation, and Health Products Management, which would thus cover the full program delivery cycle hence allowing to obtain a holistic understanding of the issues faced by the implementer and/or intervention spot-checked. [↑](#footnote-ref-1)
2. See Annex 1 for an indicative list of financial aspects that can be included in the scope of a financial spot-check. [↑](#footnote-ref-2)
3. In which case involvement of the LFA programmatic expert(s) may be needed. [↑](#footnote-ref-3)
4. As per Annex 1. [↑](#footnote-ref-4)
5. Where an in-depth review of the renovation/construction project is requested such as review of materials, technical plans etc., the LFA is expected to involve a qualified engineer/architect where appropriate and as agreed with the Country Team. [↑](#footnote-ref-5)
6. Amount in question should be presented in the grant currency for each implementer spot-checked; if expenditure was paid by the implementer in the local currency, translation into the grant currency should be done at the spot rate effective on the day of the transaction (for additional information refer to the Global Fund Guidelines for Grant Budgeting). [↑](#footnote-ref-6)