



Focused Countries (Finance-related Aspects)  
**Guide for Local Fund Agent  
Scope of Work and Deliverables**

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Geneva, Switzerland

# I. Introduction

## 01 Purpose

The purpose of this document is to provide guidance in the area of finance for Local Fund Agents working on grants that are included in the “Focused Portfolio” with respect to the scope of work, tasks and deliverables specific to such grants.

For Focused Portfolios, which include grants that operate in lower disease-burden and lower risk environments, the aim is to simplify and streamline all processes, from the application stage to grant closure, so that the reporting and, consequently, processing and verification of various financial data is reduced to a level that allows Global Fund Country Teams<sup>1</sup> to make substantiated key decisions yet focus staff time where the most impact can be achieved.

The portfolios categorization for each active grant (focused, core or high impact) was communicated to all LFAs in 2016. The same will be done for any new grants as well as for cases where grants move from one portfolio category to another. Local Fund Agent should ensure that they understand the portfolio categorization for all the countries/grants they work with.

## 02 Applicability

The guidelines below apply for a transition period only. The transition period started in 2016 will continue for a part of 2017 until such time when all respective policies and systems relating to the Focused Portfolio are fully updated. At the end of the transition period, the Global Fund will communicate updated guidelines to the Local Fund Agents.

# II. Overview of Local Fund Agent Role in Focused Portfolios

## 03 Local Fund Agent Role in Finance for Focused Portfolios

Due to the specifics of the finance-related review and authorization processes for the Program Finance Focused Portfolio, the Local Fund Agent’s review and recommendations will generally be requested for the following areas/tasks:

1. Budget (initial budget and budget revisions):
  - a. Local Fund Agent will review the detailed budget and recommend a budget with final figures and conditions applicable.
2. Progress Update/Disbursement Request (PU/DR), including Annual or Enhanced Financial Report:
  - a. Local Fund Agent will review the PU/DR, which will exclude the validation of expenditure but will include an analytical review of the Annual or Enhanced Financial Report linked to programmatic achievements.
  - b. Local Fund Agent will also review the forecast and disbursement request based on the abovementioned analytical review and recommend the disbursement.
3. Risk Assessment/Assurance:
  - a. Local Fund Agent will assist the Global Fund Country team in the preparation of the assurance plan and perform the capacity assessment of the implementers, when requested by the Global Fund Country Team.

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<sup>1</sup> The composition of the Country Team varies depending on the portfolio category. For Focused Countries, the Country Team is comprised of the Fund Portfolio Manager, Senior Fund Portfolio Assistant, the Public Health /M&E Specialist, the Health Product Management Specialist and the Legal Officer. For Core and High Impact Countries, the Country Team includes the Fund Portfolio Manager, Program Officer, Public Health and M&E Specialist, HPM Specialist, Finance Specialist and Legal Officer.

- b. In cases where no direct regional auditor arrangements with the Global Fund are in place, Local Fund Agent will provide recommendations on the selection of auditors based on audit terms of reference developed by the Global Fund.
- c. Local Fund Agent will also review quality of audit deliverables and provide comments and recommendations.

The three areas listed above are discussed in further detail in the following sections.

Guided by the Global Fund Operational Policies Manual and other Global Fund policies, which are available on the Local Fund Agent section of the Global Fund website, and their own risk assessments, the Global Fund Country Teams may require additional tasks not listed above.

### III. Budgeting and Budget Revisions

#### 04 Budget reviews by Local Fund Agents

Consistent with sections C2.5 and D3.6 of the Local Fund Agent Manual, the Global Fund Country Teams managing grants in the Program Finance Focused Portfolios will request Local Fund Agents to perform a review of the detailed budgets and the list of health products, quantities and estimated costs.

The Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting is a primary document that should be used in assessing whether the budgeted costs are reasonable and consistent with the programmatic specifics of the grant.

When requested to do a budget review for Focused Portfolio grant, the scope of Local Fund Agent review of the budget will include, at a minimum, the review of the full detailed budget with the following outcome:

- Recommended budget;
- Indication whether any “budget triggers” are present, as described in the following section.
- The LFA should also provide suggested management actions or conditions, as relevant and required, for any of the budget lines or for the budget as a whole.

#### 05 Budget triggers

The below describes the situations and factors that represent the “budget triggers”, i.e. situations which represent increased risks and, therefore, require a more detailed follow-up and review. If, based on the Local Fund Agent’s budget review, the following triggers are identified the Local Fund Agent should notify in writing the Global Fund Country Team about the existence of such triggers and provide the rationale and/or action plan for each identified trigger.

Regarding the format of submission of the information on the triggers, the LFA should submit the budget triggers checklist<sup>2</sup> either as a separate tab within the detailed budget or as a separate document attached to the detailed budget. Please note that for any new grants, whether with new or continuing Principal Recipients, the Global Fund Country Team will provide a tailored budgeting template<sup>3</sup> to the respective Principal Recipient. This budgeting template contains a separate Budget Triggers tab, which both the Principal Recipient and the LFA need to complete. In case the LFA is reviewing a budget with no separate Budget Triggers Tab, the budget triggers checklist should be attached as a separate document (this would usually be the case if the budget revision is submitted in the same template used for the original budget).

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<sup>2</sup> Refer to the *Budget Triggers Checklist Template* on the [LFA website](#)

<sup>3</sup> Please refer to [Instructions for Completing the Detailed Budget Template](#) (February 2017)

- 1. Human Resources**
  - a. Budget envisages salary top-ups and/or performance- or retention-based incentives. For such cases, the Local Fund Agent should present their conclusions on whether there is a transition plan for cessation of such benefits in place and if it is feasible. The transition plan can be evident by the way such benefits were budgeted or by disclosures in the national strategic plan, etc.
  - b. Salaries budgeted in grant currency (vs. local/payment currency) for local staff
  - c. Material salary increases of more than 15 percent in average monthly salary in local currency per person
  - d. Salaries fall outside the range of existing national salary scale approved by the Country Coordinating Mechanism (where applicable)
- 2. External Professional Services**
  - a. Consulting fees are above UN-standard international and local rates.
- 3. Travel-related Costs**
  - a. Travel-related costs represent more than 25 percent of the cumulative budget.
- 4. Health Products and Health Equipment, Procurement and Supply Management**
  - a. Health Products List does not reconcile to the detailed budget.
- 5. Infrastructure**
  - a. Existence of large-scale construction/renovation/rehabilitation (US\$ 0.5 million or 10 percent of the budget, whichever is smaller).
- 6. Non-health Equipment**
  - a. Existence of budgetary provisions, but absence of needs assessment for cases where significant investment is planned in non-health equipment, including vehicles (US\$ 0.5 million or 10 percent of the budget, whichever is smaller).
- 7. Communication Materials and Publications**
  - a. Existence of budgetary provisions, but absence of communications strategy or demonstration of value for money for cases where the cumulative budget for communication materials and publications is material to the budget - US\$ 0.5 million or 10 percent of the budget, whichever is smaller.
- 8. Indirect and Overhead Costs**
  - a. Absence of cost-sharing policy for grants, where Principal Recipient manages multiple Global Fund or other donor-funded projects.
  - b. Headquarters' indirect cost recovery budgeted outside the agreed percentage and not in compliance with OPN on Support Costs and Indirect Cost Recovery Policy for Nongovernmental Organizations.
- 9. Living Support**
  - a. Existence of cash incentives or other living support schemes, which are both (i) representing a new intervention, the effectiveness and feasibility of which has not been previously supported by pilots or similar programs in the country or region; AND (ii) material to the budget (US\$ 0.5 million or 10 percent of the budget, whichever is smaller).
  - b. Existence of cash incentives or other living support schemes, which both (i) have a history of fraud, and other findings by the Local Fund Agent or auditor; AND (ii) are material to the budget (US\$ 0.5 million or 10 percent of the budget, whichever is smaller).

## IV. Financial Reporting: PU/DR

### 06 Local Fund Agent review of PU/DR (including Annual/Enhanced Financial Report)

For the review of a PU/DR, which also includes an Annual or Enhanced Financial Report, the Local Fund Agent should continue to refer to sections D2.1 and D3.11 of the Local Fund Agent Manual, the OPN on Annual Funding Decisions and Disbursements (*July 2016*) and the newly issued Global Fund Guidelines on Principal Recipient Progress Update and Disbursement Request (*February 2017*).

In general, for grants in the Focused Portfolio, the Local Fund Agent Scope of Work applicable to low-risk grants will apply in determining the required level of effort and the verification methodology when reviewing the information provided by the Principal Recipient in the PU/DR, including Annual or Enhanced Financial Reports. As noted in the Guidelines on Progress Update and Disbursement Request, the Local Fund Agent will not be required to do the verification of expenditures. It will nevertheless, recommend an annual funding decision amount, including the schedule of payments.

The specific requirement for Local Fund Agents working on grants in the Focused Portfolio will be to specifically refer to the triggers described in the section below, if such triggers are identified.

In certain cases, the Local Fund Agent may be asked to complete the *Compliance review of Annual Financial Reporting template (EFR or AFR) for FOCUSED portfolios*<sup>4</sup> as requested by the Global Fund Country Team.

### 07 PU/DR triggers for focused portfolios

The Annual Decision-making Form (ADMF) will be prepared by the Global Fund Country Team based on the Local Fund Agent recommendations and other information (i.e. audit reports, OIG reports, external reviews, programmatic reviews, spot checks, etc.)

The Local Fund Agent should notify in writing the Global Fund Country Team about the existence of the triggers listed below, as applicable. The Local Fund Agent should also recommend the rationale and/or plan of actions, where applicable.

A table with the PU/DR triggers is included in the PU/DR template and is required to be completed for grants included in the Focused Portfolio.

#### **PU/DR Triggers:**

1. Financial management issues in accordance with Annex 4 of the OPN on the Annual Funding Decisions and Disbursements, such as:
  - a. Detailed budget for the previous period or period corresponding to the next disbursement period not agreed and/or activities deviate from approved budget by the amounts outside of the budgetary adjustments thresholds defined by section 3.5 of the Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting (“Global Fund Budgeting Guidelines”).
  - b. Principal Recipient has expended grant amounts which are ineligible (i.e. on non-grant activities or otherwise in violation of the terms and conditions of the grant agreement) or not properly justified. It is understood that the Local Fund Agent may not be able to identify such expenditures from its own review given that it is limited to analytical procedures only. However, if such expenditures are mentioned in other reports (Inspector

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<sup>4</sup> Please refer to the [LFA website](#) for the template

- General or external auditor) and the Local Fund Agent is aware of this, it should be included in the Local Fund Agent report with the relevant references to the other reports.
- c. Cash balance not reconciled to the cash reconciliation and bank account with significant (+/-5 percent) and unexplained differences.
  - d. Audit report being overdue<sup>5</sup>.
  - e. Qualified or adverse opinion received for the latest audit.
  - f. Enhanced Financial Report/Annual Financial Report has important deficiencies (e.g. correctness of opening balance, funds in transit, computation of closing balance, etc.).
  - g. Inadequate explanation of significant variance (outside of the budgetary adjustments thresholds defined by section 3.5 of the Global Fund Budgeting Guidelines) between budget and actual expenditures by intervention/service delivery area and/or cost grouping/cost category.
  - h. Critical recommendations by auditors, Office of the Inspector General or the Global Fund on internal controls are not implemented or not being addressed by the Principal Recipient.
2. The presence of “major issues” identified with respect to the financial management area.
  3. The requested disbursement schedule is not quarterly.
  4. Expenditure vs. budget rate below 50 percent for the prior annual period.
  5. Finance-related conditions precedent are not achieved or are partly achieved.
  6. Budget review triggers (as per Budget Review and Triggers section, above) are noted by the Global Fund Country Team or Local Fund Agent with respect to the projected overspending and new activities (i.e. reallocations of savings) in the PU/DR forecast.

## V. Financial Assurance

### 08 Financial assurance for Focused Portfolios

As part of the financial assurance for Focused Portfolios, Local Fund Agents will be involved with audit-related reviews, capacity assessments and financial assurance plans.

#### **Audit-related Reviews**

Consistent with section D.3.3 of the Local Fund Agent Manual, the Global Fund Country Teams for grants in the Program Finance Focused Portfolio will request the Local Fund Agents’ involvement in audit-related reviews. The scope and extent of the audit-related reviews remain the same for the grants in Focused Portfolios as for other grants. With that, the below tasks will generally be required areas of Local Fund Agent review for Focused Portfolios:

- Local Fund Agent’s review of audit terms of reference;
- Review of auditor selection and audit fees;
- Review of the grant audit report and management letter;
- Presence at the audit planning and audit exit meetings with the auditors;
- Follow-up on audit recommendations.

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<sup>5</sup> Considering the timing of the PU/DR submission and the due dates for audit reports submission, the LFA will usually not have the confirmed information about the audit report being overdue. In any case, if the LFA has the information that the audit reports is already overdue or that it will likely to be overdue; or that there are audit reports pending that relate to the previous periods, LFA should include such information in the triggers checklist.

The Global Fund Guidelines for Annual Audits of Global Fund Grant Program Financial Statements (*January 2014*) also apply to the Focused Portfolio, until further notice.

### **Capacity Assessment**

There are no changes to the process and scope of the Local Fund Agent's work with respect to the capacity assessments of Principal Recipients and other implementers for the grants in the Focused Portfolio, as compared to the grants in other portfolios (i.e. high-impact, core). The Local Fund Agent should consult the existing Global Fund guidelines, such as the Local Fund Agent Manual, sections C.2.4 and D.3.2, Capacity Assessment Tool User Guidance, and agree the specific scope of work with the Global Fund Country Team before commencing the assessment work.

### **Financial Assurance Plans**

Local Fund Agent are generally expected to assist the Global Fund Country Team in the preparation or update of the annual financial assurance plan for all active grants in the focused portfolio. The principles and guidelines for the development of such assurance plans are included in the [Guidelines for Financial Assurance Planning on Global Fund Grants \(June 2016\)](#). Prior to commencing the work on the Financial Assurance Plan, the Local Fund Agent should discuss the planned scope of work with the Global Fund Country Team.

## **VI. Other Guidance**

### **09 Other Requests to Local Fund Agents**

In addition to the minimum Program Finance requirements provided above, the Global Fund Country Teams may request the Local Fund Agent to perform other finance-related tasks and respond to ad hoc queries.