UNDP Global Fund and Health Implementation Guidance Manual

- Financial Management -

Contents

Financial Management

1. Overview

The financial management process encompasses the financial and operational management of UNDP's implementation of Global Fund programmes, and is structured as follows:

1. Grant-making and signing
2. Grant implementation
3. Sub-recipient management
4. Grant reporting
5. Grant closure

This section is primarily intended to serve as a guide for UNDP Country Offices (COs) that are acting as interim Principal Recipient (PR) to Global Fund grants and for those COs who have signed a Financing Agreement to provide technical support to recipients of Global Fund funding (e.g. Principal Recipient, Sub-recipient). This section also contains guidance for UNDP COs that are recipients of Country Coordinating Mechanism (CCM) funding.

Financial management processes are directly associated with other substantive areas of the Manual. Appropriate links to these sections, and to other UNDP and Global Fund documentation, are provided throughout. Global fund projects adhere to UNDP's **Financial Regulations and Rules** and UNDP's **Internal Control Framework** in all instances. In addition, the **Global Fund Operational Policy Manual** is an important reference tool.

Resources

- UNDP Financial Regulations and Rules
- UNDP internal control framework 289
- Global Fund Operational Policy Manual

2. Grant-Making and Signing

The **Grant Confirmation** is the legal instrument which forms the basis of the contractual obligation between the Global Fund and the PR. During the grant-making process, the Country Coordinating Mechanism (CCM) and the Global Fund work with the PR to develop, among other documents:

- the performance framework
- the detailed budget
- the work plans
- the health products management template (HPMT)

The overall funding process is summarized in the Global Fund's **Applying for Funding** section.

Please refer to the **Legal Framework** section of the Manual for a detailed analysis of relevant legal agreements.

Resources

- **Global Fund Strategy (2023 – 2028)**
- **Global Fund Guidance on Applying for Funding**

2.1 Prepare and Negotiate Work Plan and Budget with the Global Fund

The Global Fund's allocation-based funding model uses a modular approach and costing dimension that enhances the linkage between programmatic and financial information. Interventions and activities are defined in the modular approach and the cost groupings and cost inputs in the costing dimension (budgetary framework). This approach provides applicants and implementers with a standardized costing dimension that allows for resource allocation, the setting of realistic goals for each defined period of the grant life cycle, strengthened tracking of budget versus expenditure data and the alignment/harmonization of partners and country data systems. Each module is linked to a specific disease and each intervention is linked to a module. Refer to the **Global Fund Guidelines for Grant Budgeting** and **the Modular Framework Handbook** for further guidance.

Global Fund budgeting principles can be summarized as follows:

- The budget must be denominated in either Euros (€) or US dollars ($) as communicated by the country to the Global Fund. However, the budget should be prepared using the different currency denominations of each budget line, i.e., the currency in which the budget item will be paid. The currencies should then be converted into the grant currency at an appropriate exchange rate.
- Budgets should include not only costs for programme activities but also take into consideration any relevant income generated through activities and on programme assets.
- Budgets should be presented with the following attributes, which together determine the reasonableness of individual budget lines and the total grant budget. The budget should:
  - ensure the economy, efficiency and effectiveness (value for money and prioritization of interventions that drive health outcomes);
  - be built on budget categories defined by the Global Fund for the list and definition of Global Fund cost categories (see **Global Fund Operational Guidance for Grant Budgeting**);
  - be consistent with the budget submitted with the funding request and reflect any Technical Review Panel (TRP) and Grants Approval Committee (GAC)-proposed adjustments;
  - include any requirements mandated by the Board (for example, inclusion of Green Light Committee fees for approved multidrug-resistant TB programs);
  - not duplicate costs covered by other sources of funding (other donors, government subsidies, etc.);
  - clearly identify reasonable quantities and unit prices;
  - be consistent with proposed programmatic targets defined for each time period;
  - reflect a realistic rate of utilization of funds, taking into consideration absorption capacity of the PR and other grant implementers, including procurement and other deliverable lead-times;
  - be arithmetically accurate; and
  - fall within the available maximum allocation amount for the disease component as adjusted in the approved programme split and any above-allocation funding approved by the Global Fund.

Detailed guidelines area available in the **Global Fund Guidelines for Grant Budgeting**.

Resources

- Global Fund Guidelines for Grant Budgeting
- Global Fund Modular Framework Handbook
- Global Fund Operational Guidance for Grant Budgeting

2.2 Prepare Funding Request

The initial step in the funding process is the development of a funding request for a disease component by all stakeholders, in the context of the CCM governance mechanisms. In preparation for the development of the funding request, the applicant chooses a proposed start date for the implementation period of the new funding request. The applicant will need to be aware of the upper limit for grant-making, taking into account the funding forecast available at the start date of this period.

Initial "best estimate" budgets by intervention are the minimum requirements for the submission of the funding request. The budget at the funding request stage is not detailed, but it serves to provide the strategic investment and intervention choices. It should be based on both realistic requirements to meet targets and the total amount of grant funds available.

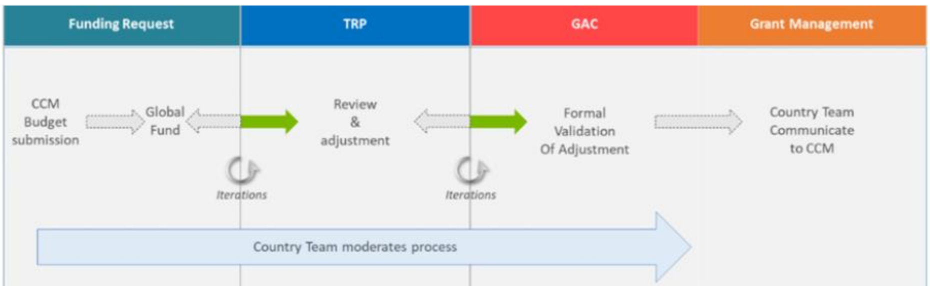
The following are the key information requirements for budgets at this stage:

- A description of the intervention, including details of the target population and geographic scope, the implementation approach, and other relevant information pertaining to the intervention;
- The annual funding required for each intervention, including the following qualitative details:
    - cost assumptions (e.g., latest historical cost, quotations provided by vendors etc.);
    - reference to development partners costing tools (where applicable);
    - outline of additional sources and amounts of funding available for each intervention, with a distinction of the requests by "Within the allocation" (based on total approved programme split of the country for a specific disease) and "Above-allocation" (which covers the full expression of needs for effective disease programme implementation in the country, covering all existing funding gaps); and
- Proposed implementing Principal Recipient(s)(PRs) and Sub-recipient(s) (SRs) (if available).

It may be more convenient to prepare a more detailed budget at the funding request stage, which can then be consolidated into an intervention-based budget for submission to the Global Fund (for example, in cases where the latest historical costs of certain known activities in an intervention are already available).

Please see here for detailed information on the **budget approval process**.

The diagram below provides a summary of the stages of the budgeting process for the funding request.



Funding ceiling and treatment of in-country cash balances

In preparation for funding request development, the applicant may choose a proposed start date for the implementation period of the funding request. The applicant will need to be aware of the upper limit for grant-making, taking into account the funding forecast available at the start date of this period. Calculating this involves taking the country allocation for the component in question after programme split and reducing this figure by the amount of disbursements (actual and projected) to be made before the start date of the new request. This will provide the forecast funds available for each disease, which will be the budget ceiling amount for each funding request.

All interventions to be implemented and paid as of the new funding model grant start date, whether originating from already existing grants or from the funding request, should be incorporated in the budget.

The indicative upper ceiling available for each disease component at the funding request stage is determined according to the **Global Fund Allocation Methodology**, approved by the GF Board, based on disease burden and income level, "*The allocation amount for each eligible disease component represents the funding that can be used over the relevant three-year Allocation Utilization Period. Any remaining funds from an existing grant, unused by the start of the indicated Allocation Utilization Period, will not be additional to the allocation amount. Remaining funds are composed of: (i) unused funds at the Global Fund Secretariat level (undisbursed funds). At the end of an Allocation Utilization Period, unused funds are returned to the general resource pool with the balance typically put towards Portfolio Optimization (as described below) to fund Unfunded Quality Demand (UQD) and other funding gaps in the next Allocation Period. (ii) available in-country funds represent any available uncommitted in-country cash balances (e.g., held by Principal Recipient, sub-recipients, procurement agents, and others). For Principal Recipients that are not continuing to implement grants for the Global Fund, the funds available in-country at the end of an Allocation Utilization Period need to be returned to the Global Fund no later than nine (9) months after the end of the grant. In the case of a continuing Principal Recipient, to avoid delays in implementation, the Global Fund may allow the Principal Recipient to use the in-country cash for the new grant. In that case, this amount will be deducted from the subsequent Allocation Utilization Period*."

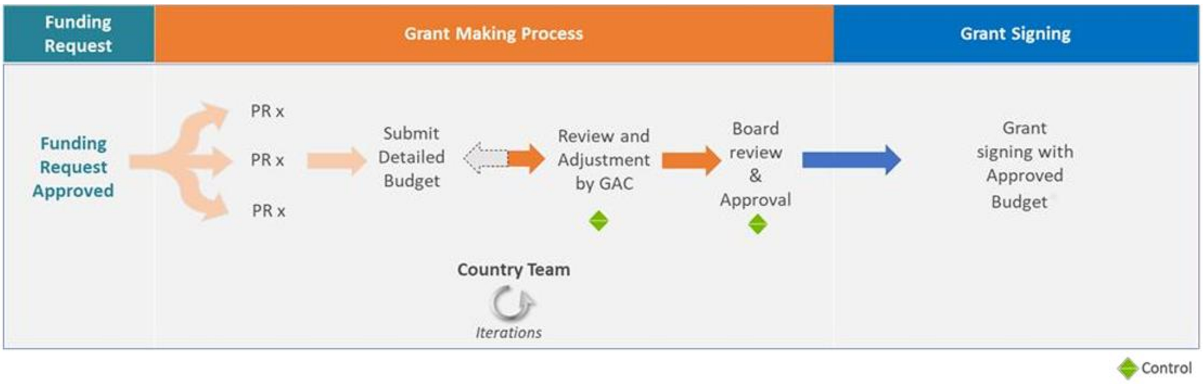
For more information, please see the **Global Fund Operational Policy Manual**, Section 1: Access to Global Fund Financing.

Resources

- **Global Fund Allocation Methodology**
- **Global Fund Operational Policy Manual**

2.3 Prepare and Finalize a Global Fund Budget during Grant-Making

Once a funding request is recommended for grant making, the nominated Principal Recipient (PR) is required to develop a detailed budget using the full modular approach and costing dimension. Each PR must submit a detailed budget for review and approval, as indicated in the diagram below.



Practice Pointer

As a general principle, in developing a Global Fund work plan and budget, the PR must ensure a strong link between these documents, the performance framework (PF), and the health products management template (HPMT). It is recommended that the PR have a near-finalized PF before developing the budget, to ensure that appropriate levels of funding are allocated to achieve PF objectives/activities and corresponding targets.

NOTE: under Grant Cycle 7 (GC7) – 2023-2025 GF Allocation Period – the Detailed Budget template comprises two worksheets – one for health products (Detailed Budget – Health Products for Cost Groupings 4, 5, 6, and 7) and another for non-health products (Detailed Budget – Non-Health Products for all Cost Groupings except 4, 5, 6, and 7). Depending on the type of portfolio (High Impact, Core, Focused), the Global Fund Country Team will confirm whether a HPMT is required and, in such cases, the HPMT must be finalized first, and then the data copied/pasted into the Detailed Budget – HP worksheet of the DB template. The HPMT includes a Detailed Budget worksheet that includes all required information and is structured to mimic the Detailed Budget – HP worksheet. The PR will not be able to edit the information in the Detailed Budget – HP worksheet. When an HPMT is not required, the Detailed Budget – Non-HP worksheet is used exclusively for all budget lines across all cost groupings.

In addition, the PR is encouraged to design the work plan and annual budget (with detailed cash forecasting for each quarter). It is also recommended that the Country Office (or a grant designing team) should take the following into account in the template:

- unit cost/number of days/frequency/quantity/implementing partner or entity responsible for implementation (PR/Sub-recipient (SR)/Sub-sub-recipient (SSR));
- cost input linked to each activity line; and
- module and Intervention linked to each activity.

The detailed budget should be based on the cumulative funding approved for the funding request, including any above-allocation funding and any projected in-country cash balance available for the new funding cycle. For new grants, the initial budget estimates are based on the programmatic needs and the best estimates at the time of the funding request. The budget will provide the following information and justification:

- alignment of the detailed budget to the approved funding request, taking into account any adjustments communicated by the Global Fund following Technical Review Panel (TRP) and Grants Approval Committee (GAC) reviews; and
- quantitative assumptions used for unit costs based on historical data and/or *pro forma* invoices when necessary.

The detailed budget should be submitted using the Global Fund budget template, which includes the following information:

- modules – selected from a prescribed list
- interventions – related to the module selected from the prescribed list
- activity – this is not mandatory and is at the discretion of the PR
- implementer – the entity that would implement and manage the associated budget line
- cost input – selected from a prescribed list
- payment currency –The payment currency is the currency that would be used to pay for goods and services. For example, salaries for SR staff funded by the grant should be paid in local currency, health products are paid for in US dollars, etc.
- unit cost at the start of the budget, and annual inflation/increase factor
- quantities required for each period
- period (annual [1]) – this should be the estimated period of payment and disbursement requirement from the Global Fund. Generally, this excludes procurement lead times for delivery of goods/services/commodities unless there is a specific clause in the grant confirmation citing a national legal requirement to access funding prior to the initiation of the procurement process

With respect to SR staff funded by the grant, the following procedures should be followed:

1. SRs should contract project staff in local currency without reference to grant currency (US$ or Euro).
2. The PR is to use the free worksheet in the Global Fund budgeting template to provide the SR salary assumptions in local currency, including projected salary increments based on the inflation rate (not to be completed unless requested by the Global Fund).
3. UNDP can request budget adjustments for SR salaries based on the inflation rate in the country. The SR salary adjustments will make use of savings realized due to the depreciation of local currency.
4. Country Offices (COs) should agree with Global Fund on reliable sources for inflation data and the procedure for adjusting SR salaries based on the inflation rate.
5. Non-material budget adjustments for human resource (HR) costs of less than 5 percent of total budget of recipient HR cost grouping can be made and reported in PU, Pulse Check or Progress Update/Disbursement Request (PU/DR)without prior approval of Global Fund. HR cost adjustments above this threshold are considered material and will require prior Global Fund approval.
6. The proposed increments for SR salaries denominated in local currency should be included in PU/DR cash forecasts.

The budget template is detailed at:

- **Global Fund Operational Guidance for Grant Budgeting** – relevant templates at end of document.
- **Global Fund Instructions for Completing the Detailed Budget Template**
- The total budget must be within the available funding – that is, the allocation amount as adjusted with any above-allocation funds and projected in-country cash balance communicated by the Global Fund. All disbursements between the allocation announcement and the new grant period should be taken into consideration and not included in the budget.

Once the template has been developed, the PR should undertake the following steps to finalize the work plan and budget based on the original document found in the proposal:

- Gather historical data for the grant and country context, in relation to unit costs and organizational arrangements.
- Based on this historical data, clearly define cost assumptions:
    1. In the absence of historical data efforts must be made to obtain detailed costs for each activity.
    2. These cost assumptions must be included in the same document for the Local Fund Agent (LFA) and Global Fund to review.
- Analyse the country storage and distribution system to adequately address the weaknesses and costs associated with the storage and distribution of the health products.
- Discuss quantification and procurement and supply management (PSM) assumptions with relevant agencies in the country.
- Consider cost recovery budget lines, as per the UNDP–Global Fund Cost Recovery Agreement.

Practice Pointer

The work plan and budget will be reviewed by the LFA and the Global Fund Country Team. The PR should be prepared for several rounds of negotiations in finalizing this document with the Global Fund. To avoid delays, the PR should take the following steps to ensure a quality work plan and budget:

- confirm that the budget is consistent with the proposed programmatic targets in overall terms and on a time basis; confirm that the budget is within the available maximum TRP-approved funding amount;
- confirm the arithmetic accuracy of the budget;
- scan each budget line (e.g. activity) to check reasonableness of the unit costs, quantities and the assumptions used;
- ensure the economy, efficiency and effectiveness (value for money) of budget activities;
- confirm that budget lines are classified in accordance with the Global Fund definitions cost groupings, interventions and modules [Refer to the **Global Fund Modular framework handbook**] ;
- confirm that the budget is consistent with the grant proposal and addresses all TRP concerns;
- identify ineligible costs which will not be funded/accepted by the GF and inform the respective implementers;
- confirm inclusion of other mandatory charges such as UNDP GMS, audit fees and capacity development activities;
- confirm that the budget does not contain duplication of funding with other Global Fund grants or other sources of funding;

- seek efficiency gains in accordance with Global Fund Board-mandated requests;
- confirm that revenue-generating activities are addressed in the budget;
- provide assurance as to the PR's ability to implement and expend the budget within the stipulated period in accordance with the grant agreement.

[1] Note that starting from the Grant Cycle 7, the GF grant budgets are prepared on annual basis, instead of quarters. However, internally UNDP COs are required to prepare quarterly cash forecasts for the reporting fiscal year and revenue milestones need to be set based on the quarterly cash forecasts.

Resources

- Global Fund Operational Guidance for Grant Budgeting
- Global Fund Instructions for Completing the Detailed Budget Template
- Global Fund Modular framework handbook

2.3.1 Transition between Allocation Utilization Periods

The grant allocation can be used for activities that were budgeted, approved and completed during the grant implementation period associated with the country's allocation – regardless of whether the payment for such activities has occurred. The following principles apply:

a. **Financial commitments** are current contractual obligations to pay a specified amount of cash against goods and services already received, but for which the related payment has not yet been made (all or partial). Financial commitments existing at the end of a grant implementation period can be paid from that period's allocation (via available cash balance or a disbursement from the Global Fund) and must be liquidated no later than six months after the end of the grant Implementation Period (unless otherwise approved in writing by the Global Fund).
b. **Financial obligations** are current contractual obligations to pay an agreed amount of cash (i.e., as per signed contract and/or purchase order) to a third party for the provision of goods/services at a certain point of time in the future, i.e., the goods or services are yet to be received. Financial obligations existing at the end of an implementation period cannot be paid from that period's allocation and must be transferred and included in the budget of a new grant or an extension, to be covered by funds from the next allocation.

Therefore, all financial commitments existing at the end of the current Allocation Utilization Period will be paid from the current allocation, while financial obligations existing at the end of the current Allocation Utilization Period will be funded from the next implementation period allocation. These amounts will need to be considered in the negotiation of the next grant and included in the budgeting and programmatic planning for the next allocation utilization period.

In certain cases, payments relating to goods and/or services delivered after the end of an Allocation Utilization Period may be considered financial commitments to be funded from that Allocation Utilization Period, where the following three criteria are met:

- the implementing entity has placed the order(s) for the goods or services at issue with adequate consideration for relevant lead times [1] such that the goods or services were expected to be delivered before the end of the allocation utilization period; and
- the delivery of the goods or services is delayed for reasons beyond the implementing entity's control; and
- the delivery of the goods or services is completed within a maximum of 90 days of the Allocation Utilization Period end date.

Six months after the start of the new Implementation Period [2], Principal Recipients will be required to report [3] the final available cash balance from the previous allocation period (after all financial commitments are fully paid). Any unliquidated commitment remaining at the end of the six-month period will be considered closed by the Global Fund unless otherwise approved in writing by the Global Fund.

Upon the signing or modification of grant confirmation, final in-country cash balance amounts may be deducted from the grant funds amount of the new grant as stipulated in the grant confirmation. Consequently, in-country cash balances from the previous Implementation Period may be deducted from the future funding (disbursement) decisions of the Global Fund.

For grants in closure or already closed prior to the allocation period, the Principal Recipient is required to reimburse the cash balance directly to the Global Fund, unless otherwise approved in writing by the Global Fund.

Detailed guidance on transition from the old to the new allocation funding and relevant budgeting and reporting requirements is available in **Global Fund Guidelines for Grant Budgeting, Global Fund Operational Guidance for Grant Budgeting** and in the **Global Fund Operational Policy Manual** (**Section 3: Implementation Period Reconciliation and Grant Closure).**

[1] See the **Global Fund Category and Product-level Procurement and Delivery Planning Guide** for indicative lead times for key HIV and Malaria health products procured via the Global Fund's Pooled Procurement Mechanism. See the **Stop TB Partnership's Category and Product-level Procurement and Delivery Planning Guide** for indicative lead times for key TB health products procured via the Global Drug Facility.

[2] Or extension, if applicable.

[3] The report is due 7.5 months after the end of the previous Implementation Period

Resources

- Global Fund Guidelines for Grant Budgeting
- Global Fund Operational Guidance for Grant Budgeting
- Global Fund Operational Policy Manual
- Global Fund Category and Product-level Procurement and Delivery Planning Guide
- Stop TB Partnership's Category and Product-level Procurement and Delivery Planning Guide

2.3.2 Foreign exchange

Budgets of Global Fund grants are either finalized in Euros (€) or US dollars (US$), depending on the new funding model allocation currency choice, considering the payment currency for each budget line. The allocation currency should be requested by the applicant no later than 30 days after the issuance of the allocation letter to the country. Global Fund grant budgets should be prepared using the different currency denominations of each budget line (i.e., the currencies in which the budget item will be invoiced or charged) converted, where applicable, to the currency of the Grant Confirmation at an appropriate exchange rate.

Any inflation factor should take account of the currency denomination of the budget item (local currency-denominated items may require a different rate of inflation to foreign currency-denominated items). The relationship between the two variables—exchange rate and inflation rate—should be described in the general budget assumptions.

The exchange rate used in the budget should be that which, based on available evidence, reflects the best estimate of the rate at which the PR will exchange their grant currency into local currency over the term of the grant. The method and/or references used should be fully disclosed in the general budget assumptions. The exchange rate may be budgeted at different rates over the term of the budget, provided that assumptions behind the rates are disclosed. No exchange rate "contingencies" may be included in the budget. If the country's exchange rate is fixed or managed by the domestic authorities, the budget should follow the given official fixed rates.

2.3.3 Taxes

Global Fund funding is made available based on the principle that grant funds are exempt from relevant taxation imposed by the host country concerned. The required tax exemption for Global Fund purposes mainly includes (but is not limited to): (a) customs duties, import duties, taxes or fiscal charges of equal effect levied or otherwise imposed on the "Health Products" imported into the host country under the Grant Confirmation or any related contract (collectively "Custom/Import Duties") and (b) VAT levied or otherwise imposed on the goods and services purchased using grant funds.

The obligation of the host country to provide tax exemption is mandatory and applies to the Global Fund programmes implemented partially or wholly by any Principal Recipient (PR) or Sub-recipient (SR) that is not a "Government Entity." In administering the tax exemption, if needed, the PR should ensure an adequate follow-up of taxes paid and recovered at SR level.

The budget submitted to the Global Fund should be net of taxes on applicable unit costs. When tax exemption is obtained on a reimbursement basis (i.e., the PR must pay the taxes first and then claim reimbursement), the first year's budget may include a provision related to the cash flow needs if required. This should be requested in the budget and supported by precise cash flow forecasts related to tax payment and recoveries. If the UNDP CO operates on a VAT reimbursement basis based on local legislation, UNDP CO shall try to ensure through coordination with the government of the Host Country and the CCM or, as the case may be, the relevant Regional Coordination Mechanism (RCM) or Regional Office (RO) and otherwise that the relevant Grant Agreement and the assistance financed thereunder shall be free from taxes and duties imposed under laws in effect in the Host Country.

2.3.4 Costs

2.3.5.1 Salary top-ups and travel-related costs

Allowances for salary incentives, top-ups, travel per diems and transportation costs are not paid from grant funds unless provided for in the funding request and grant agreement. If such schemes are indispensable for service delivery, applicants should include a valid funding rationale for such incentives as part of the funding request. The assumptions tabs in the Global Fund budget template are used for this justification.

2.3.5.2 Shared costs

Shared costs are expenses that can be allocated to two or more funding sources (government, the Global Fund, other donors etc.) or different Global Fund grants based on shared benefits and administrative efficiency. These costs are allowed when they are:

- verifiable from implementers' records with evidence on "fair share" principle;
- necessary and reasonable for proper and efficient accomplishment of grant and programme objectives;
- included in the approved budget when required; and
- expensed during the grant implementation period.

The apportionment method must be clearly stipulated in the budget assumptions.

Budgeting for Project Management Unit (PMU) and other staff costs

The Global Fund budget template contains three types of assumption tabs:

1. Travel-Related Cost grouping of cost-inputs;
2. Human Resources grouping of cost inputs; and
3. All others.

The related assumption tab is used for each detailed unit cost.

Staff costs are calculated and budgeted as follows:

- **UNDP's Pro-forma Costs** for Fixed Term Appointment (FTA), Technical Assistance positions either on Temporary Appointments or Personnel Service Agreements.

Note that all information related to the procurement of health products – i.e., the list of health products, unit costs, quantities, and associated procurement and supply management (PSM)-related costs – are captured in the **Health Product Management** section of the Manual.

Practice Pointer

All relevant common services costs such as common premises (shared office costs, PMU that are collocated with UNDP Country Office), security costs, common communication costs, or medical facilities (UN dispensary) must also be included in the budget.

Resources

- UNDP POPP: UNDP Financial Resource Management Policies
- Global Fund Health Product Management Template User Guidelines
- UNDP's Pro-forma Costs

2.3.5 Cost recovery

In preparing the budget, the Principal Recipient (PR) should include all relevant direct costs and indirect overhead costs.

The PR is responsible for negotiating any indirect and overhead costs to be charged by Sub-recipients (SRs) and other implementing entities. If such entities are international nongovernmental organizations (NGOs), the relevant indirect cost recovery policies on SR costs apply. Local NGOs should include all charges as direct costs.

When formulating Global Fund budgets, UNDP policy is adhered to with respect to cost recovery. UNDP distinguishes between two types of costs in the implementation of its activities. These are:

1. Costs that are in addition to direct project costs**,** representing the costs to the organization that are not directly attributable to specific projects or services, but are necessary to fund the corporate structures, management and oversight costs of the organization. These costs are recovered by charging a cost recovery rate, known as General Management Support (GMS) fee; and
2. Direct Project Costs (formerly known as DPC, currently renamed Delivery Enabling Services, DES) - direct costs of programme, administrative and operational support activities, that are part of the project input.

General Management Support

GMS is defined as indirect costs incurred by an organization as a function and in support of its activities, projects and programmes. The key feature of these costs is that they cannot be traced unequivocally to specific activities, project or programmes.

Based on the exceptional approval of UNDP's Executive Board for existing corporate framework agreements, the GMS rate between the Global Fund and UNDP is 7 percent. The agreed percentage fee for GMS between UNDP and the Global Fund is corporately agreed, and as it is Executive Board legislated, it is non-negotiable. GMS is to be categorized as overhead and included as a budget line for all grants. This GMS rate is applicable for the Principal Recipient role and when UNDP is providing technical support to a Global Fund Principal Recipient or Sub-recipient through a Financing Agreement. Any deviations to the GMS rate must be approved by the BMS Director prior to any negotiations with the donor. Refer to UNDP Programme and Operations Policies and Procedures (POPP) on **Resource Planning and Cost Recovery** for detailed guidance on GMS, and in case of specific queries, reach out to the GFPHST Finance Team or Programme Team.

Direct Project Costs (or delivery enabling services)

Delivery Enabling Services (DES, formerly known as DPC) are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes) or service. Therefore, these costs are included in the project budget and charged directly to the project budget for the development activity and/or service, in this case, those included in a Global Fund grant .

DES are driven by either: (i) Programme implementation and implementation support activities - costs incurred by UNDP to support project implementation by Operations Units, including services related to finance, procurement, human resources, administration, issuance of contracts, security, travel, assets, general services and information and communications technology; or (ii) Development effectiveness – activities and costs that support programme quality, coherence and alignment and relate to results in country and at regional levels. These are activities of a policy advisory, technical and implementation nature essential to deliver development results. In UNDP Country Offices (COs), these are the costs associated with Programme Units and Programme Support Units.

Direct project costs shall be identified during the project initiation phase. All anticipated programmatic and operational inputs, including development effectiveness activities and implementation support arrangements, need to be identified, estimated, and fully costed during the preparation of the project budget and annual work plan. DPC costs are to be calculated based on the actual costs required to provide implementation project support.

The below are the options for implementing DPC for the GF projects:

- Application of the CO workload study results, combined with multiple funding lines for posts.
- Application of the Universal Price Lists (UPL) or Local Price List (LPL) for transactional costs recovery.
- Refer to **UNDP POPP Resource Planning and Cost Recovery** for detailed guidance note on Planning and Costing Global Fund (GF) projects.

Please refer to POPP/PPM Design/Prepare Fully costs Budgets for Projects/Guidelines for GF projects: **Guidance Note on Planning and Costing Global Fund (GF) Projects**

Audit costs

The audits that are carried out by UNDP's Office of Audit and Investigations (OAI) cover only the Principal Recipient (PR) activities as managed by a given UNDP Country Office (CO).

Practice Pointer

Should the Country Office have a Financing Agreement (FA) to provide technical support to a non-government organisation or a national partner, then the activities will be included in the audit of the Country Office and not as part of the UNDP PR OAI audit. Therefore, there should be no audit costs included in the programme budget for a FA.

Effective 19 September 2017, UNDP and the Global Fund agreed to a tailored audit cost recovery process, in alignment with OAI's risk-based approach to audit, as formalized in the Framework Agreement.

The process agreed with the Global Fund is as follows:

1. **Budgeting** – COs and RSCs managing Global Fund grants are advised to budget for the OAI audit costs as follows:
    - **High risk countries** should budget for the audit costs of US$85,000 once in two (2) years. For high-risk countries the timing of the budget should take into account the date the last OAI audit report for Global Fund programmes was issued. For example, if a high-risk country was last audited in 2021, they should make a provision for a budget in 2023.
    - **Medium risk countries** should budget audit costs of US$85,000 once in three to four (3-4) years.
    - **Low risk countries** should budget audit costs of US$85,000 once in four to five (4-5) years.
    - In **all cases**, should a country not be audited in a particular year, then the audit budget should be re-phased to the following year until an OAI audit takes place and payment is made.
    - The risk ratings per country are updated by OAI every year in Quarter 4.
    - The risk ratings will be communicated by the UNDP Global Fund Partnership and Health Systems Team (GFPHST) to the concerned COs**.**
    - **New Countries** should use the previous year's country risk rating to guide them in terms of the frequency of the OAI audits and should budget accordingly.
    - For countries with **more than one grant agreement** the costs should be apportioned across the respective grant budgets (including C19RM), based on the total signed grant amounts.
    - The audit costs are planned and budgeted under the account for "Professional Services" (74100).
    - In the event there is an 'unsatisfactory' OAI audit rating, there will be a follow-up audit in the subsequent year as per UNDP guidelines. The CO should, therefore, request a budget reallocation to cover the costs of the follow-up audit.
    - In Quarter 1 of the last year of the Implementation Period, UNDP will review the utilization of the audit costs and agree with the Global Fund on reprogramming of savings, if any.
    - For the **active grants that do not have a budget line for OAI audits**, COs or RSCs shall submit a request to the Global Fund for the budget reallocation of savings to include the audit costs in the respective grant budgets and the cash forecast for the annual Disbursement Request.
2. **OAI's annual Global Fund audit plan** – In December of each year, the UNDP Global Fund Partnership and Health Systems Team (GFPHST) will share with the Global Fund, Regional Bureaus and the COs the OAI audit plan for the subsequent year and a proposal for the distribution of audit costs for the respective countries. For all grants selected for audit the CO should include audit costs in the cash forecast for the annual Disbursement Request.
3. Upon the upon the issuance of a draft audit report by OAI, the $85,000 for audit costs will be charged to the respective grants to an expense account 74110 -Audit fees, with a prorating of the cost (based on the signed amounts of active grants (including C19RM, as applicable) for countries with more than one grant and credited to the UNDP Global Fund Partnership Health System Team's COA.

Technical assistance

UNDP and the Global Fund have agreed to charge a lump sum of $50,000 to the budget of the relevant Global Fund grants to cover direct costs incurred by UNDP headquarters or regional offices for providing technical assistance to relevant national entities to prepare them for assuming the role of PR in line with capacity development or transition plans approved by the Country Coordinating Mechanism and/or the Global Fund. Further guidance on Cost Recovery related Technical Assistance can be found **here**.

1% coordination levy

The 1% coordination levy endorsed by Member States on 31 May 2018 through the United Nations General Assembly resolution 72/279 on the Repositioning of the United Nations development system (paragraph 10) **does not apply to contributions** from the Global Fund (PR grants or Financial Agreements).

Resources

- **UNDP POPP Resource Planning and Cost Recovery**
- **UNDP POPP Guidance Note on Planning and Costing Global Fund (GF) Projects**
- **UNDP GFPHST Guidance on Cost Recovery related Technical Assistance**

2.3.6 Detailed budgeting guidance

Detailed budgeting instructions can be obtained from the **Global Fund Operational Guidance for Grant Budgeting** under the following areas:

1. Human resources, including salaries, allowances and accrued severance entitlements;
2. Travel-related costs;
3. External professional services;
4. Pharmaceutical, non-pharmaceutical health products and health equipment;
5. Infrastructure and non-health equipment;
6. Communication material and publications;
7. Management fees and indirect cost recovery; and
8. Living support to client/target population (Microloans and micro grants; cash incentives).

Resources

- **Global Fund Operational Guidance for Grant Budgeting**

2.3.7 Budget approval

The funding request budget and the detailed budget prepared for the grant-making process should be uploaded to the Global Fund's online platform [the latest platform is Grant Operating System (GOS)].

A standardized detailed budget (DB) template is extracted from the Global Fund's GOS in Excel, with prepopulated data. The level of detail included in the DB Template shall differ depending on the stage of the application, i.e., whether the application is at funding request or grant-making stage.

The summary budget is automatically produced in the DB template for all stages of the budgeting mechanism (e.g., funding request, grant-making, reprogramming). The summary budget reflects the costs of each intervention (modular approach) and cost grouping using standard budget classifications provided in the costing dimension (cost inputs/cost grouping).

To ensure efficient and timely review and approval, when submitting a budget for approval the Principal Recipient (PR) should include all unit cost assumptions and upload all relevant supporting documents. The estimated time for the review and approval of the detailed budget submitted by the PR is 30 to 90 days, depending on the stage of the process. Additional clarifications and/or budgets that do not comply with Global Fund principles could lead to additional delays in the approval process.

Once approved, the budget is captured in Global Fund systems as the official approved budget and used as the basis for financial reporting unless it is modified through the grant agreement after any material budget adjustments. This is also the "baseline budget" and all budget adjustments will be compared against this version for the establishment of materiality thresholds.

Resources

- **Global Fund Guidelines for Grant Budgeting**
- **Global Fund Instructions for Completing the Detailed Budget Template**

2.4 Secure Banking Arrangements

UNDP uses only two bank accounts (U.S. dollars (US$) and Euro) for receiving contributions from the Global Fund.

Prior to Board approval and/or signing of the Grant Confirmation, the Global Fund undertakes the process of bank verification and authentication by requesting the details of the bank account of the Principal Recipient (PR) into which the grant disbursements will be deposited. Country Offices (COs) should request bank account confirmation letters from the UNDP's Global Fund Partnership and Health System (GFPHST) Finance team.

Contributions will be credited to the bank account identified on the Face Sheet. The Global Fund disburses funds directly to the PR and they should clearly reference the applicable Grant Number in all deposits.

Country Coordinating Mechanism (CCM) and Financing Agreement funding should also be deposited in the HQ Contributions Bank Account.

2.5 Project and Budget Formulation in Quantum

UNDP's standard procedures as advised in **UNDP Programme and Operations Policies and Procedures (POPP) - Project Design** should be followed for Global Fund project and budget formulation. This includes guidance on how to 'Formulate Programmes and Projects,' 'Select Responsible Parties and Grantees' and 'Appraise and Approve.' For more information on selecting Sub-recipients, please refer to the **Sub-recipient Management section** of this Manual.

It is important to remember that the term "Project" in UNDP policy represents the project document. Therefore, there may be one Project with multiple Outputs ("Projects" in Quantum). The budget control on budgets in Quantum (revenue, expenses, advances, etc.) is at the output level and NOT at the Project level.

Global Fund project/budget setup in Quantum should adhere to the following principles:

- Projects created in Quantum should conform to the standard structure that one Global Fund Grant Agreement corresponds to one Quantum Project with one Quantum Output.
- Country Offices (COs) **should not** create multiple outputs for one grant as this complicates cash management and cash reconciliation reports in Quantum. Only if the grant has an allocation from the Global Fund for COVID-19 (C19RM) activities, a second output can be added within the existing project.

Practice Pointer

Quantum allows other donor funding, including UNDP core funding, to be combined with the Global Fund funding. However, it is NOT recommended to comingle multiple donor funding with the Global Fund grant project due to various reporting and closure requirements that are specific to the Global Fund.

In some cases, the Global Fund may request UNDP to act as the Fund Administrator for Global Fund resources that are managed by the National PR. For such cases the Fund Code is 30078 and the Donor Code is 000327 should be used.

Country Coordinating Mechanism (CCM) funding (Fund 30068 Donor 000327) should have a separate project and output from main grant funding (Fund 30078 Donor 000327).

All Financing Agreements, signed between UNDP and the national PR with funding from the Global Fund should be budgeted and funded using fund code 30085 and the respective Donor code of the respective Government.

The proposal and project are created in Quantum Project Management Module (for guidance refer to UNall Knowledge Bases>Quantum>Project & Portfolio Management

* UNDP as Principal Recipient (PR) assumes the role of Implementing Partner (Direct Implementation - DIM) and is reflected in Quantum, when creating the Project, Financial Plan and Award under the "Institution ID" field (Institution ID - 99999).
* Where UNDP serves as Responsible Party, it should be reflected in the Implementing Agent field in Atlas (Implementing Agent - 001981).

When UNDP is the PR, COs use a set of budget account codes in Quantum, which correspond to the nature of expenses of the respective activity of the Global Fund Detailed Budget.

Each Budget line in the Global Fund Detailed Budget will correspond to an Activity (or task) in Quantum for both project budgeting and transaction purposes.

Activity ID should be numbered exactly the same as the budget line number in the GF Detailed Budget without any prefix or suffix. There are a few exceptions:

a) the budget line dedicated to General Management Support (GMS) fees where the Quantum Task can be created as "GMS".
b) budget lines related to procurement of Health Products and Pharmaceuticals where the related Quantum tasks can be shortened to start from HP. For example, task HP0046 can be created for budget line SCPOP26HP0046.
c) budget line that was put in the Global Fund Detailed Budgets under general Implementer (e.g. SRs) with considerations that the activity will be split between several Responsible Parties. For such budget lines, several tasks should be created with addition of dash and Responsible Party code. For example, tasks 21-2066 and 21-1995 should be created for task 21 if implementation of this activity is split between several implementers (in this example, between 002066-World Health Organization and 001995-United Nations Population Fund).

Budget line #	Quantum task number	Module	Intervention	Activity Description	Cost input	Implementer	Quantum Responsible Party
18	18	Differentiated HIV Testing Services	Facility-based testing outside of key population (KP) and adolescent girls and young women (AGYW) programs	Forecasting & quantification meeting on comsuption monitoring and reporting for HTS	2.4 Meeting/advocacy-related per diems/transport/other costs	United Nations Development Programme	001981-UNDP
SCPOP26HP0046	HP0046	Differentiated HIV Testing Services	Facility-based testing outside of key population (KP) and adolescent girls and young women (AGYW) programs	Procurement of RDTs	5.4 Rapid Diagnostic Tests	United Nations Development Programme	001981-UNDP
505	GMS	Program management	Grant management	UNDP General Management Service	11.3 Indirect cost recovery - % based	United Nations Development Programme	001981-UNDP
21	21-2066	RSSH/PP: Laboratory systems (including national and peripheral)	RSSH/PP: Network optimization and geospatial analysis	Training on the diagnostic network optimisation and end-users PP Pilot	2.1 Training-related per diems/transport/other costs	SRs	002066-World Health Organization
21	21-1995	RSSH/PP: Laboratory systems (including national and peripheral)	RSSH/PP: Network optimization and geospatial analysis	Training on the diagnostic network optimisation and end-users PP Pilot	2.1 Training-related per diems/transport/other costs	SRs	001995-United Nations Population Fund

Practice Pointer

* Each Sub-Recipient (SR) should have an Implementing Agent (IA) code. Please check whether an IA code exists and if not, request an IA code via the UNall portal.
* The activities for which SRs will be responsible should be included as separate lines in the project budget. The Chart of Account for these lines should use the IA code for the relevant SR.

GMS Setup

UNDP's indirect cost recovery, known as GMS, should be included in the project budget as a separate budget line.

For all Global Fund projects and funding, GMS is earned (or charged) on 'earn as you go' basis . The 'earn-as-you-go' method charges the GMS fee only when expenses are incurred based on actual expenses posted in general ledger.

For further guidance, refer to the Guidance Note on Quantum GMS Set-Up & GMS Reports available on the **UNDP** **Office of Financial Management's intranet** and **UNDP POPP Resource Planning and Cost Recovery.**

The GMS setup for Global Fund projects should be:

* GMS calculation: Earn as you go

* Donor: 00327* and Fund: 30078 (or 30068 for CCM funding, or 30085 for financing agreements)

* Rate: 7 percent and Effective date: grant start date or if applicable pre-allocation start date

* Distribution modality: Global Fund Projects (30078, 30068 and 30085)

*For Financing Agreements (FA) funded by Global Fund resources, use Fund 30085 and Donor code of the respective Government that UNDP signs the FA with. In those cases where non-Government entities request UNDP to provide technical support services, please contact the UNDP Global Fund Partnership and Health Systems Team (GFPHST) Finance team for further guidance.

Practice Pointer

The above procedures are applicable for the Global Fund grants where UNDP is the Principal Recipient, Fund Administrator or supports the Country Coordinating Mechanism (CCM). Effective 1 November 2019, the same GMS rate and internal GMS distribution across UNDP units are applied to non-Principal Recipient (PR) financing agreements funded by Global Fund resources .

Resources

- UNDP POPP Resource Planning and Cost Recovery
- UNDP Office of Financial Management's intranet

2.6 Prepare and Negotiate Advance Payment Mechanism

The advance payment mechanism allows the Global Fund to approve a list of expenditures the Principal Recipient (PR) may incur before grant signing. Expenditures agreed to between the Global Fund and the PR during grant negotiations will be reimbursed when the Grant Agreement has been signed and the first disbursement has been released. The PR includes the approved grant making expenditures in the final grant budget.

To utilize the pre-allocation budget, a UNDP initiation plan shall be prepared and approved by the Local Project Appraisal Committee (LPAC), and a project established in Quantum (the same project to be used for grant implementation). Refer to section on Principal Recipient start-up for detailed guidance on pre-allocation budgets and UNDP initiation plan.

Pre-allocation activities must be funded from a Country Office (CO)'s own resources (such as Target for Resource assignment from the core (TRAC)) until subsequent reimbursement from the Global Fund. The project budget will thus initially include both sources on funding: UNDP fund code and Global Fund fund code. Upon receipt of Global Fund reimbursement, previously incurred expenses will be reversed in Quantum from the originally recorded fund code to the Global Fund fund code.

Procedures should be as follows:

1. If possible, the reversals should be done per each transaction. If, however, too many transactions are involved, the option of a lump sum through one reversal could be considered, with the detail of all transactions maintained for reference.
2. Any outstanding advances issued to Sub-recipients (SRs) should also be reversed by amending the initial invoice, unless otherwise instructed by OFM or GSSC.
3. Once the expenditures and outstanding advances have been reversed, the CO/PR should then proceed to reverse/zero out the budget under the UNDP fund code.

3. Grant Implementation

3.1 Revenue Management

UNDP's revenue management policies and procedures with respect to non-core resources are summarized below. These policies ensure that revenue is recorded, receivables are raised, and the handling of cash and receipts and the application of income is consistent, timely and accurate.

- Revenue is recognized upon signature of the contribution agreement by both parties. Instalments are recognized as revenue based either on dates in the schedule of payments of the agreement, or the clause in the agreement that governs when an agreement becomes binding. For Global Fund grants, revenue is recognized upon signature of the Grant Agreement if there are no major deviation from the GF framework agreement and grant confirmation letter.
- Therefore, it is important that the Country offices to submit the grant agreements, its amendments to The Global Shared Service Centre (GSSC) through UNall.
- Country Offices (COs) submit all agreements and any necessary supporting documents as soon as possible through **UNall**.
- The GSSC reviews the donor agreement submitted thru UNall and enters it in Quantum. The GSSC records revenue and creates the accounts receivables based on the projected cash disbursement milestones and conditions in each agreement. The contract is recorded in the currency indicated in the agreement. After the contract is created by the GSSC, the Contracts Module generates a contract reference number and communicated to the CO by the GSSC.
- Application of grant funds against Accounts Receivable (ARs) is handled by GSSC.
- Where an agreement has been amended with the approval of the donor, such amendment needs to be communicated to GSSC staff via UNall in a timely fashion. The GSSC then reflects these amendment(s) in the Contracts Module. A copy of the amended agreement should be uploaded to the DMS for the GSSC to process the amendment.
- COs should regularly review the Quantum revenue management reports, pending milestones and proactively follow up with the GF in order to receive the funds on time.
- It is important that COs promptly submit a request in UNall if there are any changes to the agreements or completion of milestone conditions, to ensure that revenue is accurately and completely recorded in financial statements.

Refer to the following guidelines:

- **UNDP POPP on Non-Core Contributions**
- **UNDP POPP on Revenue Management Guidance: Global Fund Revenue**
- **UNDP POPP on Revenue Management Accounts Receivable**

The process with respect to the Global Fund is detailed in the next sections. The same process would also apply to CCMs, FAs and Fund Administrators.

Resources

- **UNDP POPP on Non-Core Contributions**
- **UNDP POPP on Revenue Management Guidance: Global Fund Revenue**
- **UNDP POPP on Revenue Management Accounts Receivable**

3.1.1 Global Fund Funding Decisions and Disbursements

The annual funding decision (AFD) and disbursement processes are critical grant management functions of the Global Fund. These processes allow the Global Fund to commit and disburse approved grant funds appropriately and take action to ensure grants continue to achieve maximum impact. There are two main objectives:

A. Decide on Annual Funding: Determine and commit the amount of funding that will be disbursed to the grant over the next 12 months of implementation[1] (plus a buffer period, up to 6 months), considering implementation performance, issues, and risks; and

B. Disburse Funds: Disburse funds committed through the AFD to the Principal Recipient (PR), or third party on behalf of the PR, for the payment of goods and/or services.

The AFD and disbursement processes ensure:

i. grant funds are used for agreed objectives and outputs in an accountable manner whereby known or new risks are minimized and mitigated;
ii. AFDs consider grant and PR performance to ensure PRs focus on results and timely grant implementation;
iii. AFDs are well documented and justified; and
iv. Disbursements are released on time to implementers and third parties to ensure the continuation of grant activities.

The processes of submitting the cash disbursement requests and the GF's internal process of determining the AFDs can be found in the **Global Fund Operational Policy Manual**: Make Annual Funding and Disbursement Decisions.

Resources

- **Global Fund Operational Policy Manual**

3.1.2 Process Metrics for Annual Funding Decisions and Disbursements

UNDP and the Global Fund are expected to meet the following key performance indicators:

- 85% budget utilization (as per the Global Fund criteria) of the first year of implementation, reported at end-June/end-December [1];
- 94% budget utilization, reported in end-June/end-December [2];
- 90% disbursement utilization, reported in end-March/end-September;
- AFD Notification Letter sent by CT within 15 days [3] of AFD approval; and
- Disbursement Notification Letter sent by CT within 15 days of release of the disbursement.

[1] Budget utilization is reported annually for Focused portfolios.

[2] The amount committed under the AFD does not include centralized commitments and disbursements.

[3] All references to "days" in this document shall mean calendar days, unless otherwise stated.

3.1.3 Disbursements

A disbursement is the actual transfer of cash from the Global Fund to the Principal Recipient (PR) (in the currency(ies) of the signed Grant Confirmation) for the payment of goods and services. The disbursement schedule and forecasted amounts will be established by the Global Fund Country Teams as an integral part of the annual funding decision process.

The Global Fund Country Teams are responsible for ongoing grant monitoring and determining if circumstances have changed between the time of the AFD and the scheduled disbursements. Any changes to the originally approved dates and/or amounts for payees are completed through an approval workflow. Any such changes must be within the overall AFD.

A Disbursement Notification Letter is sent from the Global Fund Country Team to the PR to inform them of the disbursement. The Global Fund should clearly reference the applicable Grant Number in all disbursements. The Global Fund Country Team should provide additional contextual information to the PR if the relevant disbursement amount differs from what was originally approved in the annual funding decision. Upon receipt, UNDP Country Offices should submit promptly a request for a deposit application in UNall with the Notification of Grant Disbursement and Management Letter, if applicable.

For Country Coordinating Mechanism (CCM) funds (fund 30068 and donor code 00327), the Agreement is processed as a Global Fund Financing Agreement that will be submitted via UNall, indicating the start and end date. The CO is also required to provide a Schedule of Payment with dates or the best estimate dates of disbursement by the Global Fund if Schedule of Payment is not available.

For CCM agreements, the Global Fund makes cash transfers to cover the annual budgets of CCM secretariat considering the unspent cash balances from the previous reporting period. This is communicated to country offices and CCM via email by the Global Fund, hence, COs should ensure prompt submission of a deposit application request in UNall.

For Financing Agreements, it is recommended to have the payment schedules in the agreement. Upon notification from the donor on transfer of resources, the CO should submit a UNall case for a deposit application.

For further guidance please refer to the **Global Fund Operational Policy Manual on Annual Funding Decisions and Disbursements**

Resources

- **Global Fund Operational Policy Manual**

3.1.4 Revenue Management Processes

1. The Principal Recipient (PR) negotiates an agreement with Global Fund, the donor, and incorporates a performance framework and summary budget. Once both parties agree, the Global Fund Grant Confirmation is signed.
2. A designated Revenue Focal Point of UNDP Country Office (CO) will upload the signed face sheet of the active Global Fund Grant Confirmation, budget summary, performance framework and the first page (only) of the email from the Global Fund which has the Notification Letter attached to it thru UNall within 7 days of the last signature date. The Global Shared Service Centre (GSSC) will process this after ensuring that the correct Chart of Accounts information has been included in the Confirmation, as well as the total amount outstanding at the date of uploading the document.
3. The GSSC will input the information from the Agreements into the Contracts Module where the accounting entries will be generated once the Letter of Notification has been received. Business units will be able to access reports with detailed information of all contracts created in the contract module and accounting entries processed.
4. UNDP will submit a Progress Update/Disbursement Request (PU/DR) to the Global Fund to initiate the disbursement of funds.
5. Once the PU/DR has been received and approved, a DR Notification Letter is received by UNDP from the Global Fund. This is immediately uploaded by the Revenue Focal Point in UNall for the GSSC to trigger the accounting entries in the Contract Module as follows:
   - DR Unbilled Accounts Receivables
   - CR Revenue
   - When the billing process starts based on the milestones achieved and the cash flow forecast, the following accounting entries will be triggered:
     - CR Unbilled Accounts Payable
     - DR Accounts Receivables
6. Once the Notification of Grant Disbursement letter has been processed by the GSSC, they will send an email advising the CO of the Revenue Contract Reference number and the Accounts Receivable (AR) Item ID created. This information will be used by the GSSC when applying Global Fund disbursements.
7. When the funds are received, cash is applied by Contribution Unit/Treasury and the accounting entries are as follows:
   - DR Cash/Bank
   - CR Cash Control
   - On application of the Funds to Accounts Receivable:
     - DR Cash Control Account
     - CR Accounts Receivable Once the GSSC has processed the disbursement, they will create a Contract Reference number that will be entered into the Deposit/Disbursement Information section of the DMS. This reference number can be used by the Country Offices to look up the AR item ID in the Contracts Module.
8. Any amendments to agreements must be communicated to the GSSC as soon as possible. The amended agreement (e.g. Implementation Letters) must be uploaded to the DMS for the GSSC to update the Contracts Module and process any corresponding accounting entries.
9. The following procedures should be adhered to at the end of each quarter:
   - Check that all Confirmations have been submitted in UNall .
   - Check that any amendments to Confirmation have been updated in the Contracts module by the GSSC.
   - Follow up with donors on outstanding amounts where applicable.

- Ensure timely application of all unapplied deposits at year-end.
- Review funds received in advance account and verify accuracy and completeness.

The country offices are advised to use the revenue management reports available in Quantum such as

UN PPM Revenue Contract Report

UN PPM Pending Event Report – all pending accounts receivables

UN Generate AR Invoices Report – all cash deposits received

UN PPM Project revenue and invoice Recon report

Practice Pointer

Although the Global Fund has procedures for direct payments to suppliers, these were primarily designed for the benefit of national entities that do not have the same international financial structures in place as UNDP. UNDP does NOT use the Global Fund's direct payment procedures for payments to Sub-recipients (SRs) or suppliers. Should the Global Fund and/or Local Fund Agent (LFA) request this modality of payment, the request should be referred to the UNDP Global Fund Partnership Health Systems Team for further guidance.

3.1.5 Interest Revenue

Article 3(b) of the **UNDP-Global Fund Grant Regulations** states, "Any interest or other earnings on funds disbursed by the Global Fund to the Principal Recipient under this [Grant Confirmation] Agreement shall be used for Program purposes, unless the Global Fund agrees otherwise in writing." In this respect, Country Offices (COs) should seek approval from the Global Fund for the use of interest or any other earnings and to ensure that such income is used for agreed programme activities.

Interest generated on Global Fund resources (except CCM and FA projects) is calculated by the Office of Financial Management (OFM) at year-end. The interest revenue is posted to the respective Global Fund projects in the current year at year-end in account '53045' (Allocated Interest Income) and Donor '00327' (Global Fund). (Note: Any adjustment or transfer of interest in subsequent years is recorded through GL account 51035.)

Interest recordings can be identified using the Account Activity Analysis (AAA) and Cash Balance Report. Interest earned for Global Fund projects must be reflected in the next Disbursement Request and Progress Update Report.

Interest earned in SR bank accounts is reported in the Funding Authorization and Certification of Expenditures (FACE) and recorded as per UNDP POPP procedures on Direct Cash Transfers and Reimbursements, step 1 :

"Any interest earned in bank accounts from advances provided by UNDP must be distinctly itemized on the FACE forms. For traceability and reconciliation purposes, the earned interest needs to be reported on the Combined Delivery Report (CDR), which is the official document used by auditors and government counterparts. However, the use of revenue account (5xxxx) will prevent the earned interest to be reflected in CDR reports. As a result, offices should record this earned interest through Zero Dollar Invoice (ZDI):

- When the interest is reported as earned by the partner (but has not been remitted to UNDP): Debit account 16005 (NEX Advances) and Credit account 74510 (Bank Charges) with the total amount of interest reported by the partner for a specific reporting period.
- When the interest is refunded to UNDP or utilized by the partner to cover project expenses: Debit the related Cash account 4xxxx) for refund; OR Debit Expenses (7xxxx) when the funds have been utilized; and Credit the NEX Advance account (16005)

The UNDP programme and finance team should ensure that the bank statement(s) are verified for evidence of the earned interest during assurance activities (audit or spot check)."

Practice Pointer

While, in order to be accounted in CDR, bank interest on SR bank accounts should be reported as credit to expenditure account 74510 instead of revenue accounts 5xxxx, the amount of interest earned on SR bank accounts should be reported to the Global Fund as other income in the PUDR section "SR_Cash Reconciliation_3", in column "(5) Other income during the current financial reporting period".

Resources

- UNDP-Global Fund Framework Agreement

3.1.6 Other Revenue

Global Fund guidelines indicate that budgets should include not only costs for programme activities, but also take into consideration any relevant income generated through activities and on programme assets. Thus, all revenue-generating activities such as social marketing or sale of assets are to be addressed in the budget and reflected as revenue in all Global Fund reporting.

Social marketing - proceeds are recorded as Miscellaneous income by the Country Office (CO) under GL Account 55090, Fund Code 30078 and Donor 00327 (the Global Fund).

Disposal of assets - proceeds are recorded in GL account 55070.

Country offices should submit the deposit application requests in UNall.

3.2 Expenses Management

Under UNDP's expense policy, expenses are recognized and recorded when goods and services are received by UNDP. A corresponding liability to pay is created at the time of recognition. The following categories of transactions are classified as expense:

- Goods (e.g., supplies)
- Services (e.g. utilities, consultants)
- Payments for Operating Leases
- Employee benefits (e.g., salaries, ASHI, leave)
- Use of plant, property and equipment (e.g. buildings, vehicles, computers depreciation)
- Finance costs (e.g., bank charges, fees)
- Transfers/grants (e.g., microfinance grants)

Refer to UNDP Programme and Operations Policies and Procedures (POPP) on **Expense Management** for detailed policies and procedures, including the following subject areas:

- **Raising E-requisitions**
- **Creating and Approving Vendors**
- **Purchase Orders/Commitments**
- **Receipt of Goods/Services**
- **Accounts Payable**
- **Disbursing Funds (Making Payments)**
- **Regular Maintenance and Closure of Purchase Orders (POs)**
- **Regular Maintenance of Accounts Payable**
- **Petty Cash (PC)**
- **Prepayments**
- **Hospitality Expense**

Resources

- **UNDP POPP on Expense management**

3.2.1 Prepayments

A prepayment is used when a supplier requires partial or full payment for goods or services prior to the delivery/provision of the goods or services. Examples would include one-off transactions for individual contracts, refundable deposits, construction works and long-term agreements (LTAs) for health products.

When paid, prepayments reflect as amounts due to UNDP and are recorded in the asset account 16065 (Prepaid Voucher Modality). As the goods or services are provided, the prepaid asset balance must be reduced and an expense recorded for the amount of goods or services received by UNDP. This is achieved by receipting and vouchering against the relevant Purchase Order (PO) and offsetting the prepayment against the Accounts Payable (AP) PO voucher. Such offsets need to be communicated to the vendor. Accounting procedures in Atlas/Quantum are as follows:

- Account 16065 Prepaid Expense is debited and AP credited for the amount of the prepayment.
- When a PO-AP voucher is created, the prepaid voucher is automatically offset against the PO-AP voucher, reducing the amount to be disbursed to the vendor.
- A PO must be created for the full amount of the purchase or contract (as if no prepayment is being made).
- Once PO exists, a Prepaid Voucher needs to be created for the amount of the prepayment. The PO ID must be entered as a reference in the Prepaid Voucher.
- Balance sheet account 16065 should be monitored on a monthly basis to ensure timely clearing of prepayments.
- Spot checks of payments to vendors with prepayments should be performed regularly to verify that no overpayments were made.

For transactions such as rent, maintenance and service contracts, and insurance premiums, where contracts are annual and amounts are relatively stable from month to month and from year to year, it is not necessary to raise a prepayment, even though payment will be made prior to receiving the services. These items can be processed via a regular PO with immediate receipting for the value of the prepayment required. At year end, the Office of Financial Resource Management (OFM) will provide necessary guidance for any adjustments needed to reallocate expenses to prepaid assets, depending on materiality.

In addition, the following payments should not be treated as prepayments: security deposits; staff advances; non-refundable deposits; and advances to Sub-recipients.

Further guidance regarding prepayments can be found in the UNDP Programme and Operations Policies and Procedures (POPP) on **Prepayments**

An additional guidance note focusing on the procedures for processing prepayments to the United Nations Children's Fund (UNICEF) under the LTA for the procurement of health products for Global Fund projects managed by UNDP where prepayment is required in full, are available also with the GFPHST. For more information please check the **Health Product Management** section of the Manual.

Resources

- **UNDP POPP on Prepayments**

3.2.2 Asset Management

Asset Management is the process of safeguarding, maintaining, managing and accounting for Property, Plant and Equipment (PP&E), Finance Leases and Intangibles used and controlled by UNDP. Assets are recorded (capitalized) in UNDP's books when ALL the following criteria are met for an item:

- Provides future economic or service benefits to UNDP – i.e., the PP&E item is held for use in the implementation of UNDP Programmes or for administrative purposes;
- Is expected to be used during more than one reporting period (12 months);
- Has a value of $ 5,000 or more (Capitalization Threshold);
- Is used and controlled by UNDP; and
- Has a cost that can be reliably determined.

"Use and control" is critical, in that it determines whether an asset should be capitalized or not. When an asset is capitalized, the total cost of the asset is expensed over several accounting periods instead of expensed upon purchase.

Examples of specific assets for Global Fund projects are IT equipment, vehicles and furniture used and controlled by the Project Management Unit (PMU) or Country Office (CO) staff during grant implementation. Vehicles and Equipment (Health and Non-Health Equipment) that are **used and controlled** by Sub-recipients (SRs) and Sub-sub-recipients (SSRs) are expensed and not capitalized as assets. Examples would be vehicles, IT equipment, bicycles, generators, medical laboratory and diagnostic equipment.

With the exception of leasehold improvements, donated assets and intangibles, all PP&E will be acquired through the Procurement Catalogue within Atlas. The Procurement Catalogue is an electronic purchasing list embedded within Quantum to enable accurate and consistent account coding and efficient navigation. It automatically populates GL account codes and item description and consequently, sets the accounting treatment for the item or service right at the requisition stage. Under the Procurement Catalogue; there are 2 sub-catalogues:

- **UNDP Catalogue:** To be selected when all the UNDP criteria for capitalization are met (see above). The item will be coded to an asset GL account and capitalized in the Asset Management Module of Atlas.
- **Non-UNDP Catalogue:** Items that do not meet the UNDP criteria for capitalization must be selected from this catalogue and will be expensed immediately. For example, PP&E delivered to a 3rd party, used in less than one reporting year or that costs less than $1,500.

For non-medical GF items, either the UNDP Catalogue or Non-UNDP Catalogue will be selected based on the prevailing circumstances. For Global Fund health products, there is a special set up within the Procurement Catalogue where item descriptions are captured at a high level due to the multiple number of suppliers and medical items. Again, either the UNDP Catalogue or Non-UNDP Catalogue is then selected based on the prevailing circumstances. It is therefore crucial that the purchase objective must be known at the requisition stage as this determines the accounting treatment of the PP&E though out its life.

Refer to the following for detailed Asset Management policies and procedures:

- **UNDP POPP Asset Management**

- **[IPSAS: Guidance Note on Property, Plant & Equipment (PP&E)]**
- **UNDP GFPHST Guidance Note on Asset Management in the context of Global Fund grants**

Resources

- **UNDP GFPHST Guidance Note on Asset Management in the context of Global Fund grants**
- **UNDP POPP Asset Management**
- **UNDP POPP Plant and Property: Acquisition and Maintenance**

3.2.3 UNDP Inventory management

UNDP inventory policy requires qualified inventories to be recognized as assets until consumed or distributed. The balance of such inventories must be physically counted, valued, recognized and reported as assets at the end of each reporting quarter. The determination of items to be included in inventory is based on ownership and control of the inventories. The physical location or custody of the inventories are factors to be considered in determining control (i.e., whether they are stored on UNDP premises or managed by UNDP personnel). UNDP must recognize the inventories if UNDP undertakes any of the following responsibilities:

1. Controls access to and distribution of the inventory items;
2. Administers a programme requiring distribution of the inventory items (as opposed to situations where the inventory items are purchased solely for immediate shipment to a local government/implementing partner; or
3. Bears the risks of loss, theft, damage, spoilage, etc.

Undistributed inventory over which UNDP has direct control and access, administers distribution or bears the risk of loss, theft, damage, etc. is reportable in UNDP's financial statements. To satisfy the reporting requirement, Country Offices (COs) are required to count inventory and supplies at the end of each quarter and submit a certification of this to the UNDP Office of Financial Management (OFM) by the prescribed deadline. Detailed guidance for the physical count of inventory end is communicated by OFM for the second quarter and year-end financial closure. OFM then posts accounting adjustments for crediting expenses and debiting inventory account 14602 at the end of the reporting period (to capture the closing balances). These adjustments (as opening balances) are reversed at the start of the next quarter at a general ledger level without impacting the project expenses and resources in Quantum since 2023.

Inventory in transit is enroute goods purchased that are in the ownership of UNDP but in the possession of the carrier. The inventory in transit that is owned by UNDP (based on INCOTERMS 2020) must be recorded as inventories. Therefore, it is very important to determine the ownership of inventory items in transit based on respective INCOTERMS 2020.

For example, for FCA Incoterms (short for "Free Carrier"), the title of goods passes to UNDP when the supplier delivers the goods to the carrier nominated by UNDP. In this case UNDP should recognize the inventory while in transit.

Refer to: UNDP Programme and Operations Policies and Procedures (POPP) on **Inventory Management**

Practice Pointer

Property, Plant and Equipment (PP&E) items, which are capitalized in UNDP books, are **not to** be considered inventory. As indicated under Asset Management (above), assets that are delivered to and are to be used and controlled by Sub-recipients (SRs)/Government are expensed. The only exception would be those assets procured using non-UNDP catalogue (i.e., to be expensed) but are **temporarily held by UNDP as of the reporting date, waiting to be distributed to the SRs/Government**. Such asset-like items must be included/reported as inventory items.

Resources

- UNDP POPP Inventory Management

3.2.4 Global Fund Inventory

For the purpose of the Global Fund grants, examples of inventory are health products such as pharmaceuticals, medical consumables, and medical equipment. UNDP Country Offices (COs) are required to count and report Global Fund inventory items only in cases where complete control over the Global Fund inventory is exercised until final distribution to the beneficiaries. In these cases, UNDP manages the complete logistics of inventory management either directly or through contracted third parties. The UNDP Global Fund Partnership and Health Systems Team (GFPHST) reviews country arrangements and will confirm where inventory recognition is required.

There are different practices in exercising control over Global Fund inventories until they are finally distributed to the beneficiaries. The Country Offices might be required to count and report Global Fund inventory items, i.e., where UNDP is deemed to have full control over inventory in accordance with UNDP's inventory policy and year end guidelines on financial year closure.

Important: if arrangements have changed in other countries (resulting in UNDP's control over inventory), it will be the responsibility of the CO to inform the GFPHST, count the inventory and submit the required reports. If there are any questions, COs should contact their respective OFM/Finance Business Advisor (FBA) Manager with the GFPHST in copy.

It is expected that all undistributed health products in the following scenarios should be reported as inventory at the end of a quarter if one or more of the control criteria are met:

- Inventory items held at UNDP Central or Regional Warehouses/ storage locations.
- Inventory items are held at Government Central or Regional warehouses/ storage locations.
- Inventory items are held at an SR's warehouses who are contracted by UNDP for providing logistics.
- UNDP can control or dictate further distribution of the items held at the above locations.
- Items in stock are insured by either UNDP or Global Fund project funds.
- UNDP bears the risks of loss, theft, damage, spoilage, etc.

The relationships UNDP has with Sub-recipients (SRs) and Agents vary but the following underlying concepts should be used as a guide:

- **Sub-recipients**: According to standardized SR Agreements, the SR is in charge of the distribution and safeguarding of the inventory (inventory in SR/government warehouses and under their control) whilst UNDP acts in a monitoring and evaluation role. In these instances, the inventories will be expensed when procured and not treated as a current asset at the end of a quarter if not distributed. However, there are instances where according to the nonstandard agreements, UNDP is always in control of Inventories until it reaches the end users where control is transferred. Consequently, these will be regarded as UNDP inventory at a period end and recorded and reported as inventories under generic project 00039902.
- **Agents:** Where UNDP employs a third party to act on its behalf as an Agent to store and distribute health products to the end users, if UNDP still controls and administers the distribution i.e. decides who, where and when; and is responsible for any loss, damage or spoilage in transit before it reaches the final end users, then it should be regarded as UNDP inventory. At the point the inventory is officially handed over to the end users, it is no longer UNDP inventory. Again, this is dependent on the agreement UNDP has with the Agent. UNDP must examine the substance of the transaction, rather than the form of the agreement with other parties and ensure that control is demonstrated before recognizing and reporting inventories as assets.

Global Fund-specific count procedures:

The standard file-naming convention for the inventory count reports differentiates submission type between Global Fund and Non-Global Fund projects.

For Global Fund projects, medical items are bought centrally by the Copenhagen office. As such, column 22 (Valuation) should be the same as column 18 (cost). If the medical items are **not** bought centrally, then valuation must be estimated and documented.

3.3 Budget Revisions

UNDP Programme and Operations Policies and Procedures (POPP) are followed for budget revisions. It is imperative to note, however, that specific Global Fund requirements must also be adhered to.

The purpose of the revision is to make substantive or financial adjustments and improvements to the project budget. A **project document** may be revised at any time by agreement among the signatories to the document with no impact on project budget.

A formal change in the design of the project is called a substantive revision. Substantive revisions are made in response to changes in the development context or to correct flaws in the design that emerge during implementation. Substantive revisions may be made at any time during the life of the project.

Based on the year-end combined delivery report, the multi-year work plan shall be revised as needed to ensure a realistic plan for the provision of inputs and the achievement of results. In Quantum, the budget amounts that were budgeted for but not spent in prior years should be re-allocated to current or future years. Within the year, in the interest of sound financial management, budgets must be kept up to date and aligned with agreed plans to accurately assess progress and performance. The total multi-year budget should not exceed the total approved detailed budget of the Global Fund.

Refer to the following guidance:

UNDP Programme and Operations Policies and Procedures (POPP) on **Implementing a Project**.

Global Fund

Global Fund policies and procedures are documented in:

- **Global Fund Guidelines for Grant Budgeting**
- **Global Fund Operational Guidance for Grant Budgeting**
- **Global Fund Operational Policy Manual**

In the normal course of grant implementation, a Principal Recipient (PR) should undertake periodic budget reviews to identify necessary budget changes and may undertake budgetary adjustments to respond to programme realities. Budget adjustments are classified as “material” and “non-material” for the processing and approval of budget adjustments.

It should be noted that the thresholds noted below are cumulative for the entire implementation period and are always compared to the original approved budget at the time of grant signing to establish the materiality level.

Material budgetary adjustments are defined as:

- budget changes to the official approved budget based on the maximum threshold of +/- 15 percent of any approved intervention, or
- budget changes exceeding +5 percent of the total budget for a certain number of categories, referred to as **discretionary categories**. Adjustments on discretionary categories are calculated on the cost grouping budget for the full implementation period. It is not supposed to be calculated on the cost input budget of a given year.

The general definition for the Global Fund discretionary categories for a given grant includes:

- Human resources;
- Vehicles;
- Travel-related costs (per diems, etc.); and
- Indirect costs/overheads.

The discretionary categories may be predefined considering country context and grant-associated risks and may include any other predefined activities included in the approved budget. Grant-specific discretionary categories must be stipulated in the Grant Confirmation or communicated to the PR through a performance letter or other official legal notifications.

All material adjustments for the grant should be submitted to the Global Fund Country Team for pre-approval prior to the initiation of the activity and the related payment. The submission should be in the form of a revised detailed budget incorporating the proposed adjustments within the overall ceiling of the initial approved budget. Payment of expenditures by the PR with material variances without Global Fund pre-approval (through a revised detailed budget) is not permissible.

Non-material budgetary adjustments are defined as budget changes to the officially approved budget below the maximum threshold of +/-15 percent and below the threshold of the discretionary categories (or of any other threshold communicated by the Global Fund in the Grant Confirmation or any other official legal notifications) of any approved intervention. These adjustments do not require pre-approval from the Global Fund.

Resources

- **Global Fund Guidelines for Grant Budgeting**
- **Global Fund Operational Guidance for Grant Budgeting**
- **Global Fund Operational Policy Manual**

3.3.1 Reprogramming and Sub-recipient Budget Reallocations

Reprogramming

Reprogramming is the process of changing the scope and/or scale of goals and objectives and/or key interventions of a Global Fund supported program. These programmatic changes should be reflected in changes to the Grant Confirmation, potentially including the performance indicators, targets, health products management template (HPMT), and the budget.

Reprogramming may be initiated by either the Country Coordinating Mechanism (CCM) and/or Principal Recipient (PR) or suggested by the Global Fund Secretariat and managed in consultation with CCM, PR(s) and technical partners. All reprogramming requests shall be endorsed by the CCM, and the Global Fund Country Team may require a Local Fund Agent (LFA) review of the request.

Reprogramming of a grant may be proposed at any time during the grant implementation.

A reprogramming request is classified as either "material" or "non-material" (Please refer to Global Fund Budgeting Guidelines Section on Budget Revisions – Grant Implementation). A reprogramming is considered material and should be referred to the Technical Review Panel (TRP) for review when:

- It contradicts the TRP's original review and recommendation on the proposal (e.g., an intervention originally removed by the TRP is being reintroduced to the programme; there is a significant redesign or shift of balance of original proposal/programme i.e., a prevention programme is shifting to treatment; a key intervention is removed from the grant without evidence of alternative funding in the country); or
- An independent technical review of a reprogramming request is required to approve the case when there is a lack of agreement, significant gaps in evidence to support a reprogramming need, unexplained lack of impact, or difficult trade-offs in decision making; or
- In cases where additional Global Fund financing representing more than a 30 percent increase to the approved funding for the implementation period.

Non-material reprogramming requests fall outside the definition of materiality described above and are reviewed and approved by the Secretariat.

The materiality of a reprogramming request will be assessed at the disease or Health Systems Strengthening (HSS) programme level (supported by the Global Fund) and not at the individual grant level.

Any savings identified through a reprogramming may be reinvested and are not automatically deducted from the programme. Reinvestment must be analysed in the context of a programme's existing performance.

Practice Pointer

Budgeting

For UNDP PMU and UN SR project personnel, salaries should be budgeted using the currency of the respective salary scale. For example, if the currency of the salary scale is in local currency, budgeting should be done using the local currency. If the currency of the salary scale is in USD, the budgeting should be done using USD. **Details on the salary scale currency can be found here.**

Additionally, UNDP PMU salaries should be budgeted according to the proforma costs provided by BMS/OFM. It is recommended to factor in annual cost increases (up to 3%) for the future year's budgets.

For non-UN SR project personnel, salaries are typically budgeted in local currency unless otherwise agreed with the Global Fund.

Salary Increases

Any changes to salary scales (change to the currencies of salary scales and /or salary scale revisions) for UN project personnel, must be communicated to the Global Fund immediately upon receiving the official UN Circular announcing the adjustment. No approval is required since UNDP personnel contracts are administered in accordance with UNDP Programme and Operations Policies and Procedures (POPP) and the revised salary scale is not specific to UNDP nor optional for UN Agencies to implement but is applicable to all eligible staff in the UN common system in the country.

According to the Global Fund budgeting guidelines (see page 27 on **Specific Budget Revision requirement for discretionary cost category – Human Resources**):

Specific budget revision requirement for discretionary cost category
Human resources
• Any increase in salary or incentive,[55] above those as per the approved budget, to staff/ agents working for a Global Fund grant-supported Program must be approved in writing by the Global Fund regardless of the percentage of increase. The increase of staff headcount is under the PR's discretion provided it: o Follows the PR's own procedure and approval process for a budget revision. o Follows the PR's own procedure and approval process for recruitment and is programmatically justified and documented. o Is within the limit of 5 percent of the total Human Resources (HR) cost grouping budget. o Is compliant with the terms of the grant agreement.

[55] For Focused Portfolios, changes in salary scales must be notified to Global Fund and no approval is required.

Any increase in salary or incentive above the approved detailed budget for Global Fund-funded project personnel must be approved in advance and in writing by the Global Fund, regardless of the percentage increase. UNDP COs are therefore advised to notify the Global Fund Country Teams of any revised UN salary scale adjustments and provide a preliminary assessment of financial implication on grant budgets.

In cases where these revisions have significant financial implications, COs are encouraged to submit a reprogramming budget without delay if the programme is projected to exceed the approved HR cost category by more than 5% over a 3-year period.

Sub-recipient budget reallocations

As indicated in UNDP's Global Fund Sub-Recipient (SR) agreement, the SR shall not commit or expend SR Funds in variance of more than 10 percent of any budget line item indicated in the annual work plan, unless approved in advance and in writing by UNDP. The SR shall indicate any expected variations in its quarterly reports delivered to UNDP.

Resources

- Global Fund Guidelines for Grant Budgeting

3.4 Project Management and Update in Quantum

UNDP Programme and Operations Policies and Procedures are followed for project management and project update in Atlas/Quantum. Please refer to POPP on **Project management/Implement** for further guidance.

Resources

- **UNDP POPP on Programme Management: Implementing**

4. Sub-recipient Management

This section of the Manual focuses on financial and operational management of Sub-recipients (SRs), particularly regarding cash transfer modalities. Programmatic, legal and substantive guidance relating to SR management is detailed throughout the Manual but particularly in the following sections: **SR management**, **Legal framework**, **Health product management** , **Monitoring and evaluation** (M&E), and (M&E), and **Audit and investigations**.

UNDP, as interim Principal Recipient (PR) for Global Fund grants assumes the role of Implementing Partner (IP) mainly through Direct Implementation (DIM). DIM is the modality whereby UNDP as IP takes on full responsibility and accountability for the effective use of UNDP resources and the delivery of outputs, as set forth in the project document. UNDP may identify a Responsible Party (RP) to carry out activities within a DIM project, which for Global Fund grants are called Sub Recipients, SR). In few instances, such as Cuba, UNDP can assume the PR role through the National Implementation Modality (NIM) modality.

A SR is defined as an entity selected to act on behalf of UNDP based on a written agreement or contract to purchase goods or provide services using the project budget. In addition, the SR may manage the use of these goods and services to carry out project activities and produce outputs. All RPs are directly accountable to UNDP in accordance with the terms of their agreement or contract with UNDP.

The SR may follow its own procedures only to the extent that they do not contravene the principles of the **UNDP Financial Regulations and Rules** . Where the financial governance of the RP does not provide the required guidance to ensure best value for money, fairness, integrity, transparency, and effective international competition, that of UNDP shall apply. Please refer to the UNDP Programme and Operations Policies and Procedures (POPP) on **Direct Implementation**.

The SR is contracted by the PR of the grant to assist in implementing programme activities. The PR is responsible for the oversight of implementation by the SR. SRs often play a pivotal role in the implementation of programme activities, the management of grant resources and the timely achievement of grant results. The SR's specific role in performance-based funding is that, for periodic disbursements, the SR provides the PR with progress updates on the implementation of those activities for which it is responsible. For recording purposes, SRs, which as said above serve as RPs, use the 'Responsible Partner' code in Quantum for the UNDP project/budget.

It is important to distinguish between SRs and other entities that provide services for a project. The Global Fund provides the following guidance on this issue: An SR is a recipient of grant funds that performs any programme activities that would otherwise be expected to be directly undertaken by the PR within the scope of its responsibilities as implementer of the programme. Entities contracted by the PR to serve as manufacturers, procurement agents for certain tasks, or certain service providers, should not be treated as SRs.

UNDP's SR agreements set out three modalities for financing SR activities:

- Advance disbursement (Direct Cash Transfers) - used when an SR has sufficient capacity to manage funds;
- Reimbursement - used when an SR has sufficient resources to pre-finance activities; and

- Direct payment - used when an SR has little capacity to manage funds or country-specific banking regulations prevent or complicate any other modality—in which case, UNDP pays directly to SR vendors and SR personnel.

In addition to being a stand-alone financing modality, direct payment on behalf of SRs is also built into the advance disbursements and cost reimbursement modalities. This gives the Country Office (CO) the flexibility to decide whether a portion of funding should be advanced and a portion directly paid to SR vendors and SR personnel. Such flexibility allows UNDP to manage the risk accompanying advance disbursements while building SR capacity to manage funds.

The work plan must detail the financing modality that will be used to fund the SR activities.

UNDP has a responsibility to accept appropriate cash advance requests, reported expenses or direct payments that are consistent with the annual work plan (AWP) and UNDP's FRRs and, therefore, to reject improper advance requests, expenses, or requests for direct payments. If subsequent information becomes available that questions the appropriateness of expenses recorded or direct payments already made, the expenditures should be rejected.

UNDP has determined that direct procurement by Sub-recipients (SRs) constitutes significant organizational and operational risks to UNDP, for a number of reasons, including the process itself, the amount of money involved, the risk of procuring sub-standard products, value for money considerations, and the potential for fraud. As a result, UNDP does not permit SRs to procure health products for their activities. Procurement within the framework of SR agreements should be limited to minor office supplies and other similar items of limited value, as well as services. Capital assets should be procured by the CO. In no instance should the SR be authorized to procure for more than 10% of the SR agreement's amount or US$100,000 (whichever is less) on procurement.

Practice Pointer

Sub-sub-recipients (SSRs) are SRs of SRs. Engagement of SSRs carries high risks for UNDP, primarily because UNDP remains as fully accountable to the Global Fund for SSR activities as it is for SR activities, while having less control and oversight over them. To minimize these risks, it is recommended that grant implementation of activities is carried out, where possible, directly by SRs or by UNDP.

Resources

- UNDP POPP Financial Regulations and Rules
- UNDP POPP Direct Implementation Modality (DIM)

4.1 Harmonized Approach to Cash Transfer (HACT)

The Harmonized Approach to Cash Transfer (HACT) dictates policies and procedures for capacity assessment, cash transfer modality, audit, assurance and monitoring. HACT applies to government and civil society organization/non-governmental organization (CSO/NGO) participation in UNDP projects. At this time, UNDP-managed Global Fund projects are exempt from HACT, and capacity assessments are performed instead.

Before an entity can be engaged as Responsible Party (RP) on a UNDP project, a **capacity assessment** of that entity is performed. The following are key considerations for capacity assessment:

- Technical capacity- ability to monitor the technical aspects of the project;
- Managerial capacity– ability to plan, monitor and coordinate activities;
- Administrative capacity– ability to:
    - Procure goods, services and works on a transparent and competitive basis
    - Recruit and manage the best qualified personnel on a transparent and competitive basis
    - Prepare and sign contracts
    - Manage and maintain equipment; and
- Financial capacity– ability to:
    - Produce project budgets
    - Ensure physical security of advances, cash and records,
    - Disburse funds in a timely, proper and effective manner
    - Ensure financial recording and reporting
    - Prepare, authorize and adjust commitments and expenses

The partner's technical, managerial, administrative and financial capacities should be reassessed throughout the life of the project (preferably on an annual basis).

The HACT macro- and micro-assessments are the basis for selection of the cash transfer modality used for each IP or RP and the level of assurance activities used. The level of risk can differ from institution to institution, and the UNDP office should effectively and efficiently manage this risk for each national institution by:

- Assessing the institution's financial management capacity throughout the life of the project;
- Applying appropriate procedures for the provision of cash transfers to the institution; and
- Maintaining adequate awareness of the institution's internal controls for cash transfers through assurance activities.

For each institution the level of risk may change over time, and this may require appropriate changes in options for cash transfer modality, and audit and monitoring procedures.

Sub-recipient (SR) capacity assessment is addressed in detail in the **SR management section** of the Manual.

HACT offers three **cash transfer modalities**:

- **Direct cash transfer** - UNDP advances cash funds on a quarterly basis (based on agreed work plan) to the RP, who in turn reports back expense through **Funding Authorization and Certification of Expenditures** (FACE) forms. Note that the recording of expenses, from requisition through to disbursement, occurs in the books of the RP. UNDP is pre-funding the activities with advances of cash. Please refer to UNDP Programme and Operations Policies and Procedures (POPP) on **Direct Cash Transfers and Reimbursements**).
- **Direct payment** - The RP carries out the procurement activity but requests UNDP to make the disbursement directly to vendors through FACE. In this arrangement, UNDP is undertaking only the fiduciary function (accounting and banking services, and the disbursement function) on behalf of the RP. Please Refer to POPP on **Direct Payments**.
- **Reimbursement** - Unlike direct cash transfer, a reimbursement arrangement is where UNDP pays the RP after it has made a disbursement based on the annual work plan. The RP needs prior consultation with UNDP before embarking on the pre-financing arrangement. Please refer to POPP on **Direct Cash Transfers and Reimbursements**.

Depending on SRs' capacity, it is possible to use all modalities in the same project, for different activities and/or inputs. However, this is not recommended due to this approach's inherent complexity.

Please refer to POPP on **Harmonized Approach to Cash Transfers (HACT)**

Resources

- **UNDP POPP Harmonized Approach to Cash Transfers (HACT)**
- **UNSDG FACE Form**
- **UNDP POPP Direct Cash Transfers and Reimbursements**
- **UNDP POPP Direct Payments**

4.2 Direct Cash Transfers

The FACE form supports several important functions:

- Request for funding authorization: The section "Requests/Authorizations" will be used by the Implementing Partner (IP)/Responsible Party (RP) to enter the amount of funds to be disbursed for use in the new reporting period. UNDP can accept, reject or modify the amount approved.
- Reporting of expenses: The section "Reporting" will be used by the IP/RP to report to UNDP on the expenses incurred in the reporting period. UNDP can accept, reject or request an amendment to the expenses reported.
- Certification of expenses: The section "Certification" will be used by the designated official from the IP/RP to certify the accuracy of the data and information provided.

Please refer to the UNDP Programme and Operations Policies and Procedures (POPP) on Direct Cash Transfers and Reimbursements.

Practice Pointer

If the UNDP Country Office (CO) considers that the advance modality is not being used correctly by the IP or RP, it can discontinue this practice and manage all project payments through Direct Payments.

Procedures for advances to government or civil society organization (CSO) Sub-recipients (SRs)

- The SR must have a good financial system of recording accounting transactions with appropriate filing of financial documentation on the project.
- The SR should open a separate bank account (with no access to credit, and not used for investments) for the Global Fund project at central and provincial levels. (An existing bank account under the name of the SR may be used only with approval of the UNDP Programme Officer)
    - Signatory Authority forms along with new bank account details to be submitted to UNDP prior to SR agreement signing. Bank account to operate with double signatures.
    - Strict control on the account, including monthly/quarterly bank reconciliation.
    - After the completion of the project, the account is closed and remaining funds reimbursed to UNDP.
- As per signed SR agreements, SRs must provide quarterly financial (FACE) and programmatic reports within 15 days after the end of each quarter unless otherwise agreed with UNDP. SRs should also submit a copy of the bank statement showing the closing cash balance for the relevant quarter. A reconciliation to the balance of cash funds available as shown in the FACE should be attached. In addition, SRs should submit details on transactions accounted in the FACE form as well as supporting documentation to support expenditures.

During FACE verification conducted by the CO, the CO should ensure that funds are used only for the activities and inputs stated in the annual work plan and should follow UNDP's policies and procedures as referred to in the project document and SR agreement. UNDP allows for variations of not more than 10 percent of any budget line item, provided that the total budget is not exceeded.

- Advances to SRs shall only be made in local currency. Requests for non-local currency payments should be submitted to UNDP HQ Treasury for appropriate approval as per UNDP POPP.
- Advances to SRs should be issued on a quarterly basis for no more than three months of the approved budget (initial advance to cover project set-up cost). This modality requires close monitoring by the CO to verify the correct use of the advanced funds for achieving the work plan targets.
- An SR's request for an advance for a project can be approved if at least 80 percent of the previous advance given and 100 percent of all earlier advances have been liquidated. SRs can request an advance as soon as 80 percent of a previous disbursement and 100 percent of all earlier disbursements are liquidated, even if that happens well before the end of the quarter. Reporting requirements remain the same, whether at quarter end or an earlier date. Please note the flexibility of 3% or $5,000 (whichever is lower) provided for 80% rule in the **Guide for AP Invoice Processing** (refer to page 13).
- Should an SR have outstanding advances over one year old, no new advances should be given to that SR for ANY projects it is implementing until the advance in question is liquidated.
- Based on the review/verification of the FACE report, UNDP will either:
    - Accept: sign and approve the FACE;
    - Request amendment to the FACE from the SR; or
    - Reject the FACE, keeping a copy on file, returning it to SR, giving reasons for rejection.

Practice Pointer

UNDP has a responsibility to accept appropriate cash advance requests and reported expenses that are consistent with the annual work plan (AWP) and **UNDP POPP Financial Regulations and Rules**, therefore, to reject improper advance requests or expenses. If subsequent information becomes available that questions the appropriateness of expenses recorded, these too should be rejected. Refer to POPP on **Direct Cash Transfers and Reimbursements** - Rejection of Advance Requests or Expenses.

- After FACE verification and approval, expenses should be recorded through a standard invoice, debiting expense accounts 7xxxx with the split by budget lines/tasks. The standard invoice should be applied against a prepayment invoice for the credit against account 16005. Application of prepayment should be done with the same accounting date as expenditure invoice lines.
- After FACE verification and approval, advances should be issued to Govt/CSO SRs charging account 16005 and the corresponding chart field combination (Operating Unit – Fund – Department – Responsible Party – Donor). Advances should be processed through a prepayment invoice (non-purchase order (PO) that reserves the funds advanced to the project (the payee is the SR, never an SR employee). A tick should be put in the prepayment invoice to allow application against the prepayment invoice. In

the prepayment invoice, there is no need to split a total amount of prepayment by budget lines/tasks, the full amount can be posted under one budget line/task related to SR.

Practice Pointer

AP standard invoice for settlement of SR advances can either have a zero net amount and be not paid (in case there is sufficient balance of SR advances to be applied against) or can have an amount dur for payment (in case there is sufficient balance of SR advances to be applied against).

In standard invoice, the accounting and budget date must be the same (i.e., period in which expenditures incurred or current processing date if previous month's AP is closed). The invoice and Expenditure Item date should be equal to last date of reporting period (for Q2 and Q4 please use 29 June and 30 Dec).

Please refer to:

- UNDP POPP on Accounts Payable for guidance on AP vouchers and APJVs.
- UNDP POPP on Direct Cash Transfers and Reimbursements.

Resources

- FACE Form Template for UNDP GF Projects
- Guide for AP Invoice Processing
- UNDP POPP Direct Cash Transfers and Reimbursements
- UNDP POPP Financial Regulations and Rules
- UNDP POPP on Accounts Payable

4.3 Detailed Steps in Verification and Monitoring of SR Financial Reports and Records

Sub-recipient (SR) funding is provided based on performance, which includes project management and financial performance. SRs must keep up-to-date and accurate records and documents supporting expenses made within the SR agreement, and the approved work plan and budget.

- Original documents must be kept and provided to UNDP upon request
- UNDP will conduct verification missions to verify submitted financial report supporting documents. Verification can also be conducted in the UNDP office based on reports and documents provided by SR.
- As per SR agreement requirements, UNDP will hire an external auditor for auditing SR activity in relation to signed SR agreements (For more information, please refer to the following section of the Manual: **SR Management**)
- The Local Fund Agent (LFA) review may involve site visits to the SR

Common errors in SR reporting include:

- FACE not signed (or signed by someone not included in signatory authority forms)
- Sufficient supporting documents (as per the **Monthly Financial Data Verification Of SR/SSRs checklist**) for each financial transaction not attached
- Inaccurate financial reconciliation
- Incomplete variance explanation on budget versus actual expenditure sheet
- Incorrect UNDP Chart of Accounts or budget lines used for financial transactions
- Arithmetic errors
- Accrual base accounting used instead of cash-based accounting
- Bases for apportioned overhead costs of HQ not explained (i.e., rent or utilities sharing)

Eligible expenses are:

- Validated based on documentary evidence
- In line with the approved budget
- Used solely for programme purposes
- Consistent with terms and agreement of the SR agreement
- Incurred during the implementation period as set in SR agreement, workplan and its budget
- Pre-approved in writing by UNDP
- Compliant with competitive procurement processes and relevant financial and procurement procedures of the implementer

Ineligible expenses include goods and services that are:

- Expenditures incurred outside of the scope or period of the grant
  - expenditures incurred outside of Implementation period or Closure period. Expenditures in breach of the grant agreement
  - expenditures not approved in the budget, expenditures exceeding budgets outside the implementer’s flexibilities provided by the Global Fund Unsupported expenditures.
- Unsupported expenditures.
  - absence of supporting documents

- insufficient and/or inappropriate supporting documents
- missing or inappropriate signatures/authorizations

- Expenditures compromised by prohibited practices
  - falsified or fabricated documents
  - diversion of assets to non-Programme use
  - non-competitive tenders/collusion/inappropriate facilitation of payments

- Expenditures compromised by prohibited behavior: such practices that could be corrupt, fraudulent, coerciveExpenditures relating to other types of non-compliance or mismanagement of Grant Funds:
  - non-compliant taxes
  - expiration or spoilage due to negligence or mismanagement
  - cancellation costs
  - procurement irregularities. Prices more than the prevailing market prices. Inadequate contracting practices.
  - non-compliance with quality assurance.
  - failure to replace lost, stolen or damaged assets
  - non-complaint HR costs, increase in SR salaries or incentives without prior GF approval, etc.

Financial reporting (FACE) will include the following:

- FACE report
- Detailed information on transactions included in the FACE report
- Budget versus actual expenses analysis and explanations for variances
- Reconciliation of outstanding advances
- A bank statement reflecting expenses with closing balance as of reporting date and bank reconciliation
- A cash forecast for next quarter
- A copy of financial supporting documents against each transaction provided to UNDP along with the quarterly financial report
- A request for quarterly advance/disbursement

Minimum supporting documents for workshop/training include:

- Workshop agenda
- Signed & certified attendance sheet of participants
- Travel authorization form or travel itinerary
- Travel documents; boarding pass, air ticket, taxi bill
- Daily subsistence allowance (DSA) or per diem form
- If DSA and transportation costs of participants are paid in cash rather than through bank transfer as recommended, proper receipts from participants

Minimum supporting documents for M&E visits include:

- travel authorization form or travel itinerary
- travel documents: boarding pass; air tickets, taxi bills
- mission plan
- mission report
- DSA or per diem form

- If DSA and transportation costs of participants are paid in cash rather than through bank transfer as recommended, proper receipts from participants

Minimum supporting documents for salary payments include:

- attendance sheet, attendance report, individual staff time sheet
- Staff contracts
- Master payroll sheet
- Bank account copies
- Leave forms
- Payroll as per approved HR budget

Minimum supporting documents for local procurement include the ones listed below. For local procurement of health products, prior approval is required from the UNDP Global Fund Partnership and Health Systems Team (GFPHST).

- Approved purchase/service request form
- Assigned purchase committee form
- At least three quotations from market
- Bid-comparison statement
- Valid invoice
- Goods/service received note
- If payments to supplier are paid in cash rather than through bank transfer as recommended, proper receipts from supplier

The **Monthly Financial Data Verification Of SR/SSRs checklist** should be completed and signed. Outstanding or unresolved/disputed items should be escalated to the CO management as soon as possible or captured in risk register if the issues may lead to financial risks on grant performance.

Practice Pointer

In situations of extreme volatility or exceptional local market conditions, Country Offices (COs) should ask UNDP for Treasury-specific advice on risk mitigation measures for a particular operating environment. Procedures can include, but are not limited to:

- Use of the direct payment modality to minimize currency risk associated with disbursing advances to SRs/Implementing Partners (IPs) in local currency.
- Monthly advances (rather than quarterly) to reduce the exposure between the time the advance is issued and the date the SR/IP spends the funds. As the local currency loses value at a high rate, funds disbursed at the beginning of the quarter would lose value before they could be used in the second and third month, negatively impacting the SR/IPs in meeting their targets.
- The SR advance balances should be kept minimal and the recording of the SR/IP FACE should be done using the monthly UN Operational Rate of Exchange (UNORE) (as opposed to the UNORE at the end of the quarter) to minimize unrealized exchange losses incurred on revaluation of SR advance balances.

Disbursement of SR advances in hard currency requires prior approval from the UNDP Treasurer.

COs should consult **UNDP Crisis offer** on the special measures that can be activated, depending on the country situation.

Resources

- **Monthly Financial Data Verification Of SR/SSRs checklist**

4.4 Reimbursements

This modality may be agreed to in cases where the Sub-recipient (SR) has sufficient resources to pre-finance activities.

In addition, should the balance of a quarterly advance given to a SR be insufficient to meet urgent commitments and expenses in support of activities agreed in the annual work plan, the SR can proceed with such payments with its own funds upon consultation with UNDP, and subsequently request UNDP for reimbursement.

The request for reimbursement can be made:

- In the next request for advance (FACE), reporting the expenses already made, requesting any reimbursement for such expenses and a new advance of funds for new expenses; and
- On an ad hoc basis, in exceptional cases, submitting to UNDP all documentation supporting the payments made. In this last scenario, the reimbursement will be recorded in Quantum as expense and not as an advance.

Procedures

- SR submits signed Disbursement Request (DR) and FACE to UNDP.
- UNDP verifies and approves DR and FACE, and makes disbursement to the SR.
- Documents to be submitted by SR to UNDP, or Sub-sub-recipient (SSR), supporting the DR:
    - Official letter (Cover Letter) duly stamped and officially signed (usually the same signatory as the SR/SSR agreement or officially delegated officer, if any) and addressed to the UNDP Resident Representative;
    - DR template duly stamped and officially signed; and
    - Activity plan/budget for the period that supports the amount requested in DR template.

Please refer to:

- UNDP Programme and Operations Policies and Procedures (POPP) on **Direct Cash Transfers and Reimbursements**.
- **FACE Form Template for UNDP GF Projects**

Resources

- **UNDP POPP Direct Cash Transfers and Reimbursements**
- **FACE Form Template for UNDP GF Projects**

4.5 Direct Payments

Under the direct payment modality, the Sub-recipient (SR) or Sub-sub-recipient (SSR) is solely responsible for procurement but requests UNDP through FACE to make the disbursement directly to vendors. In this arrangement, UNDP is undertaking only the fiduciary function (accounting and banking services, and the disbursement function) on behalf of the SR/SRR. Nevertheless, in conducting its micro-assessment and other assurance activities, the UNDP office should ensure it has reasonable confidence that the SR/SSR is conducting procurement to standards compatible with UNDP's own. The SR/SSR's technical, managerial, administrative and financial capacities should be reassessed throughout the life of the project (preferably on an annual basis).

If UNDP deems that a greater level of oversight is necessary and wishes to monitor project activities on a transactional basis, backing documentation (i.e., copies of invoices, purchase orders (POs), quotations and goods received notes) should be requested from the SR/SSR for submission with the FACE form.

UNDP has a responsibility to accept appropriate requests for direct payments that are consistent with the annual work plan (AWP) and UNDP's **Financial Regulations and Rules (FRRs)** and, therefore, to reject requests for improper direct payments. If subsequent information becomes available that questions the appropriateness of direct payments already made, these too should be rejected. Please refer to UNDP Programme and Operations Policies and Procedures (POPP) on **Direct Payments**.

Procedures:

- **Direct Payments on behalf of SR**:
  - SR submits signed Disbursement Request (DR) and FACE to UNDP, with copies of supporting documents as necessary. The SR maintains all original supporting documentation.
  - UNDP verifies and approves DR and FACE, and makes disbursement to the supplier on behalf of SR.
- **Documents to be submitted by SR to UNDP supporting the DR and FACE**:
  - Official letter (Cover Letter) duly stamped and officially signed (usually the same signatory as the SR agreement or officially delegated officer (if any)) and addressed to the UNDP Country Director.
  - Disbursement Request template duly stamped and officially signed.
  - Activity plan/budget for the period that supports the amount requested in DR template.

Please refer to POPP on **Direct Payments**.

Resources

- **UNDP POPP Financial Regulations and Rules**
- **UNDP POPP Direct Payments**

4.6 UN Agencies

When a UN agency undertakes project activities as either Sub-recipient (SR)or Responsible Party (RP) through a UN to UN agreement, the Office of Financial Management (OFM)/Treasury pre-funds these activities directly to the agency, in accordance with the schedule of advances in the letter of agreement with the UN agency. This funding is recorded as an advance in UNDP's accounts (account 16015). UN agencies report their project expenses on quarterly Project Delivery Reports (PDRs). Advances provided to UN agencies and expenses reported on the PDR are recorded in a Project Clearing Account (PCA). This forms the basis of the inter-agency balance due to/from the UN agency in respect of UNDP projects. The Harmonized Approach to Cash Transfers (HACT) framework does not apply to cash transfers under agency implementation.

PDR system

Advances:

1. World Health Organization (WHO) local office sends its quarterly report and disbursement request to UNDP Country Office (CO).
2. UNDP CO reviews and clears the amount in the disbursement request.
3. WHO focal point in charge of GF projects should request advances from UNDP/HQ through WHO's Headquarters (HQ focal person Ms. Irene Ilevbare<ilevbare@who.org.
4. The practice is that WHO HQ collates requests for advances (for the quarter) from their focal persons and sends the consolidated request to UNDP HQ Finance (OFM) prior to the beginning of the quarter. Upon receipt of the request, it takes about two working days for UNDP HQ to process and remit the funds to WHO HQ. Once advances are received from OFM, WHO Treasury will allocate the required amount against the individual project and advise their respective colleagues of the availability of funds and to proceed with the implementation of the activities.
5. For the first disbursement request, the CO should also contact the Global Shared Service Centre (GSSC) with their request for the transfer of funds to WHO and share the signed Sub-recipient (SR) agreement.
6. GSSC will raise a voucher using account 16015 for advances issued centrally and this is charged at the Fund level.

Reporting:

1. WHO will report expenses via Project Delivery Reports (PDRs). This is in addition to providing UNDP CO with the financial report and transaction details. To settle the advances and book the expenditures in the projects, the WHO local office focal point should contact Ms. Irene Ilevbare <ilevbare@who.org> (WHO HQ focal point) and <financialreporting@who.int>, who will coordinate all PDRs reporting to UNDP HQ. WHO HQ is required to submit the PDRs to UNDP HQ no later than 15 days after the closure of the quarter.
2. GSSC and OFM are in charge of the settlement of advances. Advances will be liquidated upon recognition of expenditure after the PDRs are successfully posted in Quantum. The CO is required to review and validate the expenditures submitted by WHO in UNEX prior to OFM posting to Quantum.

3. Programme Officers are responsible for all expenses in respect of their project portfolios, including the monitoring of project expenses in UNEX.
4. PDR expenses may be rejected at any time if subsequent information becomes available that questions the appropriateness of expenses previously accepted and recorded in Atlas/Quantum.

For more information on reporting through the PDR, please refer to **UNDP POPP Agency Implementation Finances**.

Where a UN agency serves as SR and does not use the PDR system:

- The UN agency submits a request for advance of funds and reports on the utilization of the advance on a quarterly basis.
- The CO ensures that the requested advance is consistent with the AWP, project budget and project plan.
- The CO issues the advance locally, charges account 16010 and notifies the GSSC of the advance.
- Expenditure is recorded by the CO upon receipt of the financial report from the UN agency similar to advances issued to non-UN agency SRs using the responsible entity's implementing agent code.

UN entities serving as SRs can request a further advance upon commitment of 80 percent of the previous advance. Commitments are confirmed by open Purchase Orders (PO) for which delivery of the goods/services is to be made in the near future. UNDP should consider the following criteria for commitments when deciding on further advances:

1. The commitment should be supported by a valid contract;
2. Contracts for goods and services should be included in commitments only when delivery is expected within the period for which an advance is being requested; and
3. The timeframe for delivery of goods and services to be provided should be reasonable.

Documentation that can be shared with the Local Fund Agent (LFA)

With respect to cash transfer modalities, the following documents can be shared with the LFA:

- UNDP reports (from Atlas or Quantum)
- FACE forms and Disbursement Requests
- Non-UN SR documents supporting expenditure, including payment vouchers and supplier invoices, and acknowledging receipt of funds from UNDP.

It is NOT permissible to share support documentation for UNDP or other UN financial information, including: invoices paid by UNDP or any other UN agency; cost estimates; quotations; contracts of employment and résumés/CVs; contracts for goods and services; delivery notes signed with a UN agency, clearing documents and bills of lading; an attendance list where workshop/training participants have signed for attendance allowance or per diems (paid by UN); or payment vouchers or supplier invoices for UN. Where UNDP has undertaken the procurement of health products, no final invoice or delivery notes may be provided as supporting documentation.

Resources

- [UNDP POPP Agency Implementation Finances]

5. Grant Reporting

The Principal Recipient (PR) is required to provide the Global Fund with periodic reports concerning all funds and activities financed by the grant. Reports should be channelled through the Local Fund Agent (LFA), and copies given to the Country Coordinating Mechanism (CCM) (with the exception of the Cash Balance Report (CBR)); see below). This section of the Manual will focus on financial reporting. Guidance on overall grant reporting, including programmatic reporting is available in the **Grant Reporting section** of the Manual.

Global Fund policy

Exchange rate

The exchange rate to be used to report expenditures in annual financial reporting should ideally be actual exchange rates applicable on the date of payments of expenditure if known and practical, or the annual/period average exchange rate, using an official or published verifiable rate consistent with the budgeting approach and country norms.

The UN Operational Rate of Exchange (UNORE) as captured in Quantum fulfils Global Fund requirements. For grants that are denominated in Euros, the expenditures in Quantum in US dollars ($) should be translated into the reporting currency using the UNORE prevailing as of the accounting date. Assets and liabilities (cash balances and advance balances) should be translated into reporting currency using the UNORE as of reporting date.

Eligible and ineligible expenditures

Under Global Fund grants, expenditures incurred by implementers are classified as "eligible" or "ineligible." The initial classification is usually done by the LFA and/or assurance providers (i.e., the Office of the Inspector General (OIG), internal and external auditors, country teams), with the final classification of the expenditure confirmed by the Global Fund.

Eligible expenditures are those that have been validated by the Global Fund Secretariat and/or assurance providers based on credible documentary evidence that they were in line with the Global Fund-approved budget and used solely for programme purposes consistent with the terms and conditions of the grant agreement. Eligible expenditures are:

1. incurred during the implementation period as stipulated in the grant agreement;
2. in line with the Global Fund-approved detailed budget; and/or
3. pre-approved in writing by the Global Fund prior to the expenditure being incurred.

The Implementors should comply with competitive and transparent procurement/tendering processes and the appropriate application of the relevant financial and procurement procedures. Expenditures incurred as part of approved close-out plans are considered eligible subject to the application of the grant regulations and the relevant financial/procurement procedures.

Ineligible expenditures are those expenses incurred which have been found not compliant with the signed Grant Confirmation and/or the appropriate financial and procurement procedures of the implementer/grant. The non-exhaustive list of expenditures that could potentially be classified as ineligible by the Global Fund may include:

- expenditures for goods and services not included in the approved detailed budget;
- expenditures incurred outside of the grant implementation period, close-out period, and/or not included in an approved close-out budget;
- expenditures not duly authorized by the appropriate authority as stipulated in the Manual of Procedures and/or signature authority and approval procedure of the implementer (i.e., missing and/or wrong signatory on the payment voucher or instruction to the bank);
- prices in excess of the prevailing market prices for goods and services without proper rationale/justification;
- expenditures on services for which a report is expected but not received (e.g., headquarters' fees, consultancies);
- fraudulent expenditures (as verified by Global Fund assurance providers), such as expenditures with falsified/fake receipts, contracts with fictitious suppliers, contracts involving collusion or nepotism between implementer and suppliers, and other procurement irregularities;
- recoverable taxes not recovered by the implementer within a reasonable period of time (six to nine months after incurring the actual expenditure); and
- use of interest income and/or other revenues (such as those from income-generating projects) by implementers to incur expenditures without the prior approval of the Global Fund.

When expenditures are initially classified as ineligible by the LFA and/or assurance providers, the Global Fund at its discretion may request additional justification from the PR and/or directly seek reimbursement from the PR. In the event the Global Fund decides to seek additional justification on ineligible expenditures, the PR has 30 days from the date of the official notification by the Global Fund (through a performance letter or a notification letter) to provide the relevant justification with appropriate supporting documents for review by the Global Fund (copying the LFA).

Upon receipt and review of the additional justification and supporting documentation, the Global Fund may fully or partially reclassify the expenditure as eligible for funding or may confirm ineligibility. If the expenditure is confirmed as ineligible, a refund request will be communicated for the amount considered as ineligible in the grant currency, using the exchange rate applicable on the date of the original expenditure transaction or the date of first notification of ineligibility. The amount should be fully refunded by the PR directly to the grant bank account (unless specified otherwise by the Global Fund) within 60 days of notification of the reimbursement request.

Financial reporting

PR Reporting Requirements are regulated as per the **Global Fund Operational Policy Manual.**

The PR reports information collected on grant delivery and PR operations to the Global Fund Secretariat and CCM to enable assessment of progress and drive decision-making. The quality and timeliness of PR reporting is a critical part of evaluating PR performance.

Table 1 presents the standard reporting requirements. Portfolios categorized as Challenging Operating Environments[1] can request for flexibilities in PU/DR submission timelines. Grants applying Payment for Results arrangements, particularly those with Results-Based Financing[2], use a fit-for-purpose reporting approach.

Table 1. Reporting frequency and deadlines for submission.

Type of report	Frequency/ Timing	Deadline for PR-submission to the Global Fund[271]	Category		
			High Impact	Core	Focused
PU	Mid-year	Within 45 days from the end of the last 6-month reporting period	✓	✓	
PU/DR	Annual	Within 60 days from the end of the last 12-month reporting period	✓	✓	✓
Pulse Checks	Quarterly	35 days from the end of the last reporting period	✓	✓	
Audit Report	Annual	Within 6 months after the end of the audit period	✓	✓	✓

Annual reporting:

- Progress Update and Disbursement Request (PU/DR) (Including **Tax reporting**)
- Certified Financial Reports – produced and certified by the Office of Financial Management (OFM)

[1] Spanish and French versions are courtesy translations only. External stakeholders should complete and submit the English version of this template.

[2] If LFA verification is requested following Legal Counsel review, the Legal Counsel notifies the FPM or PO (as applicable) to arrange for the LFA verification. Once received, the Legal Counsel attaches evidence of the LFA verification in GOS.

Resources

- **Global Fund Operational Policy Manual**

5.1 Annual Reporting

Global Fund Financial Management Guidelines (under Financial Reporting) and the Global Fund Operational Policy Manual (Operational Policy Note: Oversee Implementation and Monitor performance) specify the principles for Global Fund financial reporting.

The Global Fund does not require reporting of activity-level details. At the time of reporting, based on expenditure entry and classifications, implementers should be able to consolidate and report expenditure as per the Global Fund's classifications for module/interventions and cost grouping/cost inputs by implementers.

In order to align the grant start dates with the selected annual reporting cycle, the first and last reporting periods of the grant could be longer or shorter than 12 months. The first period of the grant can be as short as six months or as long as 18 months. The Global Fund, at its discretion, may allow Principal Recipients (PRs) to combine the first and second period annual reports when the first period in shorter than 6 months.

The report covers in-country expenditures and variance analysis against the approved activity plan and funding for PRs and Sub-recipients (SRs). The figures in the annual financial reporting must be fully aligned and reconciled to the PR's financial statements.

The financial information reported should include the approved budgets, expenditures and variance analysis by (a) modules and interventions; (b) cost grouping and cost inputs; and (c) implementers (PRs and SRs). The total budget and expenditure amounts across all three breakdowns should be the same.

The reporting by implementing entity should include both the name and the type of implementing entity. This reporting should be done on the PR and SR levels (it is not necessary to report on the Sub-sub-recipient (SSR) level).

Financial information should be reported for the current grant cycle year and cumulatively from the beginning of the implementation period. Reporting should cover the entire grant implementation period budget and expenditure information.

The annual financial reporting will be used to explain all variances from the most recent approved budget for each module/intervention and cost grouping/cost input. Detailed variance analysis for expenditures is required for variances that are +/-5 percent (below 95 percent and above 105 percent) of the official approved budget for the specific intervention, or the agreed granularity of reporting using the modular approach costing dimension under the differentiated reporting requirement. All adjustments to PR and SR expenditures in annual financial reports that have already been reported and approved (prior period annual financial reporting) should be made in the current reporting period and explained in the variance analysis of the most current reporting cycle.

Resources

- Global Fund Financial Management Guidelines
- Global Fund Guidelines for Grant Budgeting
- Global Fund Operational Guidance for Grant Budgeting
- Global Fund Operational Policy Manual

5.2 Progress Update/Disbursement Request

The Progress Update/Disbursement Request (PU/DR) provides the following:

- An update on the programmatic and financial progress of a Global Fund-supported grant
- Request for funds for the next/following execution and buffer period
- An update on fulfilment of conditions, management actions and other requirements
- The basis for the Global Fund's annual funding decision by linking historical and expected programme performance with the level of financing to be provided to the Principal Recipient (PR)

In preparation for each reporting cycle, the Global Fund directly shares with each PR a prepopulated PU/DR template.

The prepopulated templates include the following financial sections:

- PR Cash Reconciliation
- SR Cash Reconciliation
- Total Expenditure
- Forecast and Disbursement Request
- Tax reporting
- Annex for Financial Commitments and Obligations

  The CO should check the accuracy and completeness of the prepopulated financial information. Special attention should be given to the following: budget amounts for the reporting, cumulative and forecasting periods indicated in PUDR sections "Total Expenditure", and "Forecast and Disbursements."

The budget amounts in the prepopulated template should correspond to the latest Global Fund Detailed Summary Budget officially approved through the Implementation Letter (IL) (or as per Grant Agreement if the Global Fund Detailed Budget has not been officially updated through IL).

5.3 Tax reporting

The Global Fund requires a mandatory tax exemption in countries where it supports programmes, so that expenditures within grants are made free of any country taxes or tariffs. All grant agreements include a mandatory tax exemption provision. If taxes are levied or paid, host countries are required to refund such tax amounts. In this regard, the Global Fund requires annual tax reporting by Principal Recipients (PRs) and provides a reporting template to be completed and submitted by Country Offices (COs) within PUDR.

The purpose of the Tax Report is to collect information for import duties, VAT related to goods and services (including commodities and other health products) and any other taxes paid from Global Fund grants in every reporting period.

For detailed guidance on completing the financial sections of the PU/DR, please refer to the following:

- Annotated Core PU/DR Guidelines
- Global Fund Progress Update and Disbursement Request Form Instructions
- Cash Forecasting Tool template – could be used complete to support the Disbursement Request
- Information Note on Budget and Expenditure Variance Analysis

Resources

- Annotated Core PU/DR Guidelines
- Global Fund Progress Update and Disbursement Request Form Instructions
- Cash Forecasting Tool Template
- Information Note on Budget and Expenditure Variance Analysis

6. Grant Closure

Complete guidance for Global Fund grant closure, where UNDP is acting as Principal Recipient (PR), can be found in the **grant closure section** of this Manual. Reference should also be made to:

- **Global Fund Operational Policy Manual** (Operational Policy Note on Implementation Period Reconciliation and Grant Closure)
- **UNDP POPP Financial Closure of Development Projects**
- **UNDP POPP Close and Transition**
- This section deals with the financial elements of Global Fund grant and UNDP project closure.

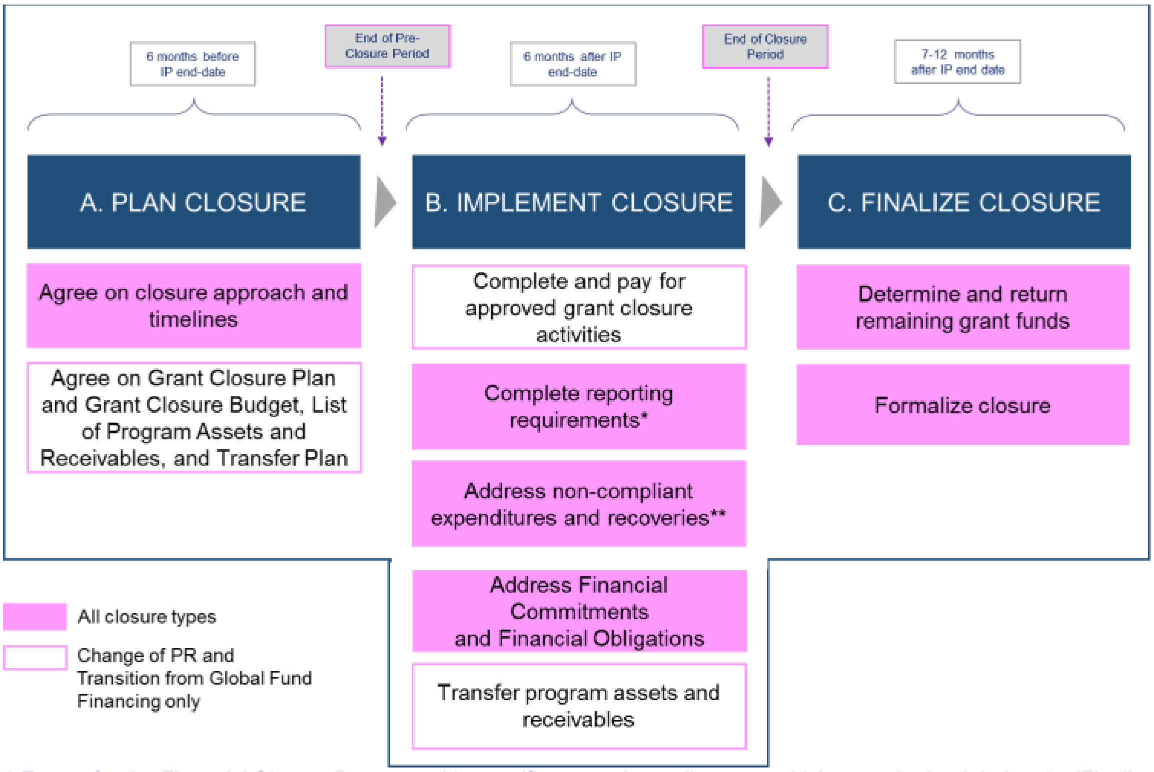
In summary, the grant closure process begins six months before the end of the implementation period, with the submission of a close-out plan and budget by the PR. The grant's final funding decision is approved by the Global Fund at the same time as the close-out plan. Following the last disbursement, the grant is placed in Global Fund financial closure. Once all closure documentation has been submitted, the grant is placed in final administrative closure and is de-activated from all Global Fund systems.

Global Fund Grant Closure follows one of three cases:

1. Closure due to consolidation;
2. Closure due to a change in PR; or
3. Closure due to "transition" from Global Fund financing (Global Fund funding is discontinued).

The Country Teams and the PR can discuss whether the grant merits a *full* or a *differentiated* approach to closure.

The closure stages and a summary of the closure steps for each stage is set out in the framework below as per the paragraph 5 of the Global Fund OPN – Implementation Period reconciliation and Grant Closure. The steps will vary depending on the type of closure.



** Except for the Financial Closure Report, and in specific cases the audit report, which are submitted during the 'Finalize Closure' stage.*
*** Non-compliant expenditures and recoveries must be addressed as soon as possible during the 'Implement Closure' stage. Depending on timelines agreed with the Global Fund, this activity may extend to the 'Finalize Closure' stage.*

Resources

- Global Fund Operational Policy Manual
- UNDP POPP Financial Closure of Development Projects
- UNDP POPP Close and Transition
- Global Fund Operational Policy Manual - Implementation Period Reconciliation and Grant Closure

6.1 Step-by-step Process for Grant Closure (Consolidation)

The steps below detail the process for grant closure due to consolidation:

1. Closure of existing grants should be planned as a part of grant-making. No separate closure plan and budget is required. Once the new Grant Confirmation is signed, the old grant is considered financially closed.
2. The Principal Recipient (PR) should complete an inventory of non-cash assets under the closing grant that are not consumed as of the grant end date and will be transferred into the new grant. In these instances, the PR shall maintain ownership over the assets, but in conducting the inventory, will have clear documentation of the assets to be managed under the new grant. The timing for completion of this activity should be discussed and agreed between the Global Fund Country Team and the PR.
3. The PR should complete a list of outstanding commitments and liabilities as of the grant end date, which will be accounted for and paid under the new grant. UNDP Country Offices (COs) should ensure that General Management Support (GMS) is charged on all outstanding commitments and liabilities (and on all undepreciated assets, inventory, prepayments and estimated liquidation advances/expenses).
4. The CO should rapidly determine in-country cash balances, including at Sub-recipient (SR) level, prepayment and other advance balances with procurement agents and service providers, and undisbursed funds under the closing grant. These will be transferred to the new grant after setting aside funds required to settle outstanding commitments and liabilities under the closing grant.
5. The Global Fund administratively closes the grant when it has completed the review and approved the required reports.

The PR should submit the following report(s) on the progress towards programme objectives and targets from the last Progress Update date until the day before the new grant start date for the constituent grant(s) no later than 60 days after the end of the reporting period agreed for the constituent grant(s):

a. Final Progress Update ("PU") for the IP;
b. Final Tax Report for the IP;
c. Audit Report; and
d. Financial Closure Report

Audit Report: The PR should submit audit report(s) for the constituent grant(s) covering the audit of financial statement(s) up to the last day before new grant agreement start date, as per the timeline agreed upon in the original constituent grant agreement(s). However, if the financial statement of the constituent grant(s) to be audited covers less than six months, these periods can be audited with the first audit for the grant.

Inventory: The PR should complete an inventory of non-cash assets under the closing grant that will be transferred to and managed under the new grant.

6.2 Step-by-step Process for Grant Closure (Change in PR or end of Global Fund Funding)

The steps below detail the closure process when UNDP transfers the role of Principal Recipient (PR) to another entity, or when Global Fund funding is discontinued (i.e., countries that become ineligible):

1. Global Fund issues Notification Letter 'Guidance on Grant Closure.'
2. Preparation and submission of grant Close-out plan and Budget.
    - In preparing the actual grant Close-out Plan and Budget, the PR must account for all assets. Funds required for closure (i.e., clearing outstanding commitments and liabilities and other closure activities) must be determined.
    - All remaining health products with valid shelf life as well as equipment and infrastructure in working condition as of the grant end date must be accounted for by the PR, and the transfer of assets agreed with the Global Fund. Specifically, disposition for the following asset types must be provided:
        - Cash assets - All Global Fund grants undergoing grant closure must return all unspent grant funds to the Global Fund. These include any unspent grant funds disbursed to the Country Office (CO), cash held by the Sub-recipients (SRs) and Sub-Sub-recipients (SSRs) (including interest, exchange rate gains, tax refunds and any other savings after eligible liabilities are settled), advances to SRs (in CO books), and all proceeds from social marketing and other revenue-generating activities).
        - Health products - when there is stock remaining after the grant closure date, the CO should provide information on the use and distribution of the health products.
        - Non-cash assets - The CO should list all non-cash assets purchased under the grant and indicate in the plan its proposal for their use, transfer or sale. This includes assets purchased directly by UNDP and held by UNDP. These remaining non-cash assets should be used for similar purposes as during the life of the Global Fund grant. Following the program ending date, the CO has three options for use of these non-cash assets: PR to retain ownership; transfer ownership to another entity (for example, a new PR, government ministry, or non-governmental organization); or sell the assets.
    - The plan should include a comprehensive list of assets acquired under UNDP's Grant Agreement with the Global Fund, including their location, technical specifications, purchase value, actual conditions, and the custodian. Before submission to the Global Fund, the list of assets must be reconciled with the accounting records, and a verification exercise completed.
    - The plan should also propose the steps for disposal of the assets. Particular consideration should be given to cases where local tax regulations impose a significant tax burden on a receiving entity to which assets are transferred. The plan should clearly outline the rationale for the proposed recipients of the assets.
    - Estimated cash balance - The CO is asked to provide an estimated cash balance as of the program ending date. When estimating this figure, the CO is encouraged to provide a conservative estimate to ensure that it will cover all grant closure activities over the period. Any remaining cash will be returned to the Global Fund.
3. Global Fund approval of grant Close-out Plan. The Global Fund's Implementation Letter will list the reporting documents that the CO is expected to submit to the Global Fund by the date detailed in the letter, including:

- Final Progress Update - The PR should submit report(s) on the progress towards programme objectives and targets from the last Progress Update date until the grant end date.
- Final Annual Financial Reporting (AFR) - The PR should submit AFR(s) covering the period from the last submitted AFR up to the grant end date, no later than 60 days after the end of the reporting period.
- Final Cash Statement – The Final Cash Statement includes all programme revenues and expenditures from the date of the beginning of the last quarter of the programme to the grant closure date. All revenue generated from grant funds (for example, interest, foreign exchange gains, tax refunds, proceeds from social marketing) must be treated and accounted for as income in this Final Cash Statement. This is equivalent to the UNDP Certified Financial Statement and is prepared by the Office of Finance and Resource Management (OFM).
- Final Grant Report –from the program start date to the grant closure date. The letter will also include Information relating to any potential refund of Global Fund monies back to the Global Fund.

4. Implementation of Close-out Plan and completion of final Global Fund requirements (grant closure period).
    - The CO ensures implementation of the approved Close-out plan and Budget. No disbursements will be made to the CO after the programme ending date, and any undisbursed funds will stay with the Global Fund. The Global Fund may disburse funds after the program end date only to finance closure activities for an unanticipated grant closure. All Global Fund grants undergoing grant closure must return all unspent grant funds to the Global Fund. These include any unspent grant funds disbursed to the CO, remaining cash balances held by the SRs and SSRs (including interest, exchange rate gains, tax refunds and any other savings after eligible liabilities are settled), advances to SRs, and all proceed from social marketing and other revenue-generating activities.
    - The CO should rapidly determine in-country cash balances, including at SR level, and undisbursed funds under the closing grant. These will be transferred to the Global Fund after setting aside funds required to settle outstanding commitments and liabilities under the closing grant.
    - The CO should follow up on any outstanding prepayment and advance balances with the service providers and ensure these are recovered.
    - **Sub-recipient closures:** The PR must ensure that the SRs complete activities and submit information (progress and financial reports, asset registers and inventory lists if applicable) in a timely manner so that the PR can comply with Global Fund grant closure requirements. The SRs should refund uncommitted cash balances as of grant end date to UNDP.
5. Global Fund issues grant closure letter confirming that all grant closure requirements have been fulfilled by an outgoing PR. UNDP Country Offices need to upload the grant closure letter and other documents such as final financial closure reports in Quantum or UNall. In addition, the closure letters should be shared with BPPS/GFPHST.

6.3 Procedures

The **UNDP Project Closure Workbench** should be used by COs for the project closure process (for both operational and financial closure). The workbench can be accessed in Atlas at Grants > Project Management > UNDP Project Closure Workbench. For guidance, refer to **UNDP Project Closure Workbench Introduction/Guide**.

Operational closure

A project is operationally completed when the last UNDP-financed inputs have been provided and related activities have been completed. Project status in Quantum (Project > Project Closure Workbench) will be set to 'Operationally Closed' ("C" in Quantum) after the last requisition and PO at GL level are posted**.** Further financial commitments (requisition or PO) cannot be made, nor expenses charged once the project is operationally closed. Only the liquidation of prior financial obligations, adjustments resulting from the clearing of SR or other advances, payment against existing purchase orders, depreciation and foreign exchange differences, and refunds/transfers to donors are allowed.

The Workbench gives a full summary of the project details and financial status. In order to be able to close the project operationally, all items in the Operational Closure Checklist must checked as YES. The "Save" button is available for the manager to capture the electronic signature. After approval, the "Operationally Closed" button becomes available. This lets the user go directly to the Output Status Page and change the Output from Ongoing (O) to Operationally Closed (C). Once the Output is Operationally Closed, the full list is greyed out (Locked).

Financial closure

The Workbench contains the Financial Closure Checklist, which captures all requirements of the **POPP Financial Closure of Development Projects**. The checklist provides balances in both transaction and base currency for all items requiring monitoring. In order to facilitate analysis, the checklist allows users to drill down to the details of each balance through online queries that can be accessed through the item hyperlink. The checklist automatically checks items with zero balance as YES. Any item with a balance or needing manual verification outside Atlas is automatically checked as NO.

Once the checklist is completed, the "Approved" button is available for the manager to capture the electronic signature. After approval, the "Financially Closed" button becomes available, allowing the user to go directly to the Output Status Page and change the Output from Operationally Closed (C) to Financially Closed (F). Once the Output is Financially Closed, the full list will be greyed out (Locked).

The workbench Financial Closure Checklist should be used as a guide for the closure, but manual verification as per the **POPP Financial Closure of Development Projects** is required by the CO to ensure that all the exceptions have been considered and resolved. Thus, before the status of a project is changed to financially closed, the CO must complete the POPP **project completion check list** and must ensure that projects have zero balances. This check list must be signed by the Resident Representative/Head of Office, or a senior official designated by the Resident Representative/Head of Office.

Resources

- **UNDP Project Closure Workbench Introduction/Guide**
- **UNDP POPP Financial Closure of Development Projects**
- **UNDP POPP Project Completion Checklist**

6.3.1 Closure Workbench and Checklist Steps

The Financial Closure Workbench and Checklist contain the following steps:

1. No outstanding SR advances.
2. No outstanding PDRs.
3. No open purchase orders.
4. No receipt accruals.
5. No outstanding commitments
6. No pending prepayments and other non-PO advances.
7. All pre-financing activities have been recovered and/or reimbursed.
8. No pending GMS or direct project costing.
9. No pending GLJEs.
10. No unapplied deposits or other unrecorded revenue.
11. No outstanding accounts receivable to be received from donors per signed agreements.
12. No AR direct journals in budget error or incomplete status.
13. All interest income has been recorded.
14. All assets are transferred or otherwise disposed of. Asset transfer letters/ documents are in place.
15. Transferring or disposing of project assets and files in accordance with the approved close-out plan:
    - **For closures due to consolidation**: Where the grant is being closed but implementation continues with the same PR under a new grant number**, **the PR should focus on completing an inventory of non-cash assets under the closing grant that will be transferred into the new grant. In these instances, the PR shall maintain ownership over the assets, but in conducting the inventory, will have clear documentation of the assets to be managed under the new grant. The timing for completion of this activity should be discussed and agreed between the Country Team and the PR.
    - **For closures due to PR change**: When the implementation responsibilities are being transferred to another entity, the outgoing PR should complete an inventory of non-cash assets that will be transferred to the new PR. The outgoing PR must transfer all non-cash assets procured under the grant to the new PR using appropriate transfer or assignment agreements.
    - **For closures due to transition from Global Fund financing**: The country should undertake an inventory of non-cash assets procured under the grant (where relevant) and must seek approval of the Global Fund for the disposal or transfer of these non-cash assets to national entities to be used for the response to the three diseases.
    - The CO should begin the process of formally transferring the assets to an SR or an incoming PR in line with POPP guidelines and in accordance with the **Transfer of Title to the assets from the UNDP form here in Annex 4 of UNDP GFPHST Guidance Note on Asset Management in the Context of Global Fund Grants.**
    - Refer to the **UNDP GFPHST Guidance Note on Asset Management in the Context of Global Fund Grants.**
16. Ensure all transactions for sale/transfer/donation/disposal etc. of assets have been processed and GMS charged.
    - For detailed guidance refer to:
    - **IPSAS: Guidance Note on Property, Plant & Equipment (PP&E)** - 4.4 Transfers and
    - **POPP Asset Management - Disposal and Write-Off.**

17. All items held as inventory should be distributed or transferred to recipient or returned to donor as specified in the donor agreement.
18. All project petty cash is cleared.
19. Project bank accounts (SR and UNDP) are fully reconciled and closed.
20. All accrued employee benefits are fully accounted.
21. There are no other pending liabilities.
22. All balance sheet accounts in Quantum (General Ledger) have been cleared (zero balance). For advice, contact OFM/Finance Business Advisory (FBA) Teams. Please note the following:
    - accrual balances for employee benefits should be presented to OHR for clearance. These accruals were posted from 2012 and onwards and include accounts 23083 (End of service relo/repat), 23086 (Accrued Annual Leave Payable-ST) and 23087 (Accrued Home Leave –ST).
    - 18xxx series (PP&E accounts) should have zero balances after the disposal /transfer of the assets.
    - 21005 (Pending payments). The balance in this account comprises unpaid vouchers and system generated transactions. COs are requested to take action on the unpaid vouchers.
    - 21020 (Other Accounts Payable). System generated balances are dealt by OFM.
23. The CDR for the previous quarter shows zero future expenses (commitments).
24. Final Local Project Appraisal Committee (LPAC)/ steering committee minutes are available.
25. All audit observations are closed with supporting documentation. All outstanding audit follow-up actions should also be closed in CARDS.
26. The final CDR is reviewed and signed. Final report is submitted by SRs and SSRs.
27. The unexpended balance for the project has been agreed to the general ledger.
28. Consultations with donors on the disposition of unexpended cost sharing balances, where required by the contribution agreement, have taken place and are documented in writing.
    - The CO should refund all uncommitted and unspent funds following the grant closure date to the Global Fund no later than two months after the delivery of the UNDP Certified Financial Statement for the year of the grant closure. The refund is to be paid into the bank account as detailed in the Implementation Letter.
    - The cash balances in the workbench checklist will be presented in detail by Fund and Donor.
    - For closures due to a change in PR or transitioning from Global Fund funding, CO refunds to the Global Fund unspent cash at PR level and SR/SSR level. Refer to **POPP Refunds to Donors**. The UNDP Global Fund Partnership and Health Systems Team (GFPHST) supports COs in confirming unspent cash balances and liaises with the Global Shared Services Centre (GSSC) to process the refund to the Global Fund.
    - Where there is a high estimated unspent balance, an interim refund is made to the Global Fund and then a final refund done in the year following after grant closure date.
29. All refunds to donors have been transferred to Account 21030 (Pending Refunds to Donors) and the project balance is zero. The GSSC transfers funds from the project to the refund account 21030 and processes the refund from that account as per POPP.
30. The GSSC is notified to close any associated contract in the contracts module.
31. All donor reports, as established in the cost sharing agreement, were submitted and receipt acknowledged by the donor representative.

If other donors have participated in the project, their balances should be refunded to the donor(s) or transferred to another project with the permission of the donor. The contribution agreement with the donor will dictate the required action, including where donors permit UNDP to retain amounts below a set threshold. See **POPP Refunds to Donors** or **POPP Transfers where Unexpended Balances are Not Refunded**.

Project status in Quantum is set to 'Financially Closed' (Awards>Project>Project Status - "F"). Once a project is marked financially closed, Quantum will prevent all further transactions against the project.

Upon financial closure of the respective projects (outputs), the associated Award/contract status should be changed to "Closed/Expired".

Refer to **POPP Financial Closure of Development Projects**.

Resources

- **UNDP POPP Asset Management – Property, Plant & Equipment**
- **UNDP GFPHST Guidance Note on Asset Management in the Context of Global Fund Grants**
- **UNDP POPP Disposal and Write-Off**
- **UNDP POPP Refunds to Donors**
- **UNDP POPP Transfers where Unexpended Balances are Not Refunded**
- **UNDP POPP Financial Closure of Development Projects**

7. CCM Funding

Since the **Country Coordinating Mechanism (CCM)** generally has no legal personality and, as such, has no capacity to enter into binding agreements, it sometimes designates UNDP as an entity responsible for receiving and managing funds to support certain administrative costs incurred by it. In such cases, the Global Fund concludes an agreement with UNDP, using the **standard terms and conditions for CCM Funding Agreement**. The said standard terms and conditions also apply to regional coordinating mechanisms and steering committees.

Guidelines for CCM Funding is available in GF Operational Policy Manual (section 1.5). UNDP Country Office may consult with the UNDP Global Fund Partnership and Health Systems Team for guidance on budgeting and eligible costs for CCM funding. The country offices advised to follow the eligibility criteria for operational costs (personnel and other expenses) and activities when preparing CCM annual budgets and processing payments for CCM. If there any items that are not clearly defined in the GF Operational Manual, the offices are advised to contact the focal points of the Global Fund.

All due processes for revenue recognition, cash deposits, Quantum budget entry and expense recording should follow UNDP's policies and procedures.

Resources

- **Global Fund Standard Terms and Conditions for CCM Funding Agreement**
- **Global Fund Country Coordinating Mechanism**

8. Import duties and VAT/sales tax

UNDP is entitled to reimbursement of indirect taxes, such as sales tax and VAT, on important purchases. The policy of the United Nations, including UNDP, is that all purchases are "important," as they are recurring and necessary for UNDP to carry out its official activities in the context of development projects. While governments in some countries have provided an outright exemption to indirect taxes, in most countries UNDP Country Offices (COs) may be required to pay taxes and seek reimbursement. COs should liaise with the Ministry of Foreign Affairs (or relevant Ministry) to ensure reimbursement. Any difficulties with respect to exemption from taxation or reimbursement of taxes should be addressed to respective Regional Bureau and the Director of the UNDP Office of Legal Services (OLS). Please refer to **POPP on Payment and Taxes** for further guidance

Article 4(a) of the UNDP-Global Fund **Grant Regulations** states that the Principal Recipient (PR) shall try to ensure through coordination with the Government of the Host Country and the Country Coordinating Mechanism (CCM) and otherwise that this Agreement and the assistance financed hereunder shall be free from taxes and duties imposed under law in effect in the Host Country. The PR shall assert all exemptions from taxes and duties to which it believes it, the Global Fund or the Grant is entitled.

CO/PRs should also support Sub-recipients (SRs) in requesting tax exemption from the respective Government authorities for goods and services procured with funds from the Global Fund and such documentation should be kept on file to prove that efforts were made to meet the provisions of this article and avoid liability for any import duties and VAT/sales tax not exempted or recovered from Government.

COs/PRs are required to maintain records throughout the year of any import duties and VAT/sales tax paid with grant funds and amounts recovered. Such records are necessary to support the annual grant tax reporting to the Global Fund and for audit purposes.

Resources

- **UNDP POPP Payment and Taxes**
- **UNDP-Global Fund Framework Agreement**