

# Financial Management

## [UNDP Global Fund Implementation Guidance Manual](#)

### Table of Contents

Overview .....	4
Grant-Making and Signing .....	4
Prepare and Negotiate Work Plan and Budget with the Global Fund .....	5
Prepare Funding Request.....	6
Prepare and Finalize a Global Fund Budget during Grant-Making .....	8
Funding ceiling and treatment of in-country cash balances.....	11
Foreign exchange .....	12
Taxes .....	13
Costs.....	13
<b>Salary top-ups and travel-related costs</b> .....	13
<b>Shared costs</b> .....	14
<b>Budgeting for Project Management Unit (PMU) and other staff costs</b> .....	14
Cost recovery .....	15
<b>General Management Support</b> .....	15
<b>1% coordination levy</b> .....	15
<b>Direct Project Costs</b> .....	16
<b>Audit costs</b> .....	16
<b>Technical assistance</b> .....	17
Detailed budgeting guidance .....	18
Budget approval.....	18
<b>Secure Banking Arrangements</b> .....	19
Project and Budget Formulation in Atlas.....	20
<b>GMS Setup</b> .....	23
<b>Prepare and Negotiate Pre-allocation Budget</b> .....	24
Revenue Management.....	24
<b>Global Fund Funding Decisions and Disbursements</b> .....	25

Disbursements .....	26
<b>Global Fund Processes</b> .....	27
Deferred Income .....	29
Interest Revenue.....	31
Other Revenue .....	32
Expenses Management.....	32
Prepayments .....	33
Asset Management .....	34
Inventory management .....	36
Global Fund inventory.....	37
<b>Inventory life cycle</b> .....	38
Budget Reallocation and Revision.....	39
<b>Global Fund</b> .....	40
Reprogramming and Sub-recipient Budget Reallocations .....	41
<b>Reprogramming</b> .....	41
<b>Sub-recipient budget Reallocations</b> .....	42
Project Management and Update in Atlas.....	43
<b>Import duties and VAT/sales tax</b> .....	43
Sub-recipient Management .....	44
HACT.....	46
Direct Cash Transfers .....	47
<b>Procedures for advances to government or civil society organization (CSO) Sub-recipients (SRs)</b> ....	48
Detailed Steps in Verification and Monitoring of SR Financial Reports and Records.....	49
Reimbursements.....	52
Direct Payments.....	53
UN Agencies .....	54
<b>PDR system</b> .....	54
<b>Documentation that can be shared with the Local Fund Agent (LFA)</b> .....	55
Grant Reporting .....	56
<b>Global Fund policy</b> .....	56
Exchange rate.....	56
Eligible and ineligible expenditures .....	56
<b>Financial reporting</b> .....	58



Annual Reporting .....	58
Progress Update/Disbursement Request .....	59
Tax Status Form .....	60
Quarterly Reporting .....	60
Cash Balance Report .....	61
Quarterly Expenditure Report .....	62
Grant Closure .....	63
<b>Step-by-step Process for Grant Closure (Consolidation) .....</b>	<b>63</b>
<b>Step-by-step Process for Grant Closure (Change in PR or end of Global Fund Funding) .....</b>	<b>65</b>
Procedures .....	67
<b>Operational closure</b> .....	<b>67</b>
<b>Financial closure</b> .....	<b>67</b>
Closure Workbench and Checklist Steps.....	68
CCM Funding.....	71

## 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 Principal Recipient (PR) to Global Fund grants, but will also provide support to those COs with a significant role in programme implementation as part of their capacity-building services. Capacity-building implications will be specifically addressed where applicable. This section also contains guidance for UNDP COs that are recipients of Country Coordinating Mechanism (CCM) funding.

Financial management is not to be read in isolation. It is 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.

## Grant-Making and Signing

The [Grant Agreement](#) 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 plan
- the procurement and supply management plan

The overall funding process is summarized in the [Global Fund Funding Process and Steps](#). Additional guidance is given in the Global Fund's [Applying for Funding](#).

Please refer to the [Legal Framework](#) section of the Manual for detailed analyses of relevant legal agreements.

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

The Global Fund's core funding model uses a modular approach and costing dimension (MACD) that enhances matrix reporting and 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 Annual Financial Reporting](#) - Appendix 1.

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 (ies) in which the budget item will be invoiced and/or paid. The currencies should then be converted into the grant currency at the 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) of activities and be considered for prioritization of interventions;
  - be built on budget categories defined by the Global Fund for the list and definition of Global Fund cost categories ([Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) - Appendix 2);
  - be consistent with the budget submitted with the concept note and reflect any Technical Review Panel (TRP) and Grants Approval Committee-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;
  - 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. The proposed budget at concept note and grant-making stages must

take into account actual/forecasted disbursement required from the Global Fund and in-country cash balances before the signing of the new funding model grant.

Detailed guidelines are available in the [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#).

## 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 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.

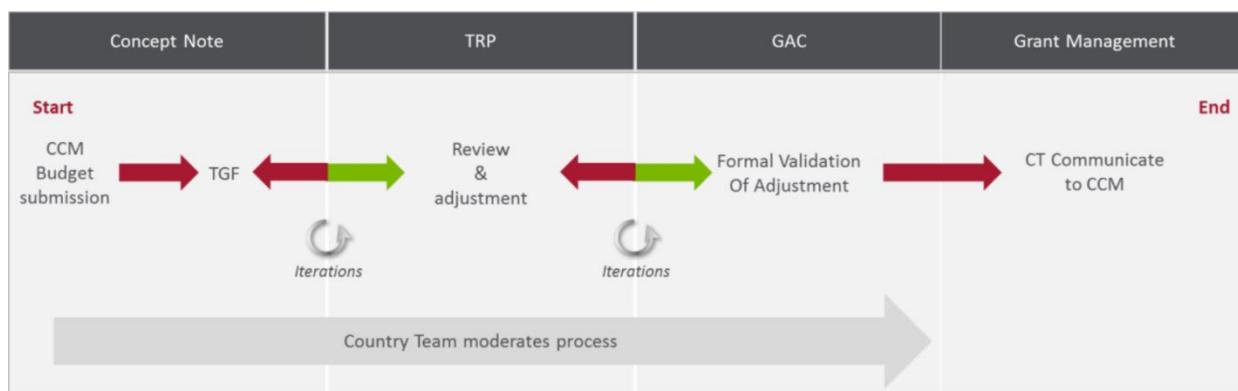
The following are the key information requirements for budgets at this stage:

- A description of the intervention, including details of the target population and geographic scope, the implementation approach, and other relevant information;
- The annual funding required for each intervention, including the following qualitative details (if available):
  - 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 need 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 ([Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) - page 23) provides a summary of the stages of the budgeting process for the funding request (formerly ‘concept note’).



*Funding ceiling and treatment of in-country cash balances*

In preparation for funding request development, 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. 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 can be calculated as described in [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) (Table 1.a Funds available for funding request preparation - GAC1 (Illustrative amounts)).

When establishing the funding request funding ceiling for budgeting, the disbursement forecast for the remaining period of the existing grant should be done with the assumption of a “zero cash balance”, unless there are available cash balances from active grants not required for the payment of invoices or implementation of activities under the associated grant agreement prior to the new funding model grant. With respect to in-country cash balances relating to: (1) recoverable (Office of Inspector General (OIG) or otherwise), (2) grants in closure or already closed prior to the allocation period, the PR is required to reimburse the cash balance directly to the Global Fund, unless otherwise approved in writing by the Global Fund for re-investment into the new funding cycle/reprogramming.

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

Upon the final approval of a funding request, 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 ([Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) - page 24).



 <b>Practice Pointer</b>	<p>As a general principle, in developing a Global Fund work plan and budget, the PR must ensure a strong link between these documents and the performance framework (PF). 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.</p>
--	--

In addition, the PR is encouraged to design the work plan and budget with details for each quarter of the grant. It is also recommended that the Programme Manager (whoever is designing the grant) 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 concept note, including any above-allocation funding and any projected in-country cash balance available for the new funding model grant. The budget will provide the following information and justification:

- alignment of the detailed budget to the approved concept note, 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 core 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 – this could be in the grant currency, local currency or \$ for Euro-denominated grants. 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 \$, etc.
- unit cost at the start of the budget, and annual inflation/increase factor
- quantities required for each period
- period (quarter) – 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 agreement 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 (\$ 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 the Enhanced Financial Report (EFR)/Annual Financial Reporting (AFR) 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 Progress Update/Disbursement Request (PU/DR) cash forecasts.

The budget template is detailed at:

- [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) – relevant templates at end of document.
- Budget Template Guidelines ([Applying for Funding – Grant-making](#)).
- Budget Template ([Applying for Funding – Grant-making](#)).

In addition, reference should be made to [NFM Budgeting Guidelines](#).

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, and the PR should prepare 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 the arithmetic accuracy of the budget;
- scan the budget line by line and check details of the unit cost and reasonableness of the assumptions used;
- confirm that budget items are classified in accordance with the Global Fund definitions;
- confirm that the budget is consistent with the proposal and addresses all TRP clarifications;
- confirm that the budget is within the available maximum TRP-approved funding amount;
- identify ineligible costs and confirm inclusion of other mandatory charges;
- confirm that the budget does not contain duplication of funding with other Global Fund grants or other sources of funding;
- confirm the reasonableness of quantities and unit prices;
- seek efficiency gains in accordance with Global Fund Board-mandated requests;

- address the economy, efficiency and effectiveness (value for money) of budget activities;
- confirm that revenue-generating activities are addressed in the budget;
- confirm that the budget is consistent with the proposed programmatic targets in overall terms and on a time basis; and
- provide assurance as to the PR's ability to absorb and implement the budget within the stipulated time-frame.

## Funding ceiling and treatment of in-country cash balances

**Please note that the guidance below is currently being revised to reflect changes in light of new Global Fund guidelines.**

Following the approval of a funding request that integrates the existing grant pipeline from rounds-based grants, the formal closure of the rounds-based grant(s) is not required under the normal grant closure provisions, although audit reports and other reporting obligations due under those grants must still be complied with for the period starting from the end of the previous reporting period and ending with the start date of the new Funding Model grant. The indicative upper ceiling available for each disease component at grant-making can be calculated as described in [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) - Table 1.b Funds recommended by GAC2 for grant making (Illustrative amounts).

The maximum amount for grant-making as calculated above may be increased by available in-country cash balances from existing grants with the pre-approval of the Global Fund. In the event that such in-country cash balances (at the principal recipients or sub-recipients level) increases the allocation of the country, the prior approval of the Grant Approvals Committee/Board is required, taking into account the impact of such funds on resources available for Unfunded Quality Demand and above-allocation funding requests for the portfolio. The indicative upper ceiling available for each grant at Board Approval can be calculated as described in [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) - Table 1.c Funds recommended by Grants Approval Committee (GAC) for Board approval (disbursement-ready grant) (illustrative amounts).

The PR should communicate in advance the projected cash balance(s) of the existing grants at the new funding model grant start date and whether it (a) is required for the clearance of past liabilities arising from expenditures for approved activities, or (b) available for interventions under the new funding model grant. Any available cash balance at the new funding model start date will be available to fund the new approved budget, assuming that these are derived from

the existing grants pipeline of the total allocation. Such in-country cash balances may increase the initial allocation communicated to the country by the Global Fund and will have to be approved by the GAC/Board.

If it can be established that the cash balance was intended to pay off existing liabilities from the existing grant(s), such funds may be accounted for, and reported on, in the existing grant. All liabilities must be fully paid by the implementers prior to the new funding model start date. If this may not be the case, it is strongly recommended to anticipate any ongoing or long-term liabilities and incorporate them in the consolidated grant-making budget as part of the new funding model grant.

Disbursements forecast up to new funding model start date:

- Forecast disbursements from the Global Fund to UNDP between now and the new funding model start date.
- These should be realistic and whatever is disbursed should be fully spent by new funding model start date.
- To be conservative /underestimate spending up to NFM start date, which would result in a high estimated available funds for NFM (upper budget limit). It may not be possible to increase the budget (upper budget limit) at grant-making stage with the 3 unaccounted for cash i.e. due to savings /variance between forecast and actual expenditure. These funds could be lost as any increase in the budget will require going back to the Board for approval.

In-country uncommitted cash balances as of NFM start date:

- At this stage when establishing the budget upper limit, the disbursement forecast for the remaining period of the existing grants should be done with the assumption of a “zero cash balance”, unless there is an expected uncommitted cash balance from funds already disbursed.

## Foreign exchange

Budgets of Global Fund grants are either finalized in US dollars or Euros, depending on the new funding model allocation currency choice, taking into account 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 Agreement 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.

## 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 Agreement 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 has to 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.

## Costs

### 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 concept note 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 concept note. The assumptions tabs in the Global Fund budget template are used for this justification.

## 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 on the basis of 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. Note that all procurement and supply management (PSM)-related assumptions should be done in a separate [PSM template](#).

Staff costs are calculated and budgeted as follows:

- UNDP's [Proforma Costs](#) for Fixed Term Appointment (FTA)/Technical Assistance (TA)/special condition (SC) positions.



Practice  
Pointer

All relevant common services costs must also be included in the budget.

## 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. Direct Project Costs (DPC) - direct costs of programme, administrative and operational support activities, that are part of the project input; and
2. 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.

### General Management Support

GMS is defined as variable 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.

The agreed percentage fee for GMS between UNDP and the Global Fund is non-negotiable. GMS is to be categorized as overhead and included as a budget line for all grants.

Based on the agreement between the Global Fund and UNDP, the GMS rate remains at 7 percent for a two-year period ending 10 October 2016, at which time it will be revisited.

Refer to UNDP Programme and Operations Policies and Procedures (POPP) on [Resource Planning and Cost Recovery](#) for detailed guidance on GMS.

### 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 a global vertical fund. The data standard includes the Global Fund as an example of global vertical funds.

## Direct Project Costs

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.

DPC 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.

There are three options for implementing DPC:

- Application of the CO workload study results, combined with multiple funding lines for post.
- Application of the Universal Price Lists (UPL) or Local Price List (LPL) for transactional costs recovery.
- Creation and management of a stand-alone DPC project.

Refer to [POPP Resource Planning and Cost Recovery](#) for detailed guidance on DPC policy and procedures.

## Audit costs

UNDP and the Global Fund have agreed to charge a lump sum of \$85,000 at the beginning of each year to the budget of the relevant Global Fund grants undergoing an audit by UNDP's Office of Audit and Investigations (OAI). This amount represents a cap per country per year. If more than one grant is audited for a given year in the same country, the amount is prorated across the grants to be audited.

Procedures are as follows:

1. COs should budget for audit costs of \$85,000 annually for countries under the Additional Safeguard Policy (ASP) and once during the grant implementation period (i.e. 3-year period) for non-ASP countries. Should a non-ASP country not be audited in the current year, they should re-phase the audit budget to the following year until an OAI audit takes place and payment is made. ASP countries do not re-phase budget but rather reprogramme any unutilized audit budget from the previous year.
2. For countries with more than one grant agreement, the costs will be apportioned across the respective grant budgets based on the total signed grant amounts.
3. Budget account 74100 “Professional Services” should be used.
4. In December each year UNDP (Global Fund/Health Implementation Support Team) will share with the Global Fund and the COs the OAI audit plan for the subsequent year and a proposal for the distribution of the audit costs for those countries. COs should include audit costs in the cash forecast for the annual Disbursement Request.
5. At the end of each year, UNDP (Global Fund/Health Implementation Support Team) will provide the Global Fund with a list of all audits completed.
6. On completion of the audits by OAI, the \$85,000 will be charged to respective grants through a General Ledger Journal Entry (GLJE\_ (expense account 74110 “Audit fees”), with a prorating of the cost (based on the signed amounts of active grants) for countries with more than one grant. The Audit Fees collected would be credited to the UNDP’s Partnership Team Project # 00085083 (PC Bus Unit: UNDP1), Income Account 54025 (Reimbursement for Management Services), Oper Unit H70, Dept 08301, Fund 11315, Donor 00327.

## 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. The \$50,000 is prorated across all grants in a country requiring technical assistance. The lump sum normally covers, but is not limited to salary costs, consultants and country support missions, tools and guidelines.

The total amount UNDP can charge the entire Global Fund grant portfolio per year is \$550,000, and this amount will be prorated among countries where more than 11 have approved capacity development (or transition) plans.

Procedures are as follows:

1. In December each year, the UNDP Global Fund/Health Implementation Support Team shall share with the Global Fund a list of countries that have an approved capacity development/transition plan, along with a proposal for the distribution of costs for those countries. The Global Fund will provide feedback on the list of countries by 1 December.
2. For each country with a capacity plan in place and under implementation, the Global Fund shall disburse a lump sum of \$50,000. For countries with more than one grant requiring technical assistance, the \$50,000 shall be apportioned across the respective grant budgets based on the total signed grant amounts.

3. For active grants that do not have a budget line for capacity development, the Country Office shall submit a request to the Global Fund for budget reallocation of savings to include technical assistance costs in the respective grant budgets and the cash forecast for the annual disbursement. Where the budget thresholds for material budget adjustment will be exceeded, approval should be obtained from Global Fund.
4. On 1 July of each year, to reflect the ongoing support UNDP is providing, Steps 1 to 3 above will be completed.
5. The \$50,000 should be charged to respective grants through a GLJE (expense account 74120 “Capacity Assessment”), with a prorating of the cost (based on the signed amounts of active grants) for countries with more than one grant.
6. The credit should be to the following COA, Project # 00085083 (PC Bus Unit: UNDP1), Income Account 54025 (Reimbursement for Management Services), Oper Unit H70, Dept 08301, Fund 11315, Donor 00327, IA 001981, **ACT13C**.

## Detailed budgeting guidance

Detailed budgeting instructions can be obtained from the [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) (5. Specific budgeting and costing guidance) under the following areas:

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

## Budget approval

The funding request budget and the detailed budget prepared for the grant-making process should be uploaded to the Global Fund [Grant Management Platform](#) (Salesforce).

in the prescribed format by either:

- entering the budget directly into the Grant Management Portal using the designed online budget template; or
- downloading an offline version of the budget template, then uploading it for submission.

Under both functionalities, the summary budget is automatically produced by the application tool 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 in the tool. 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.

## Secure Banking Arrangements

UNDP uses two bank accounts (US dollar and Euro) for receiving contributions from the Global Fund:

1. UNDP Contributions Account
  - CITIBANK
  - Account No. 36349562
  - 111 Wall Street
  - New York, NY 10043
  - Routing number 021000089
  - Swift code CITIUS33
  
2. UNDP Contributions Euro Account
  - Bank of America
  - Account No. 6008-62722022
  - 5 Canada Square
  - London, E14 5AQ
  - United Kingdom
  - Swift code BOFAGB22

Prior to Board approval and/or signing of the Grant Agreement, 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 Global Fund Finance Specialist (New York) in the Global Fund Partnership Team. The Bank account details are reflected in the Face Sheet of the Grant Agreement in the section entitled ‘Routing Instructions for

Disbursements’ and include the name and contact information (telephone number and/or email address) of the bank manager for verification of the details.

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) funding should also be deposited in the HQ Contributions Bank Account.

## Project and Budget Formulation in Atlas

UNDP’s standard procedures should be followed for Global Fund project and budget formulation in Atlas. It is important to remember that the term “Project” in UNDP policy represents an “Award” in Atlas. And the term “Output” is represented by a “Project” in Atlas (the budget is at the level of the Output). Therefore, there may be one Project (“Award” in Atlas) with different Outputs (“Projects” in Atlas). The financial control on budgets in Atlas (income, expenses, advances, etc.) is at the project level and NOT at the Award level.

Reference should be made to the following guidance:

UNDP Programme and Operations Policies and Procedures (POPP)-[Initiating a Project](#)

[Atlas Project Management Module User Guide](#)

[OnDemand Enhanced Project Management \(PM\)](#)

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

- Projects created in Atlas should conform to the standard structure that one Global Fund Grant Agreement corresponds to one Atlas Project with one Atlas Output. Country Offices (COs) should avoid the practice of creating multiple outputs for one grant as this complicates cash management in Atlas.



### Practice Pointer

Atlas allows other donor funding, including UNDP core funding, to be combined with Global Fund funding, as the donor/fund is identified in each Chart Field combination of the Budget. Thus, expenditures can be apportioned between donors as incurred, and separate funding is possible. However, Country Coordinating Mechanism (CCM) funding (Fund 30000 Donor 00327) should have a separate output from grant funding (Fund 30078 Donor 00327) to avoid issues in the Certified Financial Report (CFR) where there is aggregation at the output and donor level.

- The proposal and project are created in the Enhanced Atlas Project Management Module (for guidance refer to OnDemand [RBM Documents](#)).
- UNDP as Principal Recipient (PR) assumes the role of Implementing Partner (Direct Implementation - DIM) and is reflected in Atlas, when creating the Proposal, Award, and Project in the “Institution ID” field (Institution ID - Atlas code: 03315).
- Where UNDP serves as Responsible Party, it should be reflected in the Implementing Agent field in Atlas (Implementing Agent - Atlas code: 001981).
- When UNDP is the PR, COs use the established account codes in Atlas, which have been mapped against the categories typically used by the Global Fund to capture budgetary information in setting up the Budget. UNDP has agreed to provide Local Fund Agents (LFAs) with clarification of the mapping between UNDP’s expenditure account codes and Global Fund cost categories, should the need arise during a review.

 <b>Practice Pointer</b>	<p>It is important to design a project structure for the creation of Global Fund projects in Atlas that will facilitate the timely and accurate reporting for the Annual Financial Report (AFR). There will be a joint exercise with the Global Fund to map the Global Fund Cost Inputs to the Atlas accounts, the outcome of which will be used by UNDP to develop a workbench to facilitate reporting to the Global Fund.</p>
--	---

- Two levels of output activities should be created as follows:
  - Each Global Fund Intervention under each Module will correspond to an Activity in Atlas for budgeting purposes, e.g. ACTIVITY1.1 - Module “PMTCT”, Intervention “Prong3: Preventing vertical HIV transmission”.
  - Each Global Fund Activity Description under each Intervention will correspond to an Activity in Atlas for transaction purposes, e.g. ACTIVITY1.1.1 - Module “PMTCT”, Intervention “Prong3: Preventing vertical HIV transmission”, Activity Description “Rapid diagnostic test per mother”.

The following rule should be applied in coding the activities:

- 1st digit - Module
- 2nd digit – Intervention
- 3rd digit – Activity Description

ACTIVITY “Module” + “Intervention” to be used for budgeting only

ACTIVITY “Module” + “Intervention” + “Activity Description” to be used for transactions only

 <b>Practice Pointer</b>	<p>Before creating the activities in Atlas, it is recommended that a mapping of the Module and Interventions in the approved Detailed Budget of the Grant Agreement is done first. This is the activity level which will be used to prepare the project budget in Atlas. Please note that this activity level should not be used when processing transactions (i.e. E-requisition, PO, vouchers, AR, GLJEs, etc.).</p>
--	--

Proposed Atlas Mapping to the new Global Fund Structure				Budget amount				
Atlas Activity for budgeting				Account code	IA code	Values		
						Sum of Y1 Total Cash Outflow	Sum of Y2 Total Cash Outflow	Sum of Y3 Total Cash Outflow
ACTIVITY ID	Module	Intervention	Cost Input	Recipient				
ACTIVITY1.1	PMCT	Prong 3: Preventing vertical HIV transmission	5.4 Rapid Diagnostic Test	UNDP		144,000.00	129,600.00	123,840.00
ACTIVITY1.2		Prong 4: Treatment, care & support to mothers living with HIV, their children &	6.2 HIV Viral Load analyser/accessories	UNDP		20,296.00	29,500.00	35,400.00
ACTIVITY2.1	Prevention programs for adolescents and youth, in and out of school	HIV testing and counseling as part of programs for adolescent and youth	1.3 Performance based suppliments, incentives	UNDP		61,829.63	61,829.63	61,829.63
			5.4 Rapid Diagnostic Test	UNDP		3,760.00	3,760.00	3,760.00
ACTIVITY3.1	Prevention programs for other vulnerable populations (please specify)	Behavioral change as part of programs for other vulnerable populations	12.2 Food and care packages	UNDP		46,300.02	27,780.01	13,890.01
			2.1 Training related per diems/transport/other costs	UNDP		72,889.94	24,296.65	-
ACTIVITY3.2		Condoms as part of programs for other vulnerable populations	5.2 Condoms - Male	UNDP		4,704.60	17,151.70	17,151.70
ACTIVITY3.3		HIV testing and counseling as part of programs for other vulnerable populations	1.2 Salaries - outreach workers, medical staff and other service providers	UNDP		593,290.17	395,526.78	197,763.39
			5.4 Rapid Diagnostic Test	UNDP		127,840.00	104,952.00	74,524.00



**Practice Pointer**

Before creating the activities in Atlas, a mapping of the Module, Interventions and Activity Description in the approved Detailed Budget of the Grant Agreement is recommended. This is the activity level that will be used when processing transactions (AR, Purchase Orders, AP vouchers) in Atlas. Please note that this activity level should not appear in the project budget.

- All costs related to capacity development should be reflected as a separate activity in the project budget.
- Each SR should have an Implementing Agent (IA) code. Please check whether an IA code exists in Atlas and if not, request an IA code using the form: “Request new implementing agency code” which has to be filled out, signed and then sent to: ps.support@undp.org.

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.

Proposed Atlas Mapping to the new Global Fund Structure		Atlas Activity for transactions		Account code	IA code
ACTIVITY ID	Module	Intervention	Activity Description	Cost Input	Recipient
ACTIVITY1.1.1	PMTCT	Prong 3: Preventing vertical HIV	3 Rapid diagnostic test per	5.4 Rapid Diagnostic Test	UNDP
ACTIVITY1.2.1		Prong 4: Treatment, care & support to mothers living with HIV, their children &	2 PCR per children born to HIV + mothers within 2 months after birth in 14 HIV higher burden	6.2 HIV Viral Load analyser/accessories	UNDP
ACTIVITY2.1.1	Prevention programs for adolescents and youth, in and	HIV testing and counseling as part of programs for adolescent	2 Rapid diagnostic test per Student	5.4 Rapid Diagnostic Test	UNDP
ACTIVITY2.1.2			Counseling services for high school students with drug	1.3 Performance based suppliments, incentives	UNDP
ACTIVITY3.1.1	Prevention programs for other vulnerable populations (please specify)	Behavioral change as part of programs for other vulnerable populations	10 workshop for prison staff (40 per workshop)	2.1 Training related per diems/transport/other costs	UNDP
ACTIVITY3.1.2			Preventive service delivery for Street children through mobile	12.2 Food and care packages	UNDP
ACTIVITY3.2.1		Condoms as part of programs for other vulnerable populations	Two 3 day workshop for 25 DIC staff as well as one midterm	5.2 Condoms - Male	UNDP
ACTIVITY3.3.1		HIV testing and counseling as part of programs for other	1 Rapid diagnostic test per Street children per quarter. 100% turn	5.4 Rapid Diagnostic Test	UNDP
ACTIVITY3.3.2			2 counselor per PO centers	1.2 Salaries - outreach workers, medical staff and other service	UNDP
ACTIVITY3.3.3			2 physicians per PO centers	1.2 Salaries - outreach workers, medical staff and other service	UNDP

### GMS Setup

With respect to General Management Support (GMS) collection and set up, the following should be noted:

- The project budget in Atlas includes a separate budget line for the GMS component by reflecting the GMS rate and the method of the GMS income collection as ‘earn as you go’ (Atlas terminology is ‘F&A’). The ‘earn-as-you-go’ method charges the GMS fee on a transactional basis as expenses are incurred, and automatically credits the office extra-budgetary accounts, based on the GMS methodology and the department distributions that apply.
- The full amount of the contribution is programmed as part of the project budget, including a separate budget line for the GMS fee component. The GMS rate is charged on the programmable budget. For example, on a \$1.0 million contribution, with a 7 percent GMS fee, the programmable budget is \$0.935 million and the GMS budget is \$0.065 million. Use the appropriate tab in the [GMS rate calculator](#) to determine amounts.
- Distribution of GMS income account 54010 for Global Fund projects is as follows:

CO Indicative Share Fund 11300	RB Indicative Share Fund 11300	Central Services H21 Fund 11000	BPPS H70 Fund 11300	Global Fund Unit H70 Fund 11315	Investment Fund	Total
52.16%	3.04%	9.64%	0.78%	32.32%	2.06%	100.0%

For Atlas guidance, refer to the Guidance Note on Atlas GMS Set-Up & GMS Reports available on the [Office of Financial Resource Management’s intranet](#).

The GMS setup for Global Fund projects should be:

- GMS calculation : Earn as you go
- Donor : 00327 and Fund: 30078
- Rate: 7 percent and Effective date: grant start date or if applicable pre-allocation start date
- Distribution modality: BPPS – GFATM

## Prepare and Negotiate Pre-allocation Budget

The pre-allocation of grant funds 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 Atlas (the same project to be used for grant implementation). Refer to section on Principal Recipient startup 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 (i.e. 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 Atlas from the originally recorded fund code to the Global Fund fund code by GLJE.

Procedures should be as follows:

1. If possible, the reversals should be done as per transaction. If, however, too many transactions are involved, the option of a lump sum could be considered, with the detail transactions maintained for reference.
2. Any outstanding advances issued to Sub-recipients (SRs) should also be reversed using an Accounts Payable Journal Voucher (APJV).
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.

## 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 when the Disbursement Notification Letter is received from the Global Fund.
- The Global Shared Service Centre (GSSC) is responsible for recording the revenue.
- The Contracts Module in Atlas is used for the recording of contributions. Information is entered relating to the agreement and the necessary accounting information to ensure that revenue is recorded in the General Ledger and reflected correctly in UNDP accounts.
- Country Offices (COs) upload all agreements and any necessary supporting documents to the Document Management System (DMS). For further guidance, please refer to the [Revenue DMS User Guide](#).
- The GSSC accesses the information uploaded to the DMS and enters it into the Contracts Module of Atlas. The GSSC records revenue in the Atlas General Ledger and creates the accounts receivable items based on the 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, which is updated in the DMS and communicated to the CO by the GSSC.
- Application of funds against Accounts Receivable (ARs) is handled by GSSC or by CO finance staff, depending on the bank account into which the funds are deposited.
- Where an agreement has been amended with the approval of the donor, such amendment needs to be communicated to GSSC staff via the DMS 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 Atlas report of contracts with pending milestones and proactively follow up with donors on milestones with expired due dates.
- It is important that COs promptly update the DMS by financial year end, entering any new agreements or completion of milestone conditions, to ensure that revenue is accurately and completely recorded in financial statements.

Refer to the following guidelines:

- UNDP Programme and Operations Policies and Procedures (POPP) on [Revenue Management Non-Core Contributions](#)
- [POPP on Revenue Management Accounts Receivable](#)
- [OnDemand - Accounts Receivable](#)
- [IPSAS: Guidance Note on Revenue](#)

The process with respect to the Global Fund is detailed in the next sections.

## Global Fund Funding Decisions and Disbursements

The Global Fund annual funding decision is the process of determining and setting aside grant funds to be disbursed on a staggered basis to the Principal Recipient (PR). Each annual funding decision includes the total amount that may be disbursed over a specified 12-month period (the

“execution period”), and may include a buffer that typically is not disbursed within the execution period.

Funds remaining from a prior annual funding decision may be disbursed, with additional signoff, for up to six months after the period which the buffer amount was intended to cover (“buffer period”) in cases when there are delays in processing the Progress Update/Disbursement Request (PU/DR) for the next annual funding decision. Any funds not disbursed from the current annual funding decision must be reapproved as part of the subsequent annual funding decision.

Specifically, the Global Fund Policy on Annual Disbursement and Commitment Decision (ADCD) is as follows:

- Grants will be on ADCD with semi-annual reporting cycles. (Midway through the year, the PR will submit a Progress Update (PU) for the first semester. At year-end, the PR will submit a full PU/PR which includes a PU for the last semester and a DR for the next 12 months plus buffer.)
- The ADCD schedule should align with the progress reporting period – for UNDP, the calendar year.
- The PR to submit a Disbursement Request supported by detailed cash forecast for annual disbursement plus a buffer period of 3 or 6 months.
- CO/PRs need to engage Senior Programme Advisors (SPAs) on ADCD and cash transfer negotiations.



Practice  
Pointer

Global Fund proposed, by default, phased cash transfers for 6 +6+3 months to its PRs i.e. 1st transfer for Jan–June, 2nd transfer for July–Dec and 3rd transfer for buffer Jan–March the following year. The Global Fund plans to move towards quarterly disbursements.

The issue of the 6 months’ buffer will only be considered on an exceptional basis to cover procurement requirements. In such circumstances the 6+6+3+3 months cash transfers would be considered.

## 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 Agreement) for the payment of goods and services. The disbursement schedule and forecasted amounts will be established by the Country Team as an integral part of the annual funding decision process.

The cumulative amount of the disbursement schedule may exceed the total funding decision for the related execution period if there are Grant Payable (committed undisbursed) funds remaining with the grant from previous execution periods. However, the cumulative amount of the

disbursement schedule cannot exceed the available total Grant Payable (including the amount being committed through the annual funding decision).

Disbursements would be done quarterly, semi-annually or annually, or when the PR requires cash during the execution period covered by the funding decision. The total number of disbursements required may be made at the discretion of the Country Team to accommodate operational requirements. The buffer amounts generally will not be released within the 12-month execution period to ensure disbursements of such amounts are subject to the rolling matching of cash inflows and outflows conducted by the Global Fund Treasury Team, and to limit cash balances at country level through regular monitoring. The buffer amount for annual funding decisions below US\$3 million can be released automatically and does not require FPM and Finance Officer signatures.

A Notification Letter is sent from the 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 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, Country Offices (COs)/PRs will update [Document Management Services](#) (DMS) with the Notification of Grant Disbursement and Management Letter.

For further guidance please refer to the [Global Fund Operational Policy Manual](#).

## Global Fund 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 Agreement is signed.
2. A designated Revenue Focal Point will upload the signed face sheet of the active Global Fund Grant Agreement, budget summary, performance framework and the first page (only) of the email from the Global Fund which has the Notification Letter attached to it, into the Document Management System (DMS). The Global Shared Service Centre (GSSC) will process this after ensuring that the correct Chart of Accounts information has been included in the Agreement, 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. The Principal Recipient 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 the Principal Recipient from the Global Fund. This is immediately uploaded into the DMS

by the Revenue Focal Point 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 Country Office (CO) of the Atlas 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. A query UN\_IPSAS\_RM\_CA\_PST\_AR\_ITEM\_SUM is available in Atlas, which identifies the A/R Item ID based on the Contract number created for the Notification of Disbursements processed by the GSSC. Other Atlas revenue reports:
- The report Unapplied Contributions (UN Reports > Financial Management Reports > Revenue Management Reports > Unapplied Contributions shows contributions that have been received but not yet applied.
  - The query UN\_IPSAS\_RM\_APPLIED\_DEPOSITS provides details of the deposits and AR items, and the projects to which they were applied. (Select a Tree “RM\_CA\_OP” and click on icon “Add to Node Selection List”.)
9. Any amendments to agreements must be communicated to the GSSC as soon as possible. The amended agreement must be uploaded to the DMS for the GSSC to update the Contracts Module and process any corresponding accounting entries.
10. The following procedures should be adhered to at each period end:
- Check that all Agreements have been uploaded into the DMS.
  - Check that any amendments to Agreements 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.



### 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/Health Implementation Support Team.

## Deferred Income

The Annual Funding Disbursement (AFD) policy of the Global Fund requires UNDP Country Offices (COs)/Principal Recipients (PRs) to submit Disbursement Requests (DRs) annually in February. These must be supported by a detailed cash forecast for annual disbursement plus a buffer period. Based on the review of the DR, the Global Fund issues to the CO/PR a Management Letter detailing the calculation of the AFD approved amounts and the schedule for the cash transfers. The cash transfers can either be (1) in one tranche for grants with an annual budget of \$3 million or less or (2) in phased cash transfers for grants with annual budgets over \$3 million. Below is an example of a disbursement decision with phase cash transfers.

### *Extract of disbursement decision from a Management Letter*

#### **DISBURSEMENT DECISION**

.....The calculation of the disbursement amount is as follows (all amounts in US\$):

(+) GF approved Budget for 1 January 2013 - 31 December 2013	4,156,408.24
(+) Budget for buffer quarter 1 January 2014 - 31 March 2014	1,588,350.62
(+) Verified commitments	513,710.00
(+) Delayed activities	414,663.61
(-) SR cash balances as of 31 December 2012	140,867.00
(-) PR cash balance as of 31 December 2012	299,943.00
<b>(=) Annual Disbursement Decision amount</b>	<b>6,232,322.47</b>

The Country Team has recommended the following cash transfer schedule for this disbursement amount:

<b>1st cash transfer: Immediately (with Management Letter)</b>	4,643,971.85
<b>2nd cash transfer: Buffer quarter January - March 2014 to be disbursed in December 2013</b>	1,588,350.62

Cash transfers are recognized as revenue only in the fiscal year in which they are programmed for use. In this respect, **cash transfers for the buffer periods are recorded as 'deferred income'**.

To ensure proper recording, the amount of disbursement related to either the current year or the buffer for the next year will have to be specified in the Notification of Grant Disbursement or the Management Letter sent by the Global Fund. For example, the disbursement decision presented above will be recorded as revenue of \$4,643,971.85 and the buffer amount of \$1,588,350.62 will be recorded as Deferred Income in 2013.

A/C 24006 (Funds Received in Advance account) has been included in the Donor Report. Hence disbursements received for the year (current plus next year's funding) will be reflected. The "Deferred Income" has been included under the "Receivables" column in the Donor Report. "Receivables" as (+) and "Deferred Income" as (-). It is the responsibility of the CO to monitor the balances in the "Deferred Income" General Ledger (GL) Account. The Global Fund Partnership Team will be sharing with the CO the periodic report summarizing the balance in the A/C 24006.

Accounting Processes for recording of Deferred Income:

1. The amount of disbursement related to either current or future years will be specified in the Notification of Grant Disbursement or the Management Letter sent by the Global Fund to UNDP Country Offices acting as Principal Recipients (CO/PRs).
2. Upon receipt, CO/PRs will submit the Notification of Grant Disbursement or Management Letter which indicates both the current and Deferred Income to the GSSC via DMS. The disbursement relating to the next year should have a 1/1/xx (e.g. 1/1/2016) accounting date. CO/PRs will also be responsible for notifying GSSC Treasury via email ([treasury@undp.org](mailto:treasury@undp.org)) and providing the related breakdown.
3. The GSSC will create an AR item immediately for the disbursement related to the current year (current income) as well as to set up an Event with a 1/1/20xx (e.g. 1/1/2016) accounting date for the disbursement relating to the next year (Deferred Income). When disbursements from the Global Fund are deposited into the UNDP Contributions Account, they will be applied individually as "current year income" and "Deferred Income" by the GSSC.
4. The current year amount will be applied against the AR item created by the GSSC. The disbursement relating to the next year will be applied to the Deferred Income account. The rest of the Charts of Account (CoA) should remain the same as the Event setup in the Contracts Module by the GSSC.
5. On 1/1/20xx (e.g. 1/1/2016), GSSC will reverse the Deferred Income using **Accounting Date of 1/1/20xx (e.g. 1/1/2016)**. The reversal deposit will be applied and a new deposit will be created as a **Regular Deposit/Current Year Deposit** and with Accounting Date of 1/1/20xx (e.g. 1/1/2016).
6. On 1/1/20xx (e.g. 1/1/2016), GSSC will generate the AR item against the now **Regular Deposit/Current Year**.

The Atlas AAA report for Deferred Income, GL account 24006 (UN Reports > Financial Management Reports > Accounts Management Reports > Account Activity Analysis (AAA) (Screenshot 2 for the report parameters) will show the transaction details of any Deferred Income recorded for the year.

Favorites Main Menu > UN Reports > Financial Management Reports > Accounts Management Reports > Account Activity Analysis

**Account Activity**

Run Control ID: EM [Report Manager](#) [Process Monitor](#) [Run](#)

**Select Parameters**

\*GL Business Unit  UN Development Programme

Project

Account  Funds received in advance

\*Accounting Date From  \*Accounting Date To

**Select Operating Unit**

One  All

Operating Unit

Fund Code From

Fund Code To

[Save](#)
[Return to Search](#)
[Previous in List](#)
[Next in List](#)
[Notify](#)
[Add](#)
[Update/Display](#)
[Include History](#)
[Correct History](#)

### Certified financial reports:

In the section on “Explanation of Terms,” receivables are defined as “amounts due from donors, but which have not yet been paid (i.e. past due), according to dates in the schedule of payments from signed agreements.” Global Fund grants do not have amounts due from the donor but would instead have Deferred Income. To ensure proper recording of revenue, disbursements from the Global Fund are recognized as revenue only in the fiscal year in which they are programmed to be used and funds for the buffer periods that relate to subsequent fiscal year are recorded as “Deferred Income”. The “Deferred Income” will be included under the “Receivables” column in the Certified Financial Reports (CFRs) as a credit balance, since these are funds received in the year of reporting but pertain to the next year’s funding.

## 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 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 is calculated by the Office of Financial Resource Management (OFRM) at year-end on a quarterly basis using quarterly interest rates. The interest

revenue is posted to the respective Global Fund projects in Atlas in the current year at year-end under General Ledger 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 in Atlas. 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 in Atlas in the miscellaneous income account 55090.

## 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) and is processed in the AR module through a Direct Journal. This should be recorded locally and does not need to go to the GSSC.

Proceeds from disposal of assets are recorded in GL account 55070.

Country Coordinating Mechanism (CCM) funds - the Agreement will be processed as a third-party cost sharing agreement that will be uploaded in Document Management Services (DMS) 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. When recording the chart of accounts (COA) in DMS, COs are to use Fund Code 30000 and Donor Code 00327.

## 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](#)

Also, refer to:

- [OnDemand Accounts Payable](#)
- [IPSAS: Guidance Note on Expense](#)

## 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 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 (OFRM) 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](#).

Standard Operating Procedures (SOPs), 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 currently being finalized.

## 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 of 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 \$ 1,500 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, laboratory equipment such as CD4 count machines.

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 Atlas to enable accurate and consistent coding as well as user friendly 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 of 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 medical supplies, 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 through out its life.

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

- [POPP Asset Management](#)
- [Asset Management Atlas User Guide](#)
- [OnDemand Asset Management](#)
- [IPSAS: Guidance Note on Property, Plant & Equipment \(PP&E\)](#)

Reference should also be made to the Global Fund Partnership Team's [Asset Management in the Context of Global Fund Grants Guidance Note](#) which addresses the key issues that arise regularly in CO management of assets financed with Global Fund grants and provides guidance on specific responsibilities of UNDP as Principal Recipients (PR) of the Global Fund (i.e. as a PR, UNDP also has responsibility for ensuring adequate management of assets procured and/or used SRs and SSRs.

The guidance note provides guidance on how UNDP can ensure compliance with the Global Fund Grant Agreement. It specifically addresses UNDP's responsibilities concerning:

- Assets acquired using UNDP procurement procedures and used by COs and SRs;

- Exceptional circumstances where assets are procured by SRs;
- Assets used by SSRs;
- Assets procured with grant funds by an outgoing PR where a new Grant Agreement is signed with UNDP taking over as PR; and
- Transfer of assets and grant closure (i.e., when the Grant Agreement is ending or UNDP is transitioning the grant to another PR but there are project assets remaining).

The following templates are provided:

- [Acceptance by the Government Sub-recipient of Temporary Custody of the Assets from UNDP](#)
- [Transfer of Title to the Assets from UNDP to the Government Sub-recipient](#)
- [Transfer of Title to the Assets from the Global Fund to UNDP \(when UNDP takes over as PR\)](#)
- [Transfer of Title to the Assets from UNDP to SR or PR \(at grant closure or new PR\)](#)

## Inventory management

UNDP inventory policy requires qualified inventories to be recognized as assets until consumed or distributed. The balance of such inventories have to 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 Resource Management (OFRM) by the prescribed deadline. Detailed guidance for the physical count of inventory end is communicated quarterly by OFRM. OFRM 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.

Refer to:

- UNDP Programme and Operations Policies and Procedures (POPP) on [Inventory Management](#)
- [SharePoint Closure Site](#) – physical count guidance and templates

 Practice Pointer	Property, Plant and Equipment (PP&E) items, which are capitalized in UNDP books, are <b>not to</b> 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 <b>temporarily held by UNDP as of the reporting date, waiting to be distributed to the SRs/Government</b> . Such asset-like items must be included/reported as inventory items.
---	--

## Global Fund inventory

For the purpose of the Global Fund grants, examples of inventory are medical supplies and medical equipment. 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 Global Fund/Health Implementation Support Team 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. Based on a review conducted by the Global Fund/Health Implementation Support Team, five countries are currently required to count and report Global Fund inventory items, i.e., where UNDP is deemed to have full control over inventory. These countries are as follows:

S. No.	Country Office
1	Belarus
2	Kyrgyzstan
3	Haiti
4	South Sudan
5	Tajikistan

**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 Global Fund/Health Implementation Support Team, count the inventory and submit the required reports. If there are any questions, COs should contact their respective OFRM/Finance Business Advisor (FBA) Manager.

It is expected that all undistributed medical supplies and equipment 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.

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 in control of Inventories at all times 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 a current asset.
- **Agents:** Where UNDP employs a third party to act on its behalf as an Agent to distribute medical supplies 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.

## Inventory life cycle

Acquisition - Due to the high volume of medical items and multiple suppliers, there is a special setup for medical items purchased with Global Fund grants within the Procurement Catalogue, where information is captured at a very high level under main categories, e.g. dispensary drugs, anti-malarial, antiretroviral (ARV) etc. Users can select the appropriate category and input additional information as required. At this stage, the correct catalogue, UNDP (unused inventory is capitalized at period end) or Non-UNDP (medical equipment purchased for distribution and not for UNDP's own use - expensed) must be used.

**Inventory In** - For the purposes of Global Fund grants, all medical supplies must be checked in and inspected by UNDP Pharmacists (or authorized Agents) in compliance with the World Health Organization (WHO) and Global Fund policies and procedures. The medical supplies received must be recorded, including the quantities, in the Inventory-In Note by the Inventory Focal Point and a copy sent to the appropriate Finance Unit to use in the receipting process in Atlas. A copy should also be sent to the Buyer. The Inventory Focal Point must also update the Stock card in line with the Inventory-In Note.

**Inventory Out** - An Inventory-Out Note must be completed in accordance with the approved Issuance Note and must be signed by the party the Inventories are being issued to. The Inventory-Out Note must be kept and used to update the Stock Card. The control of medical supplies will be passed over to the SR Entities only upon completion of the quality inspections and receipting by UNDP staff. UNDP staff, therefore, are responsible for preparing both Inventory-In and Inventory-Out Notes and for maintaining the Stock Cards, all of which are auditable documents.

Refer to [IPSAS: Guidance Note on Inventory Management](#) for detailed policies and procedures.

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 has to be estimated and documented.

## Budget Reallocation and Revision

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

A [project document](#) may be revised at any time by agreement among the signatories to the document. The purpose of the revision is to make substantive or financial adjustments and improvements to the project.

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.

On the basis of 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

Atlas, resources that were budgeted for but not spent in prior years should be reallocated 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 in order to properly assess progress and performance.

Tolerance is the permissible deviation from a plan (in terms of time and cost) without bringing the deviation to the attention of the next higher authority. This aspect is particularly important with respect to Global Fund budgets.

Refer to the following guidance:

UNDP Programme and Operations Policies and Procedures (POPP) on [Implementing a Project](#).

OnDemand:[Programme Profile](#).

#### RBM Documents:

- [Atlas Project Management Module User Guide](#).
- [Atlas Project Management Module PowerPoint](#).

## Global Fund

Global Fund policies and procedures are documented in:

- [Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) – Section 5 on budgetary adjustments during grant implementation.
- [Global Fund Operational Policy Manual](#) – Operational Policy Note on Reprogramming during Grant Implementation.

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 taking into account 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 agreement 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 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 agreement or any other official legal notifications) of any approved intervention. These adjustments do not require pre-approval from the Global Fund.

## 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 agreement, potentially including the performance indicators, targets 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 Country Team may require Local Fund Agent (LFA) review of the request.

Reprogramming of a grant may be proposed at any time during the grant lifecycle, including a grant-making period, grant implementation, and grant renewals.

A reprogramming request is classified as either “material” or “non-material”. 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.

### **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.

## Project Management and Update in Atlas

UNDP Programme and Operations Policies and Procedures are followed for project management and project update in Atlas. Please refer to POPP on [Implementing a Project](#) for further guidance.

Further resources:

OnDemand:

- [Programme Profile](#).
- [RBM Documents](#):
  - [Atlas Project Management Module User Guide](#).
  - [Atlas Project Management Module PowerPoint](#).

Customized tools and reports have been developed in Atlas to facilitate project monitoring and donor reporting for Global Fund projects. Project management functionality is used for programmatic information, as well as programmatic and financial reporting for the required Global Fund Progress Update. Refer to [Project Management and Progress Update in Atlas \(UNDP\)](#).

### 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. While governments in some countries have provided an outright exemption to indirect taxes, in most countries Country Offices (COs) may be required to pay taxes and seek reimbursement. COs should liaise with the Ministry of Foreign Affairs to ensure reimbursement. Any difficulties with respect to exemption from taxation or reimbursement of taxes should be addressed to the Director of the UNDP Legal Office (LO). 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.

## 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](#), [procurement and supply management](#) (PSM), [monitoring and evaluation](#) (M&E), and [audit and investigations](#).

UNDP as Principal Recipient (PR) for Global Fund grants assumes the role of Implementing Partner (IP) 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 (SR for Global Fund Grants).

A RP is defined as an entity selected to act on behalf of UNDP on the basis of a written agreement or contract to purchase goods or provide services using the project budget. In addition, the RP 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 RP may follow its own procedures only to the extent that they do not contravene the principles of the [Financial Regulations and Rules](#) (FRRs) of UNDP. 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. SRs serve as RPs (Implementing Agent code in Atlas) 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;
- Cost 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 vendors and SR personnel.

In addition to being a stand-alone financing modality, direct payment 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 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, these should be rejected.



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 SSRs be engaged only in exceptional circumstances and grant implementation activities carried out directly by SRs or UNDP.

## 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.

Before an entity can be engaged as an Implementing Partner (IP) or 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 IP or 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 IP or 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 IP or 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 IP or RP. Please Refer to POPP on [Direct Payments](#).
- **Reimbursement** - Unlike direct cash transfer, a reimbursement arrangement is where UNDP pays the IP or RP after it has made a disbursement based on the annual work plan. The IP or RP needs prior consultation with UNDP before embarking on the pre-financing arrangement. Please refer to POPP on [Direct Cash Transfers and Reimbursements](#).

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 [HACT](#).

## 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 Project Manager.)
  - 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. 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 also be attached.
- FACE verification is conducted by the CO. Detailed verification steps are outlined below.
- The funds advanced must be 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.
- 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.
- 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:
  1. Accept: sign and approve the FACE;
  2. Request amendment to the FACE from the SR; or
  3. 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's Financial Regulations and Rules ([FRRs](#)) and, 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, advances should be issued to Govt/CSO SRs charging account 16005 and the corresponding chartfield combination (Operating Unit – Fund – Department – Implementing Agent – Donor - Expense Account) in the same currency as the initial advance. Advances will be recorded in Atlas through an Accounts Payable (AP) voucher (non-purchase order (PO)) that reserves the funds advanced to the project. (The payee is the SR, never an SR employee).
- After FACE verification and approval, expenses are recorded through an accounts payable journal voucher form (APJV), crediting the advances to account 16005 and debiting expense accounts in line with the Atlas budget and signed AWP, using the Donor/Fund combination for each portion of the advance requested. Expenses must be recorded in the currency in which they were advanced.

 Practice Pointer	<p>APJVs have a zero net amount and are not paid.</p> <p>The accounting and budget date must be the same (i.e. if 4th quarter FACE recorded in January – date is 4th quarter; if 4th quarter FACE is recorded in June, date is current year).</p> <p>The invoice date should be the same as the end of the reporting period for FACE.</p>
---	---

Please refer to:

- [POPP on Accounts Payable](#) for guidance on AP vouchers and APJVs.
- [POPP on Direct Cash Transfers and Reimbursements](#).
- [OnDemand: Accounts Payable advances and Management of Advances](#).

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

Sub-recipient (SR) funding is provided on the basis of 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
- As per SR agreement requirements, UNDP will hire an external auditor for auditing SR activity in relation to signed SR agreements
- 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
- 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:

- Not included in the approved detailed budget
- Incurred outside of the project implementation period
- Not duly authorized by UNDP
- In excess of the prevailing market prices without proper rationale/justification (if local procurement is included into SR budget);
- For which a report is expected but not received

Financial reporting (FACE) will include the following:

- Detailed financial activity during the period (and cumulative from the beginning)
- 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:

- 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:

- 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:

- 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 in all instances.

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 should include:

- 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.

## 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 Atlas 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 Country Director;
  - 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 workbook/template](#).

## 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 to 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 SR.
- **Direct Payments to SSR:**
  - SSR submits DR to their SR for approval.
  - SR reviews and approves DR, and requests UNDP for direct payment to SSR by submitting signed DR and FACE, with copies of supporting documents as necessary.
  - UNDP verifies and approves DR and FACE, and makes direct disbursement to SSR.
- **Documents to be submitted by SR to UNDP, or SSR to SR, supporting the DR and FACE:**
  - 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 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](#).

## UN Agencies

When a UN agency undertakes project activities as either Implementing Partner (IP) or Responsible Party (RP), the Office of Financial Resources Management (OFRM)/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. Aster Tewabe <[tewabea@who.int](mailto:tewabea@who.int)>).
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 (OFRM) 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 OFRM, 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. Aster Tewabe <[tewabea@who.int](mailto:tewabea@who.int)> (WHO/HQ), 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. OFRM will be in charge of the settlement of advances. Advances will be liquidated upon recognition of expenditure after the PDRs are successfully posted in ATLAS. The CO is required to review and validate the expenditures submitted by WHO in UNEX (<http://unex.undp.org>) prior to OFRM posting to ATLAS.

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.

For more information on reporting through the PDR, please refer to [POPP Agency Implementation](#).

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 using General Ledger Journal Entry (GLJE), changing source from “ONL” to “PDE” and using analysis type “PDE”, so that expense is reported in the UN Agencies Expenses column of the Combined Delivery Report (CDR).

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 (Atlas or other)
- 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.

## 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 [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 Atlas fulfils Global Fund requirements. For grants that are denominated in Euros, the expenditures in Atlas 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.

They 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 agreement 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

There are 5 main financial reports:

Annual reporting:

- [Progress Update and Disbursement Request \(PU/DR\)](#) (including Annual Financial Report)
- [Tax Status Form](#)
- Certified Financial Reports – produced and certified by the Office of Financial Resources Management (OFRM)

Quarterly reporting:

- [Cash Balance Report](#)
- [Quarterly Expenditures Report](#)

Financial reporting timelines are based on country classification – Tier 1, Tier 2 or Tier 3.

## Annual Reporting

[Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting](#) (4. Financial Reporting) and the [Global Fund Operational Policy Manual](#) (2.4. Operational Policy Note: Enhanced Financial Reporting) 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 interventions and cost grouping/cost inputs.

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 is 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 costing dimension grouping is based on the new cost grouping and cost inputs. 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.

## 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 should include the following financial sections:

- PR Cash Reconciliation\_2A, B, C, D
- Commitments\_Obligations
- SR\_Cash Reconciliation\_2E
- Budget Variance\_2F
- PR\_Expenditure\_7A
- Cash Forecast\_8A
- Request and Recommendation\_8B

The PR should check the 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 “Budget Variance\_2F”, “PR\_Expenditure\_7A”, and “Cash Forecast\_8A”.

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). In addition, it is important to note that Breakdown A of the AFR report (section “PR\_Expenditure\_7A”) could be prepopulated by the Global Fund by Cost Groupings or by Cost Inputs.

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

- [Annotated Core PU/DR Guidelines](#)
- [Global Fund Guidelines on PR Progress Update and Disbursement Request](#) and the [Addendum](#), which provides the latest guidelines for the “SR\_Cash Reconciliation\_2E” and “Commitments\_Obligations” sections of the PUDR
- [Cash Forecasting Tool template](#) – to be completed to support the Disbursement Request
- [Information Note on Budget and Expenditure Variance Analysis](#)

## Tax Status Form

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 the prescribed deadline.

The template captures total grant expenditure, total taxes paid, and total taxes recovered by PR and Sub-recipient (SR). Additional information, including additional recoveries expected, is also required.

Although the Tax Status Form is submitted on an annual basis, the report is included in the Global Fund’s [Quarterly Financial Reporting template](#). For detailed instructions, refer to section three of the [Global Fund Guidelines for the Quarterly Financial Reporting](#).

## Quarterly Reporting

The Global Fund Quarterly Financial Reporting form contains three reports:

- [Cash Balance Report](#) (CBR);
- [Quarterly Expenditure Report](#); and
- [Tax Report \(Tax Status Form – required annually\)](#).

The purpose of the Quarterly Financial Report is to provide the updated in-country cash balance for pre-selected country portfolios and supply information for the decision on the release of funds by the Global Fund. The regular information to be collected includes the:

- The Principal Recipient (PR) cash balances as per the CBR; and
- open advances at sub-recipient/procurement agent level as per the PR's accounting records.

This form is mandatory for pre-selected countries and organizations and at the discretion of the Global Fund for all other countries. For pre-selected countries, the form needs to be submitted no later than 30 days after the end of the Global Fund fiscal quarter cycle (e.g. if 31 March, the Quarterly Financial Reporting would be due on 30 April; if 30 June, it would be due on 31 July).

## Cash Balance Report

The purpose of the Cash Balance Report (CBR) is to provide the in-country cash balance and inform the decision on the release of funds by the Global Fund. The standard information to be collected includes:

- The Principal Recipient (PR) cash balance as per the Cash Balance Report;
- Open advances at Sub-recipient (SR) level as per the PR's accounting records; and
- PR's open obligations.

The CBR is prepared for each quarter (Q1- Q4) and is submitted by all countries no later than 30 days after the end of the quarter.

The CBR is generated directly from [Atlas](#) (UN Reports>IPSAS Reports>Global Fund Reports>Cash Balance Report). The main purposes of the reports are as follows:

- To fulfil the Global Fund's quarterly cash balance reporting requirement;
- To support Global Fund projects to substantiate the uncommitted and Progress Update/Disbursement Request (PU/DR) closing cash balances when reporting to the Global Fund; and
- To monitor cash balances.

With respect to the Global Fund reporting requirement, the CBR is generated by the UNDP Global Fund/Health Implementation Support Team. Country Offices (COs) confirm data and provide quarterly cash forecasts. The quarter is not financially closed at the time of submission to the Global Fund.

For internal UNDP use of the CBR, the following should be noted:

- The CBR is a modification of the Atlas Cost Sharing Deficit query.
- It is best used for closed periods. If a user is running the CBR for an open period, they should note that the commitments will not be reflected accurately. If a period is not yet closed, the CBR may not reflect all the transactions, and hence the cash balance is not final.
- The expenses and fund utilization sections of the CBR will reconcile with the amounts in the Global Fund Financial Report (GFFR) or International Public Sector Accounting Standards Combined Delivery Report (IPSAS CDR).

For detailed instructions, refer to:

- [Global Fund Guidelines for the Quarterly Financial Reporting](#) - I. Cash Balance Reporting
- [Quarterly Financial Report template](#)
- [Global Fund Quarterly Cash Balance Report \(CBR\) instruction note](#).
- [Quarterly Cash Forecasting tool](#)

## Quarterly Expenditure Report

The Quarterly Expenditure Report covers in-country expenditures and variance analysis against the approved activity plan and funding for Principal Recipients (PRs). The financial information reported should include the approved budget, expenditures and variance analysis by (a) cost grouping; (b) modules -interventions. The total budget and expenditure amounts across the two breakdowns should be the same.

The Quarterly Expenditure Report is mandatory for pre-selected countries and will apply to only three UNDP Country Offices (COs) that have active grants (Chad, Mali and South Sudan). The purpose of the quarterly expenditure reporting is to facilitate the analysis of the underlying issues for low absorption. The report is submitted for the first three quarters of the year (Q1 – Q3).

The expenditure report is structured similar to the Annual Financial Report (AFR)/Enhanced Financial Report (EFR) and requires reporting on the “Year to Date” approved budget, expenditures and variance analysis by cost grouping and modules. The report also includes a section to provide the cash forecasts for the next quarter and the remainder of the year. Each year, three quarterly expenditure reports are prepared by pre-selected countries. For the fourth quarter, a Progress Update/Disbursement Request (PU/DR) is completed instead. COs should submit the Quarterly Expenditure Report directly to the Global Fund and copy the UNDP Global Fund/Health Implementation Support Team.

For detailed instructions, refer to:

- [Global Fund Guidelines for the Quarterly Financial Reporting](#) - II. Quarterly Expenditure Reporting
- [Quarterly Financial Report template](#)
- [Global Fund Quarterly Expenditure Reporting instruction note](#)
- [Quarterly Expenditure Reporting template](#)

## 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 Grant Closure)
- [POPP Financial Closure of Development Projects](#)
- [POPP Programmes and Projects Closing a Project](#)
- [OnDemand Programme Profile Closing a Project](#)

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 deactivated 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.

## 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 agreement 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 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. 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, 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 following reports:

**Programmatic Progress Report:** The PR should submit 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).

**Annual Financial Report (AFR):** The PR should submit AFR(s) for the constituent grant(s) covering the period from the last submitted AFR up to the last day before the new grant start date, no later than 60 days after the end of the reporting period agreed for the constituent grant(s).

**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 Financial Resources Management (OFRM).

**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.

## 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 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 time-frame. 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 (OFRM).
  - 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.

- **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. Documentation of grant closure with Global Fund grant closure letter.

## 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 Atlas (Awards > Project > Project Status) will be set to 'Operationally Closed' ("C" in Atlas) 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 be checked as YES. The "Approved" 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.

## 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 the POPP and in accordance with the [“Transfer of Title from UNDP” form](#).
  - Refer to the UNDP Global Fund/Health Implementation Support Team [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 4.5 Disposals.
    - [POPP Asset Management - Disposal and Write-Off](#).
    - [Asset Management Atlas User Guide](#) - How to register sale proceeds when an asset is disposed of by means of sale.
    - [OnDemand Asset Management](#).
  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 Atlas (Atlas General Ledger) have been cleared (zero balance). For advice, contact OFRM/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 a 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. The unpaid vouchers can be identified using the query: UN\_AP\_DTL\_UNPAID\_VCHRS\_BY\_PROJ\*\*. \*\*For the unpaid vouchers, determine if these are duplicate vouchers which should be deleted or vouchers that should be paid. Prepayment settlement vouchers captured by this query should be ignored.
    - 21020 (Other Accounts Payable). System generated balances are dealt by OFRM.
  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/Health Implementation Support Team 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 Atlas is set to 'Financially Closed' (Awards>Project>Project Status - "F" in Atlas). Once a project is marked financially closed, Atlas will prevent all further transactions against the project.

After all Atlas projects (Outputs) are financially closed, the associated Award should be marked "Closed" in Atlas as well (Awards>Award Profile: Status).

Refer to [POPP Financial Closure of Development Projects](#).

## 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.

The Global Fund is currently updating its Guidelines for CCM Funding. **Please consult with the UNDP Global Fund/Health Implementation Support Team for guidance on budgeting and eligible costs for CCM funding.**