Guidance Note

**Terms of Reference for Local Fund Agent (LFA) Funds Flow Adequacy Review**

**Background and Purpose**

1. In line with the Combined Assurance Approach to fulfill the country- or grant-specific information needs and risk management requirements of the Global Fund, LFA provides independent assessment and verification services through risk-based approaches at various stages of grant implementation. One of such services is funds flow adequacy (FFA) review.
2. Funds flow refers to the manner, in which disbursements of cash resources are channeled from the Global Fund, through PR, to various grant implementers and/or beneficiaries for the execution of program activities, in accordance with grant agreements and the agreed implementation arrangement map.
3. Adequate flow of funds facilitates the achievement of management objectives, such as liquidity and efficient cash management, and improves the reliability of cash forecasting. It has the dual purpose of ensuring that funds are available where and when needed to cover payments, while also preventing funds from being drawn unreasonably far in advance or from being used for purposes other than payment of eligible expenditures of the program.
4. Hence, the FFA review represents an assurance activity in the Global Fund risk management cycle the outcome whereof complements grant/implementer capacity/risk assessments and informs the Country Team as to the required changes thereof and additional mitigation actions as needed.
5. The main goal of such review is to understand how funds have been or will be transmitted through the implementation arrangements landscape from the Global Fund to a PR, from the PR to SRs and on to other implementers and/or beneficiaries, what happens at each of the stages in this process, as well as to provide assurance that the program funds are not used by the implementers outside of the timelines agreed in the grant budget due to: inadequate implementation arrangements or bottlenecks in the flow of funds from the Principal Recipients to the SRs and other implementing partners, to end beneficiaries; due to external factors; and/or due to inadequate cash flow management by the Principal Recipient (or other implementers).
6. Review of FFA should preferably be carried out for new PRs, as a part of PR capacity assessment during grant making (and, for continuing PR[[1]](#footnote-1), in cases where implementation arrangements change) and is strongly recommended throughout program implementation especially when there are persistent delays with implementing program activities.

**Objectives of FFA Review**

1. FFA review is aimed at providing the Global Fund with assurance that implementers (e.g. PRs, SRs or sub-sub-recipients) do not use funds budgeted for the program outside of the timelines agreed in the grant budget due to inadequate implementation arrangements, various bottlenecks resulting from funds transfer delays between the PR and its sub-implementers, to beneficiaries because of external factors or, generally, due to inadequate cash flow management by any of the implementers.
2. Objectives of FFA review are to:
3. Assess whether the funds reach their intended recipients, i.e. implementers and/or beneficiaries of the program activities, in acceptable time;
4. Assess whether the funds transfer mechanisms used by the implementers are effective and secure;
5. Assess whether the PR’s and key SRs cash management procedures are adequate to release funds timely and accurately;
6. Identify weaknesses, bottlenecks and potential risks to the program implementation as these relate to the funds flow arrangements in place;
7. Provide to the Global Fund a set of recommendations on how such weaknesses, bottlenecks and risks could be most effectively resolved.

**Scope of Work**

|  |  |
| --- | --- |
| Grant to be reviewed: | *Standard name of the grant(s) concerned* |
| Principal Recipient: | *The name of the PR to be covered by FFA review* |
| Implementers: | *The names of the implementers to be covered by FFA review* |
| Geography: | *Specific geographic area(s) to be covered by the review* |
| Type of review: | *Specify whether the review is carried out ex-ante or ex-post* |
| Period covered by review: | *Where relevant, specific time period that was under the LFA scrutiny* |

1. In this assignment, the LFA is requested to undertake an assessment of the FFA in the grant program specified above across the following key aspects.

|  |
| --- |
| Banking and money transfer service providers |
| * Identify service providers used by the implementers in the Financial Services sector (such as banks and other money transfer mechanisms) critical to ensuring the smooth channeling of grant funds throughout all levels of implementation and confirm that the service of such providers is timely, economic and commensurate with the market offerings (e.g. currency exchange rates offered, fees charged, interest rate offered are in line with predominant market and/or central bank rates).
* In cases where the PR (or key SRs) makes use of proven technology to transfer funds for implementation[[2]](#footnote-2):
1. assess the adequacy and effectiveness of the decision-making process and authorization workflows used in such arrangements;
2. assess the level of automation and integration of such technology with the relevant implementer’s systems (e.g. with accounting, M&E, human resource and/or client management software systems);
3. verify if regular data quality checks, verifications and reconciliations are performed within and across the implementer’s systems and such technological solution.
 |
| Implementer’s systems and capacity |
| * Assess adequacy of the implementer(s) systems and processes as these relate to:

a) Tracing cash balances from the time of receipt of funds to deposit in the appropriate depository; b) Controls to ensure that disbursements are made only for the intended purposes; c) Controls to ensure that payments are made for expenses that have been actually incurred; d) Controls to ensure that payments go to the rightful recipients (assess it for different recipients: other implementers, suppliers, trainees, health workers, etc.); e) Controls over maintenance of adequate accounting records for cash receipts, disbursements and advances;f) Making use of proven technology for improving cash management and funds flow arrangements, such as electronic fund transfers, mobile money and other non-cash payment mechanisms;g) Capacity of the implementer to oversee the use of such technology, as well as the capacity of the provider thereof to adequately process transactions considering the size, scope and scale of the program.* Confirm that the implementer(s) have an adequate system to forecast cash requirements accurately and in a timely manner (at least on a quarterly basis), track and plan the timing and amount of the cash needed especially when it comes to activities/interventions that are co-funded from different sources (e.g. the Global Fund, government, other donors), as well as for third-party payments made directly by the GF on behalf of the PR.
 |
| End-to-end flow of funds throughout the implementation landscape |
| * Identify the types of funds flow arrangements used by the implementer, flag those representing high risk (e.g. physical withdrawal of cash and its further transportation and distribution to the end beneficiaries) and propose suitable for the purpose and realistically implementable mitigation actions aimed at:

a) Increasing funds flow transparency and traceability;b) Reducing the possibility of fraud and lengthy distribution cascade;c) Achieving cost savings and improving funds flow efficiency;d) Facilitating reconciliation procedures and improving accountability.* Where such high-risk arrangements are identified, apart from the mitigating actions, consider and recommend alternative approaches that could be possibly implemented in the country/implementer’s context, particularly those that make use of the latest technological innovations (e.g. automated systems, electronic and mobile payments, artificial intelligence etc.).
 |
| Cost-efficiency, effectiveness and timeliness of the funds flow arrangements |
| * Confirm that the funds flow arrangements are cost-efficient, effective and minimally disruptive to the program implementation and that the implementer(s) system of internal control mitigates the fiduciary risk and is efficient in ensuring adequate and timely absorption of grant funds. Particular attention should be paid to the mix of different types of entities within the program implementation structure (e.g. government, non-profits, international or private sector organizations etc.), and whether and how such a mix affects the flow of funds.
 |
| Outsourcing to third parties |
| * Identify if the implementer outsources to a third party (e.g. a fiduciary or payment procurement agent[[3]](#footnote-3)) any of its key organizational functions related to funds flow management and, where this is the case, confirm that:
1. such arrangements are duly authorized (e.g. by the Global Fund or Principal Recipient in the case of Sub-Recipients, as applicable);
2. the service provider performing such outsourced functions has adequate experience and capacity;
3. the implementer ensures safeguarding of the grant fund, regularly assesses performance of and provides feedback to such service provider and that issues/risks, if any, are duly and timely addressed by the latter.
 |
| Consistency of actual implementation arrangements with those approved |
| * Verify that the funds flow arrangements that are in place are correctly captured in the implementation map submitted by the implementer to the Global Fund and, if there have been any changes, that these have been duly reviewed, pre-agreed with and approved by the Global Fund.
 |
| Prior issues, risks and adequacy of mitigating actions |
| * Confirm by surveying prior reports and findings (e.g. statutory or grant-specific audit reports, prior period PUDRs or other reports relevant to the PR and the implementation arrangements in place) if any of the current funds flow arrangements resulted in insecure, inefficient, untraceable instances, as well as the nature and adequacy of the corrective measures taken by the implementer;
 |

1. In completing this assignment, the LFA is expected to identify critical FFA issues, draw conclusive findings and make actionable recommendations to improve FFA and generally implementation arrangements of the program under review, which may include but is not limited to:

a) Correcting weaknesses;

b) Improving business processes and practices;

c) Changing process steps sequence and/or timelines;

d) Improving performance and efficiency;

e) Improving decision-making process;

f) Changing approach to the operations and/or implementation;

g) Introducing an alternative payment mechanism (such as a cashless or digital payment system e.g. mobile money).

1. LFA should also report to the Global Fund on specific other areas of concern, instances of non-compliance or possible irregularities which LFA may have come across during the FFA review.

**Report and Recommendations**

1. A report should be compiled exploring main aspects of FFA reviewed where the LFA should strive to provide a holistic analysis of the findings, which takes into consideration all relevant financial and non-financial aspects and risks.
2. The LFA report shall describe the purpose, nature and scope of the assignment in sufficient detail so as to provide an appropriate basis for information included and to allow the readers of the report to understand the work done. The report shall outline the background and context, objectives, scope of work, sources of information and supporting documentation, main findings, LFA recommendations and conclusions. The statements shall be based on the work done taking note of instances where supporting information/documents were not made available by the implementer (which thus may have prevented the LFA to draw reasonable conclusions on certain matters). The LFA will need to consider to what extent this would have an impact on the objectives of the assessment.
3. Reporting findings and observations, the LFA shall make sure to provide a brief and concise description and analysis of issues and/or risks identified, be clear on the context and possible root causes of the issues providing relevant background information where necessary (and at the same time without overloading the report with unnecessary or irrelevant details).
4. Findings and recommendations in the report shall be prioritized as outlined in Annex 1, findings shall be sufficiently elaborate, unambiguous and conclusive, while recommendations – specific, contextualized, actionable and realistically achievable. The LFA should also recommend an adequate timeframe for the implementation of each recommendation. A standard indicative format of the report is presented in Annex 1.

**ANNEX 1. ILLUSTRATIVE FFA REVIEW REPORT**

**1. Background**

* Overall objectives of the FFA review as per approved TOR
* List of the reviewed implementers, geographic regions covered and other relevant background information:

|  |  |  |  |
| --- | --- | --- | --- |
| **Grant:** | *Standard name of the grant(s) concerned* | **Principal Recipient:** | *The name of the PR reviewed* |
| **Implementers:** | *The names of the implementers reviewed* |
| **Trigger(s):** | *Reason(s) for selecting this particular program, implementer, intervention or activity, as well as specific areas LFA focused on their review (if any)* |
| **Type of review:** | *Whether the review was done ex-ante (pre-implementation) or ex-post (during the implementation).* | **Locations visited:** | *Specific location(s) of the implementer that were visited during the assessment* |
| **Geographic area covered by the review:** | *Specific geographic area covered by the reviewed program, implementer, intervention or activity* | **Period covered by review:** | *Where relevant, specific time period that was under the LFA scrutiny*  |
| **Assessed by:** | *Name of the LFA specialist(s) who undertook the assessment* | **Assessment date:** | *Date(s) on which the spot-check of the implementer took place* |

**2. Methodology/approach**

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

**3. Findings and recommendations**

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

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

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Findings** | **Implications** | **LFA Recommendations** | **Benefits** | **Management’s Comments (if any)** |
| HIGH PRIORITY (GRADE I) |
| 1 | *The condition or issue presently resulting from non-compliance with the assessment criteria. Where possible, the reason(s) and/or the rationale for the identified non-compliance to the criteria or factors contributing to the finding should be also stated.* | *The effect of the finding on the implementation of the program from both, the financial and non-financial perspectives.* | *Practical and specific recommendations relevant to the finding; these should be aimed at eliminating or reducing to an acceptable level the stated implications of the finding to such an extent that there is no negative material impact on program implementation.* | *The advantages of implementing the stated recommendations from both, the financial and non-financial perspectives.* | *During an LFA de-brief following the review, implementers may provide some comments on LFA findings stating whether or not they agree or disagree, the reasons thereof or provide some background information allowing to better understand the issue. LFA should document such responses and, where relevant, report these to the Global Fund in this section to allow for better understanding of the context and nature of the issue.*  |
| 2 |  |  |  |  |  |
| MEDIUM PRIORITY (GRADE II) |
| 3 |  |  |  |  |  |
| 4 |  |  |  |  |  |
| LOW PRIORITY (GRADE III) |
| 5 |  |  |  |  |  |
| 6 |  |  |  |  |  |

**5. Individuals Interviewed**

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

**6. Documents Reviewed**

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

**Illustrative work-plan of the assignment**

For each individual FFA review assignment, the Country Team should discuss and agree with the LFA specific work-plan activities, level of effort, timing etc., details whereof may be different from the example below.

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

1. Having undergone such assessment previously [↑](#footnote-ref-1)
2. Including arrangements for mass small cash payments through vouchers or other modes of cashless value transfer. [↑](#footnote-ref-2)
3. Refer to the Guidelines on Financial Risk Management for additional information about the role of fiduciary and payment agents in The Global Fund’s grants. [↑](#footnote-ref-3)