

Financial Guidelines for Unitaid Grant Implementers

14 October 2021

Contents

Purpose and scope.....	4
General Funding Principles	5
Budgeting.....	8
Budget Management	10
Financial Reporting	12
Disbursements	15
Financial Assurance.....	17
Financial Audits.....	20
Annex 1. Standard Expense Classification	23
Annex 2. Detailed Budget Guidance	24
Annex 3. Request for Reprogramming template.....	36
Annex 4. Financial Budget template.....	37
Annex 5. Financial Report and Disbursement Request template.....	38
Annex 6. Audit Terms of Reference template	39
Annex 7. Financial Risk Categories.....	40
Annex 8. Special Guidance on Nonfinancial Grant Assets	41

Purpose and scope

The *Financial Guidelines for Unitaid Grant Implementers* articulate key principles on cost eligibility, grant budgeting, financial reporting and disbursement, financial assurance, and nonfinancial grant assets. The purpose of this document is to clarify the financial requirements of Unitaid to develop and implement grants in a way to maximize their impacts.

These guidelines apply to all grants implemented by Unitaid and is intended for both lead implementers and their sub-implementing partners.

Nothing in these guidelines shall be construed in a way that would modify or waive any obligations under grant agreements. In the event of inconsistency between any statement in these guidelines and a grant agreement, the guidance provided in the grant agreement shall prevail.

General Funding Principles

1. **Unitaid project funding.** Unitaid project funding is the amount of funds committed by the Unitaid Executive Board at the end of the grant development stage, based on the original grant budget. It is used as a maximum funding threshold to plan for and finance Unitaid grant activities. In case the grant budget is updated during project implementation, the revised budget cannot exceed this ceiling. In case the revised budget during the implementation period is below the project funding ceiling, the difference remains reserved and earmarked to the grant until it ends.
2. **Eligible expenses.** Unitaid funds expenses that support the achievement of grant objectives as defined in the grant’s Project Plan and Logframe. Eligibility of expenses is determined based on the following four qualifying criteria:

Criteria	Description
Necessary	Grant expenses must be <i>necessary</i> for the successful implementation of project outputs and activities which will contribute to—and where otherwise excluded would jeopardize—the grantee’s ability to achieve the grant.
Incremental	Grant expenses must be <i>incremental</i> , and project driven. They would generally not be incurred by implementers if the project was not implemented.
Complementary	Grant expenses funded by Unitaid should be <i>complementary</i> to other funding sources and should not overlap with them, in part or in full. Implementers are requested to proactively inform Unitaid of any co-funding arrangements and confirm that there is no duplication of funding with other donor partners.
Reasonable	Grant expenses must be <i>reasonable</i> and well documented. They must be supported by relevant organizational policies and evidence to substantiate all cost assumptions (e.g. quotations from third-party suppliers). Unitaid expects each grantee to select the most cost-effective budgeting assumptions.

The above criteria should be considered and used at the time of preparing and revising grant budgets and apply to all expense groups outlined in Annex 1.

3. **Ineligible expenses.** Expenses that do not meet the above qualifying criteria, as well as expenses which are not incurred in compliance with principles set forth both in this document and in terms and conditions of the grant agreement, are considered ineligible and are not funded by Unitaid. This includes the following as examples:
 - Expenses incurred outside the grant’s scope;
 - Expenses incurred beyond the given budget flexibilities;
 - Expenses requiring approval by Unitaid through a formal reprogramming request (for more details see article 23);
 - Expenses already funded through other funding streams (e.g. activities paid for by another donor);
 - Financial loss due to wrongdoing;
 - Avoidable tax and import duty;

- Penalties and fines proceeding from non-compliance with applicable laws; and
 - Unsupported expenses (e.g. lacking sufficient documentation, missing or having inappropriate signatures/authorizations).
4. **Expense classification.** Unitaid provides funding for expenses which can be directly attributed to the project's outputs and activities as well as expenses that support the project indirectly. This includes a fair share of general administrative expenses associated to the running of head office administration of implementers and their sub-implementers. Unitaid uses a standard expense classification (Annex 1) which categorizes groups of expenses according to their type and nature.
5. **General administrative expenses.**
- *Definition.* General administrative expenses are expenses associated with the general running of the head office administration of the different consortium members, indirectly supporting the implementation of the Unitaid-funded project. Such expenses may sometimes be referred to as indirect expenses, overhead recovery expenses, or administrative recovery costs, for which definitions vary from one organization to another. For the sake of clarity, Unitaid defines general administrative expenses as expenses associated to head office corporate functions which support the entire operations (e.g. general management, human resources, finance, accounting, corporate legal, risk management, internal audit) as well as expenses linked to the general running of headquarter infrastructures (e.g. facility, information systems).
 - *Funding thresholds for general administrative expenses.* Unitaid agrees to fund a share of general administrative expenses and has established a funding level of up to the maximum level of 13%. This is calculated based on project expenses, excluding: (1) health commodities and equipment and (2) other significant pass-through costs¹. For both of these expense items, the (up to) 13% rate can be claimed only on the first US\$ 500,000, and then a reduced 2% rate applies to the remaining part, within a maximum combined limit of US\$ 200,000 for both categories for the full grant duration.
 - *Sub-implementers.* Where projects are implemented through a consortium of implementing partners, Unitaid accepts general administrative expenses of both the lead implementers and the sub-implementer(s). However, in case general administrative expenses are already budgeted in the sub-implementers' budgets, the lead implementers cannot include the sub-implementers' budgets in the calculation basis of its general administrative expenses, and therefore cannot claim any funding from Unitaid for pass-through costs.
 - *Transparency.* When preparing their grant budgets, implementers should transparently provide information regarding their internal policy for recovering general administrative expenses or the like (e.g. indirect expenses, overhead recovery costs, administrative recovery costs), including assumptions and calculation methods for pre-calculated recovery rates when used. Implementers are expected to include the general administrative expenses as per their organizational policy and *not* to increase their applicable recovery rates up to the Unitaid established ceiling. In the case where:

¹ Pass-through costs relate to sub-grants and subcontracts where services or products delivery payment are directly procured from and passed to a third party; they generally do not involve general administrative expenses and the management of such sub implementer and subcontracts is expected to be managed by the grant implementer's project team.

- The implementers do not have any policy (or the like formal document), they cannot charge general administrative expenses to the Unitaid grant; and
 - The implementers' current policy is above the maximum calculated rate, the Unitaid maximum should be applied.
 - *Important exclusions.* As part of its funding, Unitaid does not fund any expenses linked to fundraising, marketing and advocacy, and lobbying activities. Such categories should therefore be excluded from the calculation basis of general administrative expenses.
6. **Co-funding.** Co-funding is funding secured from other funders in addition to Unitaid project funding to accomplish the project outputs. Where co-funding is agreed, these expenses will be defined as “shared costs” on the basis that they can be allocated to two or more funding sources. In agreement with the co-funders, such costs should be:
- Included in the approved grant budget;
 - In line with the funding eligibility criteria;
 - Supported by a clear apportionment method as per the budget assumptions; and
 - Verifiable and auditable.
7. **Project income.** Grant funding should include not only expenses for funding programmatic activities but should also consider any relevant income generated through activities and/or through project assets (these include but are not limited to interest earned and revenues derived from the sale of nonfinancial grant assets). Any project income should be reported to Unitaid using the financial reports and cannot be used to fund project activities unless agreed to by Unitaid.
8. **Nonfinancial grant assets.** Unitaid defines nonfinancial (or non-cash) grant assets as tangible items with physical substance. Nonfinancial assets can be acquired by Unitaid implementers (or their sub-implementers) with Unitaid funds, and eventually used as resources for implementation of project activities. For specific guidance on nonfinancial grant assets, please refer to Annex 8.

Budgeting

9. **Unitaid grant budget.** The grant budget is an integral part of the Unitaid grant agreement and represents a costed activity plan for the Unitaid project implementation. It is primarily used to allocate financial resources to programmatic activities over the grant period. It also provides a basis for assessing and analyzing the financial performance of the grant and comparing it with programmatic performance, throughout project implementation until grant closure.
10. **Structure of the budget and template.** Grant budgets capture financial resources required by the project and are primarily categorized across:
 - The key programmatic attributes of the project (e.g. outputs and activities, years, countries, partners); and
 - Expense categories as outlined in the Unitaid expense classification.

An Excel-based budget template is provided by Unitaid. Budgets can be submitted in other formats on an exceptional basis if agreed in advance with Unitaid.
11. **Standard expense classification.** Unitaid has established a standard list of expense groups to harmonize budgeting practices across its portfolio of investments. Implementers should use this classification when preparing budgets. Unitaid acknowledges that it might be necessary to adapt the standard expense classification for some grants. The standard expense classification currently in use can be found in Annex 1.
12. **Output budget.** In general, project expenses should be consistently allocated to programmatic outputs to make a realistic estimate of programmatic output delivery versus costs required. In instances where expenses cannot be attributed to a given programmatic output (e.g. general administrative expenses or cross-cutting staff positions), such expenses are budgeted for the Grant Management output, which is used as a transversal pool of expenses.
13. **Budgeting process.** The budgeting process for Unitaid grants is an iterative process whereby implementers submit and adjust their budget based on Unitaid's feedback until a final budget is agreed upon. The successive iterations aim to make a clear assessment and final determination of the right-sized level of financial resources required to implement the project. Unitaid provides feedback in writing and through virtual and in-person meetings. Unitaid may also use external service providers to support and review the project budget. Implementers should dedicate a financial focal point to provide support in the development and management of the grant budget.
14. **Budget granularity.** Unitaid grants are innovative and their implementation can be influenced by a variety of evolving factors, making it difficult to accurately predict activities and related expenses for a longer time horizon. To facilitate the grant budget planning, and where relevant, Unitaid accepts a detailed budget for the forthcoming 12 months, and higher-level budgets for periods beyond the forthcoming 12 months if the major cost drivers and main cost assumptions are explained. However, Unitaid does not accept unexplained lumps sums or buffers.
15. **Budget assumptions.** Implementers should develop clear budgetary assumptions for main cost items and provide a clear trail of the cost build-up from the budget calculations to the supporting narratives. Some cost-driving assumptions may be directly linked to the scale and scope of activities as described in the Project Plan or the project Logframe; in such cases, clear

linkages as well as rationales should be documented, including when similar assumptions cut across multiple activities. Application of assumed inflation or foreign exchange rates should be also outlined in the narratives and based on best estimates from trusted sources.

16. **Budget currency.** Unitaid grant budgeting and reporting currency is the United States dollar (US dollar). In case implementers choose to prepare the grant budget using a different currency, the budget should be converted using a 6-monthly average rate from a trusted source (e.g. Central Bank or Oanda). Implementers are expected to share exchange rates as part of the budget process. No reserve for exchange rate variations estimated based on hypothetical rates can be included in the budget and will be treated as ineligible costs.
17. **Budget guidance.** Detailed budget guidance is provided by expense group in Annex 2, including additional information on budgeting rules depending on the type of financial resources required by the project.
18. **First-year budget.** During the grant agreement stage, Unitaid works with lead implementers to identify the most realistic critical path to project implementation and determine realistic budget and planning assumptions to maximize programmatic implementation and budget execution. As part of the preparation of the grant budget, specific attention should be given to the first year of implementation of the grant, during which groundwork and pre-implementation activities may need to be carried out before, or as pre-condition to, the full project implementation. All preparatory activities should be identified as part of the project planning, and financially resourced as part of the grant budget before it is approved by the Unitaid Executive Board. In general, preparatory activities would span across maximum six months of the first year and the associated costs should remain limited by nature and scope of activities required. In some cases, a preparatory phase may be formally introduced alongside go-no go decision points, as part of the project milestones.
19. **Closure budget.** Limited grant funds may be allocated to grant closure activities after the grant end date. Implementers should submit a list of expenses required for such closure activities as a part of the final-year budget and should follow the guidance below:
 - The closure budget has to be included within the grant funding ceiling;
 - Closure activities should be concluded within the maximum of four months after the end of the grant agreement;
 - Closure activities eligible for funding are limited to (1) programmatic and financial report preparation, (2) organization and follow-up of the final financial audit, and (3) any follow-up required to bring the grant to an administrative close; and
 - The closure budget should typically include limited staff, publications, travel budgets, and a proportional share of general administrative expenses.

In exceptional cases, Unitaid may also allow discrete and time-limited programmatic costs to wrap up project activities, communications and publications events, or late-stage dissemination of results. Such exceptions must be discussed and agreed upon in advance with Unitaid.

Budget Management

20. **Budget implementation oversight.** Unitaid relies on implementers' financial management and fiduciary systems to provide rigorous and systematic financial control on budget implementation, to eventually ensure that:

- Grant financial information shared with Unitaid is reliable and representative of the financial situation of the grants, especially against the programmatic development and achievements; and
- Reported expenses to Unitaid are eligible for funding per the principles and requirements outlined in these *Financial Guidelines* and in compliance with the grant agreement.

Budget implementation oversight by lead implementers is an important feature of the financial assurance systems surrounding the Unitaid grant (read the Financial assurance chapter of these Financial guidelines for complementary information) and is exercised at regular points in time during the grant implementation, through (1) reviews of periodic financial reports, (2) annual budget revisions, (3) monitoring visits to country offices/sites, and (4) annual financial audits and verifications.

21. **Lead implementers' role.** When a project is implemented through a consortium of multiple implementing partners, all consortium members must adhere to Unitaid's financial management principles and fiduciary requirements as set forth in these *Financial Guidelines*, including in terms of budget management and oversight. The lead implementer is responsible to ensure that all other implementing partners comply with these requirements.

22. **Budget flexibilities.** Projects funded by Unitaid require certain flexibilities to respond to the changing circumstances as they arise, necessitating real-time decisions regarding change in financial resources. For this purpose, Unitaid implementers have the flexibility to reallocate 25% of the annual expense group budgets from one group to another without the prior consent of Unitaid, assuming such budgetary reallocation do not underpin any major reprogramming of the grant activities. In this respect:

- Such budgetary flexibilities do not apply to financial reallocation towards general administrative expenses, which remains capped according to the Unitaid funding approach as described in Article 5;
- Budget guidance (detailed in Annex 2) continues to apply to reallocated budgets; and
- In case budget flexibilities are exceeded, Unitaid reserves the right to disallow the resulting overspends. Unitaid withholds the right to reduce or revoke flexibilities if the implementer fails to meet the requirements as set forth in this document.

23. **Major reprogramming.** In case a major programmatic change is envisaged, a reprogramming request (Annex 3 – Request for reprogramming) should be sent to the Unitaid project team for discussion and approval. Major programmatic changes include, but are not limited to, the following:

- Material change to the project's strategic intent;
- Change in the project goals, outcome, outputs;
- Change in the project countries;
- Change in indicators or targets of the Logframe; and/or

- Addition/removal of activity.

The Unitaid project team reviews, assesses and approves or rejects requests for reprogramming. Based on the relative materiality of the requested changes, the Unitaid project team will also subsequently request to either amend the grant agreement or keep a record of the approved changes for inclusion in a future amendment. In the latter case, reference to the approved changes should be included in the variance analysis of subsequent financial reports.

24. **Budget revision.** Unitaid grant budgets are generally revised annually to ensure continued relevance of the budgets to planned programmatic implementation. The budget revision focuses on the following year's budget and articulates financial resources required to implement planned activities for the forthcoming year. This includes any carryforward of previous years' budgets for delayed or postponed activities. While grant budgets are generally revised during the last quarter of the year, Unitaid expects all projects to have an approved budget for the year by the end of the first quarter at the latest. Outside of this annual revision, grant budgets can also be revised at during the year when required (e.g. in the context of a major reprogramming).

Financial Reporting

25. **Approach to financial reporting.** Unitaid grants are generally subject to semi-annual (January-June) and annual (January-December) reporting cycles. Depending on the grant start and end dates, the first and/or the last reporting periods may be shorter or longer than six months. Financial report due dates are indicated in the grant agreement and reports are generally due within 45 to 60 days after the reporting period end date.
26. **Financial reporting template.** Unitaid financial reports mainly include financial information on both the fund movements and budget implementation, both for the current year and cumulatively. Grant financial reports are used by Unitaid project teams to assess grant budget implementation as compared to programmatic implementation.

Excel-based financial report templates are provided by Unitaid for both semi-annual and annual reporting, noting semi-annual reports have lighter reporting requirements. Implementers must prepare financial reports using these templates and submit them to Unitaid alongside the programmatic reports.

Financial reports also capture complementary information used for tracking purposes on other financial aspects of the grant (e.g. financial audits, non-financial grant assets, incidents of wrongdoing or loss).
27. **Accounting and financial reporting standards.** Unitaid acknowledges that grant financial reports are derived from the accounting and reporting systems of its implementers, who are responsible for reconciliations and traceability of financial transactions between their own systems and Unitaid financial reports. Accounting methods and principles used by implementers should be compliant with relevant and applicable accounting standards and should be consistent through-out the grant implementation periods, and the basis for grant accounting should be disclosed in the grant financial report. The accrual basis of accounting method is preferred by Unitaid as it is more commonly used and gives a more realistic picture of the financial situation of grant. Cash (or modified cash) basis of accounting methods are acceptable if the implementers' own organizational policies mandate it.
28. **Financial reporting currency.** The financial reporting currency for Unitaid grants is the US dollar. For expenses not denominated in US dollars, implementers should convert them to US dollars using an average foreign exchange rate from a reliable source, calculated over the relevant reporting period. Rates used for financial reporting purposes should be disclosed in the financial report. In case different foreign exchange conversion methods are used, such methods should be communicated to Unitaid during the grant development stage. In the case where an implementer operates in multi-currencies, the implementer must include a table listing the currencies and the rate they used for the reporting. Unitaid may ask auditors to review foreign exchange conversions as part of the annual financial audit.

29. **Financial reporting process.** The financial reporting process is summarized as follows:

Steps	Description
Period end closing and financial consolidation	While preparing the grant financial report, implementers are expected to maintain a robust period-end closing process so that reliable financial information is gathered and reviewed before it is used for reporting to Unitaid. In the case of a consortium, the lead implementer consolidates financial reports from all sub-implementers and reviews them to ensure the Unitaid financial report can be reconciled with the sum of individual reports.
Report preparation	When editing financial reports, budget entries should be based on the last budget as approved by Unitaid at the beginning of the report period. Actual expenses reported should be reflective of all eligible project expenses incurred during the reporting period. Complementary information of the report (e.g. financial audit, wrongdoing and loss incidents) should be updated as well to reflect latest status updates.
Report verification before submission	Before a report is submitted to Unitaid, checks and balances should be performed across all tables to ensure there is no unreconciled items. Once complete, the financial focal person should sign off on the financial report before it is sent to Unitaid per the reporting schedule.
Report review by Unitaid	Upon receipt of the financial report, Unitaid project teams review the report alongside other grant reports to assess both the accuracy and reliability of the reported financial information, and the overall financial performance of the grant with regards to the programmatic progress. In case financial information submitted to Unitaid is substandard, Unitaid requests correction and resubmission of the financial report. Unitaid provides written feedback to the implementer and may request the implementer to provide additional information or clarification when necessary. Upon satisfactory review, Unitaid accepts the financial report.

30. **Budget variance analysis.** Financial reports capture the budget-to-actual variance analysis. Implementers are expected to provide a clear explanation of the main variances and interpret their underpinning reasons before sharing their report with Unitaid. This process is to ensure both Unitaid and its implementers share a common and combined understanding of the grant’s financial and programmatic implementation. When documenting their budget variance analysis, implementers should note that:

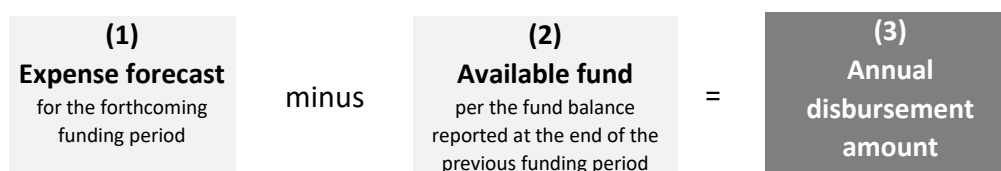
- All significant variances (25% or more, underspend or overspend) incurred at expense group level should be explained in the financial report as minimum. For variances below 25% (in cases where US dollar values are material with regards to the annual budget values), implementers should also provide explanations. Budget variances incurred at output level should be provided in the narrative report with a view to complementing the broader programmatic and financial implementation analysis.
- Simple, yet clear, explanations should be provided to explain such variances and articulate them against their main drivers (e.g. an activity was added, deferred or dropped; significant change in the foreign exchange rates since the last budget revision).
- Where variances are linked to implementation delays resulting in budget underspend, implementers should explain whether they expect to catch up on such delays during subsequent periods, or request dropping or reprogramming the delayed activity.

- When variances are materializing as a result of reprogramming previously approved by Unitaid, reference to Unitaid’s prior approval should be made.
31. **Expenditure verifications.** As part of the review of the budget implementation and its routine expenditure verifications, Unitaid may ask implementers to provide additional information supporting financial reports, such as transactions listing.
 32. **Audit of financial reports.** Annual financial reports are subject to financial audits. Grant audit guidelines can be found in the *Financial Audits* chapter of these Guidelines.

Disbursements

33. **Approach to disbursement.** Unitaid disburses funds based on forecasts of expenses and activities submitted by implementers and reviewed by Unitaid. The amount disbursed is calculated, and adjusted, based on both past financial and programmatic performance and implementers' available cash balances.
34. **Disbursement cycle.** Implementers submit an annual disbursement request covering their financial needs for the forthcoming year, based on a forecast of grant activities. The requests are sent to Unitaid alongside annual reporting packages at the beginning of every year. Requests are then reviewed by, and discussed with, Unitaid before a disbursement is released for payment. Disbursements may be executed in either one or multiple tranches, based on Unitaid's judgement of the grant risk profile and the size of the disbursement. When multiple tranches of payment are scheduled:
- The first tranche payment covers funding requirements up until the second tranche is released, to ensure there is no funding gap; and
 - Subsequent payments are executed based on the originally approved annual disbursement decision but may be adjusted based on semi-annual reporting information received (such as an updated cash balance or expense forecast).
- Unscheduled requests for disbursements are considered by Unitaid on a case-by-case basis. In exceptional, agreed-upon circumstances, funds can also be made available to implementers on a reimbursement basis.

35. **Disbursement amounts.** Annual disbursement amounts are calculated as follows:



- (1)** The standard funding period covered by disbursement requests and reflected in the expense forecast is twelve months, plus an additional buffer of four months to cover grant expenses until the next disbursement is processed. The annual budget is used as basis to determine the 12-month expense forecast.
- (2)** The fund balance remaining at the end of the last reporting period, and reported to Unitaid, is deducted from the final disbursement amount.
- (3)** The disbursement amount is calculated for the full funding period and payment can be executed in one or multiple tranches, noting the cumulative amount of disbursements through the life of the grant cannot exceed the grant's overall funding ceiling.
36. **Disbursement currency.** Disbursements are executed in US dollars. Unitaid may consider transferring funds to implementers in a different currency only on an exceptional basis.
37. **Bank accounts.** Funds disbursed by Unitaid are transferred to the bank account designated by the implementer. Unitaid expects that the account is in US dollars. Bank account details should

be communicated to Unitaid as a part of the grant development process to allow for timely disbursement of funds. In addition:

- Bank accounts should be held with financial institutions with strong credit ratings and it is the fiduciary responsibility of the lead implementers to ensure sub-implementers maintain similar standards;
- Unitaid does not formally require implementers to keep Unitaid funding under a unique bank account designated to fund Unitaid project activities. Unitaid strongly encourages lead implementers to do so, however, in order to ease traceability of transactions as well as any reconciliations; and
- Where possible, implementers should keep Unitaid funds on risk-free, interest-bearing bank accounts. Interest income earned should be reported in the appropriate sections of the Unitaid financial report and reflected in the project fund balance. Unitaid may conduct specific audit procedures on interest incomes as part of the annual grant audit.

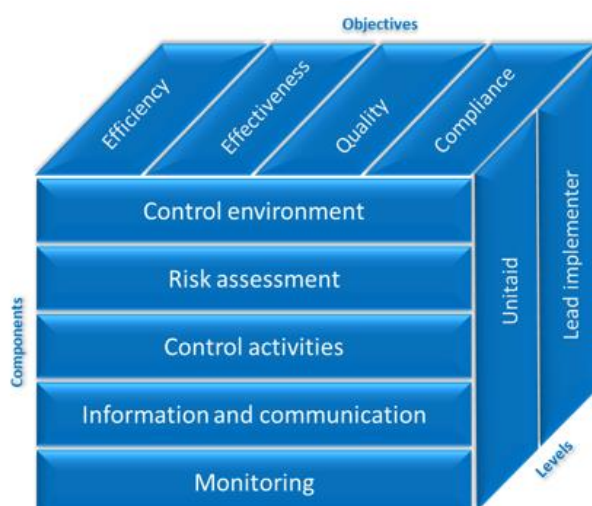
38. **Fund management.** During implementation and through to grant closure, implementers are expected to maintain robust financial controls and appropriate financial management structures to manage Unitaid projects. This includes fiduciary safeguards on Unitaid funding and prudent treasury and cash management approaches to minimize fiduciary risks. Note that:

- Unitaid funds cannot be used for non-Unitaid activities, even temporarily;
- In the case of a consortium, Unitaid funds should be held centrally with the lead implementer. Unitaid disburses funds to sub-implementers on an exceptional basis, and only if there is demonstrated financial capacity by the sub-implementer to manage funds;
- In the case where project expenditures reported in US dollars are incurred in currencies other than US dollars, implementers must closely monitor foreign exchange differences before they materialize in the project fund balance, and report on their cash and budgetary impact where relevant; and
- Budgetary gains from the exchange rate, as other project income, cannot be added to the funding ceiling to finance future project activities without approval from Unitaid. In the case of significant adverse movements in exchange rate the implementer should discuss with Unitaid the options to address the issue, as soon as possible.

39. **Periodic cash-to-fund reconciliations.** Unitaid expects implementers to organize periodic reconciliations between the US dollar fund balance as reported in the Unitaid financial reports and the cash balances as held by all consortium partners in their respective bank accounts and currencies. Such reconciliations, which will be subject to audit, will be requested from all implementers as part of their annual reports.

Financial Assurance

40. **Financial assurance.** Financial assurance is an integrated process that provides reasonable assurance on the management of financial risks. It is a shared process between Unitaid and its implementers. which eventually serves the following objectives:
- *Efficiency.* Unitaid grants seek to achieve value for money and efficient use of every dollar invested.
 - *Effectiveness.* Effective financial management, fiduciary safeguards and accountability standards are required to manage the Unitaid project funding.
 - *Quality.* Reliable, quality financial information is necessary to make relevant and informed decision.
 - *Compliance.* Unitaid grants are managed in compliance with terms and conditions of the grant agreement including with the present Financial guidelines.
41. **Unitaid’s approach.** Unitaid approach to financial assurance is inspired from the COSO internal control framework and can be represented by the following cube:



Where, the different control layers are defined as follows:

- The **Control environment** is the set of standards, processes, and structures that provide the basis for carrying out internal control. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. A sound financial control environment relies on the existence of a well-organized finance function and a robust finance leadership, a clear separation of duties and) appropriate policies and procedures on key fiduciary areas associated to grant finances;
- The **Risk assessment** is the process of identifying and assessing risks that would prevent the grant from achieving its objectives. Unitaid has established a list of standard financial and fiduciary risks to provide a comprehensive typology of risks applicable to its grants (Annex 7);
- The **Control activities** are the operational and routine actions in place to manage the risks (more detailed information can be found in the next article);

- The **Information and communication** component entails all systems and activities enabling the grant management teams to generate, collect, review, verify and report relevant financial information;
- The **Monitoring activities** include all oversight activities aiming at evaluating and strengthening the control environment, risk assessment, control activities and information and communication systems.

42. **Financial assurance activities operated by Unitaid.** Unitaid has established the below set of minimum control and assurance activities.

Stage	Minimum requirements	Purpose	
Grant development	Financial capacity assessment	<ul style="list-style-type: none"> • Evaluate the financial management capacity of grant applicants. • Build appropriate risk management plans. 	
	Financial arrangements for project implementation	<ul style="list-style-type: none"> • Validate the financial arrangements supporting the implementation of the project. • Ensure there are relevant mitigation plans for financial risks identified. 	
	Budget review	<ul style="list-style-type: none"> • Review budget and financial planning assumptions. • Ensure that financial resources requested are aligned and commensurate with the project plan and the overall grant objectives. 	
Grant implementation	Periodic financial reviews of grant budget	<ul style="list-style-type: none"> • Review annually financial plans together with revised underlying assumptions. • Update and realign the budget according to programmatic progress and updated project plans. 	
	Periodic financial reviews of financial reports	<ul style="list-style-type: none"> • Review financial reports and budget implementation against programmatic implementation and ensure the grant is on track to meet its objectives. 	
	Financial risk Assessment update	<ul style="list-style-type: none"> • Refresh and update prior risk assessments as well as risk management and assurance plans. 	
	Financial audit	<ul style="list-style-type: none"> • Seek independent, reasonable assurance audit opinion on the absence of material financial misstatement in the annual financial report. More information can be found in the <i>Financial Audit</i> chapter of this document. 	
	Risk-adjusted assurance	Project oversight and monitoring visits	<ul style="list-style-type: none"> • As part of the regular project oversight activities, Unitaid may conduct field monitoring visits. Such monitoring visit may include reviewing financial processes and controls as well as financial transactions.
		Targeted financial verifications	<ul style="list-style-type: none"> • If needed, conduct targeted financial verifications to gain additional assurance on specific areas, including the financial data and/or process related areas (control systems or financial processes).

43. **Implementers’ financial assurance system.** Unitaid relies on the experience, capacity and assurance systems of its implementers. To that end, Unitaid has established the following financial assurance requirements it expects of its implementers.

Assurance components	Requirements
Control environment	<ul style="list-style-type: none"> • Finance management leadership and operating style towards openness, honesty, integrity, and ethical behavior (“tone at the top”). • Well-organized finance function and robust finance responsibilities including vis à vis sub-implementers. • Clear assignment of authority and appropriate separation of duties. • Existence of appropriate work standards, processes and operating structures.
Risk assessment	<ul style="list-style-type: none"> • Regular, comprehensive financial and fiduciary risk assessment including vis à vis sub-implementers. • Up-to-date risk register specific to the Unitaid project and adequate risk management plans.
Control Activities	<ul style="list-style-type: none"> • Well-designed control activities mapped against clear and established project and financial management processes mitigating project risks.
Information and communication	<ul style="list-style-type: none"> • Well-functioning information and communication tools to generate, collect, review, verify and disseminate relevant financial information on a timely basis
Monitoring activities	<ul style="list-style-type: none"> • Monitoring and oversight mechanisms in place to evaluate effectiveness of key controls.

Financial Audits

44. **Annual financial audits.** Unitaid grants are subject to financial audits by independent auditing firms (the “grant auditor”). Financial audits take place on an annual basis and are expected to be launched no later than three months after the annual financial reports have been accepted by Unitaid – and no later than seven months after the final-year financial report has been accepted.
45. **Audit opinion.** Through the financial audit, Unitaid requires the grant auditor to issue a fair presentation audit opinion and confirm that:
 - Grant financial information as reported in the grant financial report have in all material respects been reported in compliance with Unitaid’s financial principles and requirements; and
 - Underlying transactions have been accounted for in compliance with both the terms and conditions of the grant agreement and applicable accounting standards and local laws.
46. **Auditing standards.** Grant audits are performed in accordance with the International Standards on Auditing (ISA) as published by the International Auditing and Assurance Standards Board (IAASB), with reference to ISA 805 “special considerations audits of single financial statements and specific elements, accounts or items of a financial statement.” The auditor is expected to issue an audit report together with a management letter.
47. **Complementary agreed-upon audit procedures.** In addition to the fair-presentation audit opinion, Unitaid generally requests that agreed-upon procedures (AUPs)² are conducted by the grant auditor. The auditor is expected to issue a report of factual findings together with the audit report.
48. **Selection criteria for the grant auditors.** The selected audit firm must meet the following requirements:
 - Be registered with a professional regulatory body and confirm that it can apply standards issued by the IAASB or equivalent;
 - Be eligible to practice as an external auditor and express audit opinions pursuant to the laws, rules and other requirements of the country(ies) where the grant is implemented;
 - Be independent and free from real or potential conflicts of interest with the grantee or any of its agents; and
 - Have demonstrably competent international presence and experience in examining non-profit organizations operating internationally.
49. **Selection of the grant auditor.**
 - The auditor must be selected on a competitive basis. Invitations should be sent to reputable international and national audit firms with relevant track records with international donors, ideally with offices in the country(ies) where the grant is being implemented.

² AUPs are defined by Unitaid and performed by the grant auditor in accordance with the IAASB’s International Standard on Related Services 4400.

- The implementer must select the proposal that is most technically sound and offers the best value for money. The term “best value for money” should be interpreted as a proposal for high-quality service with a price commensurate with that quality. The grantee must retain all tendering documents, as these may be requested by Unitaid at any time. Tendering documents must include the list of audit firms invited to bid, details of technical and financial bids received and a memorandum summarizing the selection process. Unitaid reserves the right to request re-tendering at any time.
 - The selected grant auditor, including audit firms already appointed by the grantee or its host organization, must be formally approved by Unitaid prior to engaging in any auditing work. Unitaid may approve the use of an existing or incumbent audit firm provided it meets the requirements of the present guidelines. Unless otherwise decided by Unitaid, the implementer is the commissioning party. The implementer signs the engagement letter and ensures that the final contracting documents comply with the present guidelines.
50. **Timing of selection and duration of appointment.** The implementer must select and appoint a grant auditor no later than three months after the grant signature date. Once selected, the auditor is retained for the duration of the grant if the audit firm’s performance is deemed satisfactory.
51. **Audit terms of reference.** To facilitate the selection process and audit arrangements, the implementer drafts terms of reference for the audit using the template appended to this document and used as guidance in the auditor selection process. These terms of reference must be approved by Unitaid before any engagement letter is effectively signed with the selected auditor. A copy of the engagement letter should be shared with Unitaid before the audit commences.
52. **Audit locations.** In order to obtain appropriate evidence, the audit may include or combine, both field visits and desk review work, depending on the scope of project activities.
53. **Subcontracted audit.** Should any part of the audit work be contracted out to another audit firm, the appointed auditor shall act as a lead auditor and shall be expected to guide and consolidate the audit work and the audit outcomes, and shall remain fully accountable for the required deliverables, the overall achievement of the audit objectives, and the consolidated audit opinions and findings. Before the audit commences, the lead auditor shall provide to the grantee and Unitaid a schedule capturing the selected audit subcontractors and shall ensure that such subcontractors comply with the requirements of the audit terms of reference. It should be noted that any subcontracted audit firms shall be appointed on the same basis as the lead auditor.
54. **Access to audit information.** The auditor is given unrestricted access to books and records supporting preparation and review of the grant financial report. Audit reports are shared with both the grantee and Unitaid as a donor.
55. **Auditor’s performance.** The auditor is expected to perform against the highest quality and ethics standards as mandated by the relevant auditing standards. Should there be any evidence that the auditor has not performed its duty in a fully independent and professional manner or, should the audit quality not meet requirements as set out in the present guidelines, a decision to terminate the contract may be taken by the implementer. The implementer should however notify Unitaid of its intention to terminate the contract with the auditor and should receive written approval from Unitaid prior to termination.

56. **Audit fees.** Audit fees are charged to the project budget and should be provisioned in the project budgets at the time of their development. The implementer should request a detailed invoice from the auditor indicating the total number of days as well as the US\$ value for the financial audit and the AUPs performed.
57. **Audit-related roles and responsibilities.**
- *Implementers* (and lead implementers in the context of consortium) are responsible for planning, facilitating and managing audits in coordination with Unitaid. More specifically, they are responsible for:
 - Sourcing, contracting and signing an engagement letter with the auditor based on the terms of reference agreed with Unitaid;
 - Ensuring smooth execution of the audit and providing unrestricted access to information requested by the auditor; and
 - Following up on audit findings and recommendations until full resolution throughout the grant lifetime.
 - The *grant auditor* is responsible for issuing the required audit deliverables in accordance with the approved terms of reference. This includes:
 - Proposing, adapting and finalizing with the grantee its audit strategy and plan; and
 - Conducting the audit and issuing the final audit opinion and management letter.
58. **Audit strategy and scope.** The auditor’s strategy must be agreed upon with Unitaid in terms of geographical scope and coverage before the audit commences. Appropriate disclosure notes should be added to the audit reports, if relevant, to reflect important matters of the audit strategy and present the retained audit scope and coverage. It is expected that the auditor will inform the grantee and Unitaid about any exclusions or scope limitations associated to the audit strategy.

The auditor will report on any attempt by the grantee to restrict the scope of the audit or any lack of cooperation. The auditor will consult with Unitaid on any action required, whether or how the audit can be continued, and whether changes in either the audit scope or timelines are necessary.

In case the grant includes sub-awards to sub implementers, the auditor is expected to include sub implementers expenses as part of the overall scope.

Annex 1. Standard Expense Classification

Expense groups	Expense types	
Project expenses		
Health commodities and health equipment	<ul style="list-style-type: none"> Medicines Reagents Consumables Other health products Diagnostics equipment Other health equipment Equipment maintenance and service 	
Procurement and supply chain	<ul style="list-style-type: none"> Procurement agent and handling fees Freight and insurance Quality assurance and controls Customs duties and clearance Warehouse and storage In-country distribution Other procurement and supply chain expenses Product regulation related expenses 	
Travel related	<ul style="list-style-type: none"> Transportation Per diem Meeting venues expenses Other travel related expenses 	<ul style="list-style-type: none"> Trainings related Technical assistance and capacity building related Monitoring and evaluation related Project supervision/consortium oversight related Meetings and advocacy workshops related
External professional services	<ul style="list-style-type: none"> Consultants Commercial contracts with key service delivery partners Study related professional services Other subcontracted services Subawards to service delivery partners 	
Equipment other than health related	<ul style="list-style-type: none"> IT & telecommunication equipment Vehicle and transports Infrastructure Other equipment Equipment running costs such as: <ul style="list-style-type: none"> Airtime and other telecommunication related expenses Fuel and other transport related expenses Equipment maintenance and services Other equipment related expenses 	
Communication materials and publications	<ul style="list-style-type: none"> Printed communication materials Television, radio spots, social medias, web site Other communication events Other communication materials and publications expense 	
Project staff	<ul style="list-style-type: none"> Project staff - HQ Project staff - Country Project support staff - HQ Project support staff - Country 	
Other project expenses	<ul style="list-style-type: none"> In-country general administrative expenses Other project support expenses 	
Grant financial audit	<ul style="list-style-type: none"> Audit fees 	
General administrative expenses		
	<ul style="list-style-type: none"> Head office administration expenses - itemized Head office overheads recovery rate - % based 	

Annex 2. Detailed Budget Guidance

Expense groups	Expense types	Detailed Guidance	Common pitfalls
Health commodities and equipment	<ul style="list-style-type: none"> • Medicines • Reagents • Consumables • Other health products • Diagnostics equipment • Other health equipment • Equipment maintenance and service 	<p>Expenses captured in this group should generally be supported by the procurement plan. The rationale and justification for procurement of health commodities and equipment should be presented in the budget.</p> <p>Main budget assumptions should include:</p> <ul style="list-style-type: none"> • Accurate quantification of needs (which should be reconciled with quantities of key products captured under the procurement plan); • Prices conditions and sources, and proposed incoterms. <p>Procurement and supply chain expenses for health commodities and equipment should be captured separately under the following expense group.</p> <p>In case any products are donated, co-funded or funded through other funding streams, the grantee should share such details with Unitaid.</p>	<ul style="list-style-type: none"> • Unreasonable and/or unsubstantiated product prices • Procurement budget not aligned with the procurement plan • Abnormal and too high product waste rate factored into the commodity quantification • Lack of specification of unit of measurement/details on how the needs have been determined
Procurement and supply chain	<ul style="list-style-type: none"> • Procurement agent fees • Freight and insurance • Quality assurance and quality control • Customs clearance • Warehouse and storage • In-country distribution 	<p>This expense group covers procurement and supply chain management including costs linked to international procurement activities (e.g. procurement agent fees), international and in-country transport, freight insurance, warehousing and distribution.</p> <p>Main cost assumptions, calculations and budget sources should be clearly articulated in the budget narrative (e.g. freight costs are 1% of</p>	<ul style="list-style-type: none"> • Unreasonable, non-competitive fees for procurement, freight and insurance services

Expense groups	Expense types	Detailed Guidance	Common pitfalls
	<ul style="list-style-type: none"> Other procurement and supply chain expenses Product regulatory expenses 	<p>the product ex-works price, which is the average of quotations received from three suppliers, or the procurement handling fee is 4% on ex-works price of products, which is a standard applied to all donor funded initiatives).</p> <p>A special consideration should be given to customs, storage and distribution (CSD) costs. These costs may be funded only if the absence of these would jeopardize the implementation of the project. It is expected that the countries where Unitaid project activities are implemented, would cover or waive with their respective governments, the CSD costs as part of their contribution to the project. If a request for CSD is nevertheless included in the budget, Unitaid will review the request on an exceptional basis.</p> <p>Taxes (e.g. import taxes, customs duty, VAT, etc.) on procurement of health commodities/equipment will be treated as eligible expenses only when unavoidable. Implementers are expected to formally seek exemptions from such taxes and duties from the respected host countries where the projects will be implemented and document cases where exemptions are not granted. Unitaid may request implementers to provide supporting documentation.</p>	
Travel-related	<ul style="list-style-type: none"> Transportation Per diem Meeting venues Other travel-related expenses 	<p>This expense group includes transportation, per diem or equivalent, and other relevant expenses supporting travel- or event-driven activities of the project, including:</p> <ul style="list-style-type: none"> Training Monitoring and evaluation field missions 	<ul style="list-style-type: none"> Too generous travel policy not sufficiently limiting the use of business class Purpose of planned travel not sufficiently justified Unreasonable number of travellers

Expense groups	Expense types	Detailed Guidance	Common pitfalls
	<p>The above titles for expense types are indicative; other titles, explaining the purpose of the travel, can be also used, e.g.:</p> <ul style="list-style-type: none"> • Training-related • Technical assistance and capacity building travel • Monitoring and evaluation • Project supervision /consortium oversight • Meetings and advocacy workshops • Car rental 	<ul style="list-style-type: none"> • Project supervision/consortium oversight activities, • Meetings and advocacy workshops (including Unitaid’s annual grant implementer forum). <p>The cost assumptions and sources should be explained including reference to the applicable travel policy of the grantee, and the relevant policy requirements.</p> <p>Of importance, Unitaid expects that the implementers undertake travel in the most economical and practical way, and that the grantee’s travel policy encourage the use of economy class. Unitaid will not fund any travel entitlements above the WHO standards. Please consult with grant finance focal point for getting the WHO standards on travel entitlements.</p> <p>Any costs relating to training activities should demonstrably enhance the capacity and skills of participants in the delivery of the project outputs. Participants’ attendance to training should be documented formally.</p>	<ul style="list-style-type: none"> • Per diem above UN rates
External professional services	<ul style="list-style-type: none"> • Consultants • Sub-implementers • Commercial contracts with key service delivery partners • Study related professional services 	<p>This expense group covers service delivery activities implemented third party service providers. The following should be considered when costing the third-party services:</p> <p>Procurement of services from third parties</p> <p>When budgeting for services provided by third parties, the following principles should be followed:</p>	<p>Include but not limited to the following:</p> <ul style="list-style-type: none"> • Unreasonably high consultancy rates • Duration of consultancy unreasonable with regards to the technical deliverable.

Expense groups	Expense types	Detailed Guidance	Common pitfalls
	<ul style="list-style-type: none"> Other subcontracted services Sub-awards 	<ul style="list-style-type: none"> The service contracting process should be subject to a transparent competitive selection process. When such competitive selection is waived, the rationale should be provided. Service costs are generally supported by quotations arising from the competitive selection process and providing sufficient levels of details allowing for costs to be benchmarked against similar work. Cost items and budget assumptions should be explained in the budget narrative. <p>Consultants</p> <p>Unitaid will limit its funding contribution based on United Nations' standard rates for consultants. In some cases, Unitaid may agree to fund consultant costs exceeding the WHO rates (e.g. scarce skills). Please consult with grant finance focal point for getting the WHO standards on consultancy costs.</p> <p>Sub-implementers</p> <p>Normally, the costs related to sub-implementers' activities should be itemized across all expense groups. However, sub-implementers' budgets can be regrouped under the "subawards" expense line if the total budget is less than 15% of the total grant budget or US\$1,000,000, whichever is less - in which case the lead grantee will be fully responsible for due diligence of the sub implementers budget, closely</p>	<ul style="list-style-type: none"> Consultant daily rate above UN consultant rates. Unclear use of venues, Training or meetings not cost effective or purpose is unsupported Number of training-workshop participants is too high or unsupported

Expense groups	Expense types	Detailed Guidance	Common pitfalls
		<p>monitoring the sub implementer spending during the project implementation and keeping detail records to that effect to be provided to Unitaid upon need. As a matter of clarification, a third-party recipient of Unitaid’s funds should be treated as sub implementer, if:</p> <ul style="list-style-type: none"> – it is not a for-profit private contractor, – it is responsible for co-implementing the project funded through delivering a set of targeted activities. 	
<p>Equipment other than health and related</p>	<ul style="list-style-type: none"> • IT & telecommunication • Vehicle and transportation • Infrastructure • Other equipment • Equipment running costs (e.g. airtime, fuel, maintenance services) 	<p>This expense group includes transport equipment (e.g. vehicles), IT and telecommunications equipment (computer, phones, etc.) and their related running costs, as well as the associated maintenance and services costs. Other equipment may be considered depending on project specificities.</p> <p>Purchase or rental of non-health related equipment can be considered by Unitaid only if incremental and supported by programmatic needs. The grantee should clarify these needs in the budget narrative and justify the incremental nature and confirm the absence of other funding sources.</p> <p>Unitaid will not fund any costs relating to land and real estate property.</p> <p>Funding of vehicles</p> <p>Where there is a compelling programmatic rationale, Unitaid agrees to fund vehicles. In such cases the grantee will be requested to:</p>	<ul style="list-style-type: none"> • Unreasonable purchase price / leasing fees for vehicles • Administrative assets funded through other funding sources

Expense groups	Expense types	Detailed Guidance	Common pitfalls
		<ul style="list-style-type: none"> • Articulate the programmatic rationale for the purchase of vehicle. Unitaid will not fund the purchase of vehicles meant to support the administrative functions of the grantee; • Present a ‘lease vs buy’ analysis with detailed assumptions; • Provide information about the vehicle type (four/two-wheel drive, class/ brand, capacity (e.g. 8 seater) and other relevant information such as the reasons for the choice of the vehicle); • Provide asset disposal plan towards the grant end date. It is expected that any asset purchased using Unitaid’s funds should be transferred to the country partners to allow for smooth transition and scale-up of programmatic activities. 	
Communication materials and publications	<ul style="list-style-type: none"> • Printing and publication of communication materials • Television, radio spots, social media costs, web publications • Other communication events • Other communication materials and publications 	<p>This expense group includes the printing costs of the project materials and publications, including for communication, trainings, evidence dissemination and advocacy purposes. Organization of TV and radio spots, social media costs and web publications are also included in this expense group.</p> <p>In preparing budget for the communication materials and publication, the grantee should detail the cost assumptions and the sources thereof, which should normally be supported by (i) the applicable organizational policy of the grantee, and/or (ii) relevant information from third party suppliers, and/or (iii) relevant experience and benchmarks of the grantee in conducting activities of similar scope or size.</p> <p>Where possible, the grantee should endeavor to pool procurement of printed materials to gain scale efficiencies.</p>	<ul style="list-style-type: none"> • Unreasonable and unrealistic cost estimates and quotations • Too high budget for this expense group vis-a-vis the total grant budget

Expense groups	Expense types	Detailed Guidance	Common pitfalls
Project staff	<ul style="list-style-type: none"> Project staff Project support staff 	<p>Staff cost components</p> <p>This expense group includes remuneration costs for employment services rendered during the project implementation. Such costs generally comprise the following components:</p> <ul style="list-style-type: none"> Salaries, Allowances paid outside the basic paid salary but part of the standard remuneration package for long term contracts for employers’ social security contributions (per relevant policies of the implementers and applicable national local law); such allowances are detailed below, Fringe benefits which are parts of the employee’s remuneration package, and in line with the grant implementer’s organizational policy, market practices and local labor. <p>Allowances generally entail (1) employer’s social security contributions, (2) health insurance, (3) housing allowances, pension contributions and relevant 13th month salary when it is a common practice.</p> <p>Bonuses or Ex-gratia payments are not eligible for funding.</p> <p>Accrued severance entitlement is allowed for project staff whose employment contract are bound to the implementation timeframe of the project, with payment on termination only and based on local labor law. Continuing employees are not eligible to severance payment.</p> <p>Budgeting for staff costs</p> <p><u>Staff costs and level of efforts.</u> The budget should include detailed breakdown of positions and costs, alongside planned level of efforts.</p>	<ul style="list-style-type: none"> Unreasonably high salaries, not supported by the local labor market conditions, and/ or above UN salaries Overoptimistic recruitment timelines (notably on year 1) and inflated budget Unreasonable number of staff positions requested vis-a-vis the volume of the work to be delivered under the project Too conservative budgeting for project support staff (such as for the finance officer for example) Unjustified annual salary increases, including merits based and to adjust for inflation Different salaries for the same position co-funded though different projects of Unitaid Misclassification of project and project support staff or double layers

Expense groups	Expense types	Detailed Guidance	Common pitfalls
		<p>Positions can be budgeted in full or apportioned based on level of efforts required by the project. Level of efforts should be justified and substantiated with a clear description of the position holder’s role within the project, and commensurate with expected contributions</p> <p><u>Rightsized FTEs and headcounts.</u> Total FTEs alongside the number of positions should be reviewed by functional/expertise area, to eventually ensure there are no unnecessary or multiple layers across partners, HQ vs country positions, or overlaps with functions whose employment services and costs are already covered under the general administrative expense budget.</p> <p><u>Funding thresholds.</u> Unitaid limits its funding contribution based on salary scales/ranges of the United Nations Common System Salaries (https://icsc.un.org/Home/DataSalaryScales). In some specific cases, Unitaid may exceptionally agree to fund staff cost exceeding the UN salaries (e.g. scarce skills).</p> <p><u>Salary increases</u> from one year to another can be budgeted in line with grant implementers’ own policy regarding general salary increase. It is expected such general salary increases remain reasonable (e.g. in line the anticipated inflation rates). Unitaid supports individual salary increases linked to promotions only if those promotions are directly interlinked with the Unitaid project and represent significant changes in roles or responsibilities of the staff charged on the grant.</p>	

Expense groups	Expense types	Detailed Guidance	Common pitfalls
		<p><u>Change in levels of staff efforts (LOE's)</u>. While the 25% flexibility is also apply to staff costs, change in staff levels of efforts of more than 50% or change in key staff positions during the project implementation should be agreed to by Unitaid before they are implemented.</p> <p>Unitaid expects that staff remuneration costs and level of efforts are budgeted at the most cost-efficient levels with regards to the skill and expertise as required specifically for the Unitaid project.</p> <p>Project and project support staff</p> <p>Under this expense group, both project and project support staff can be budgeted, where:</p> <ul style="list-style-type: none"> • <i>Project staff</i> are defined by Unitaid as staff contributing directly to the delivery of the project outputs. It mostly includes technical positions, as well positions coordinating and overseeing the overall delivery of grant programmatic outcome, such the project director, project manager, project coordinator, or equivalent. • <i>Project support staff</i> are defined staff not directly contributing but supporting the delivery of the programmatic outputs. This includes key support functions without which the grant cannot be optimally managed and whose costs are not budgeted under general administrative expenses. Key support staff generally includes project finance and administration, procurement management, project-specific communication functions. Unitaid expects that the project support staff budget is rightsized with 	

Expense groups	Expense types	Detailed Guidance	Common pitfalls
		<p>regards to the administration, reporting and communication requirement of the project.</p> <p>Support and administrative functions are expected to be covered under the general administrative expenses (and under country administrative expenses, for in-country position) and therefore should be excluded from this expense group to provide full clarity.</p> <p>Special restrictions for funding national and governmental agencies, and civil servant positions</p> <p>In general, salaries, top-ups and recurring costs linked to governmental agencies and related employees will not be funded. Unitaid expects that country governments contribute these resources to the project as part of partnership approach towards transition and sustainability. Funding of specific costs may however be considered under exceptional circumstances bearing in mind the importance of</p> <ul style="list-style-type: none"> • Transparency around the funding arrangements; • The requirements to harmonize allowances with practices of both other donor partners and country's own remuneration programs; • The requirement to ensure continuity of service delivery and transition towards and after the grant end. 	
Other project support expenses	<ul style="list-style-type: none"> • In-country general administrative expenses • Other project support expenses 	<p>This expense group serves to gather expenses that cannot be attributed to other expenses. This includes in-country administrative expenses which are not covered under the general administrative expenses but</p>	<ul style="list-style-type: none"> • Inflated in-country administrative expenses

Expense groups	Expense types	Detailed Guidance	Common pitfalls
	<ul style="list-style-type: none"> Ethics review-related expenses 	<p>that indirectly support the implementation of Unitaid grant activities in countries.</p> <p>In-country administrative expenses</p> <p>In-country administrative expenses should be explicitly budgeted under a specific expense type and are eligible for limited funding to eventually finance:</p> <ul style="list-style-type: none"> Support and administrative functions that are not project related, and In-country infrastructure costs, <p>that both eventually benefit to and serve the Unitaid project activities.</p> <p>This mostly include costs linked office administrative and back-office functions (which are not captured under project staff costs) as well as costs for use of office space, utilities and office stationeries of the implementers' country offices.</p> <p>Unitaid agrees to fund a share of such costs, on either an itemized basis or through a pool of costs charged back to the Unitaid grants, but limits its funding contribution so that the cumulative amount of in-country and general administrative expenses should not exceed more than 15% of the grant budget.</p> <p>Ethics review-related expenses</p> <p>Ethics review fees (e.g. WHO Ethics Review Committee fees) can be budgeted under this expense group.</p>	

Expense groups	Expense types	Detailed Guidance	Common pitfalls
Grant financial audit	<ul style="list-style-type: none"> Audit fees 	<p>This expense group covers annual audit costs which should be budgeted based on grant audit requirements detailed in the financial audit section of this document.</p>	<ul style="list-style-type: none"> Inflated audit costs.
General Administrative Expenses	<ul style="list-style-type: none"> Amount recovered for general administrative expenses 	<p>Funding thresholds</p> <p>Please refer to the article 5 of these financial guidelines where both definition and Unitaid funding approach is explained.</p> <p>Budget information</p> <p>Unitaid expects that the structure and details of general administrative expenses are explained and presented in the budget together with the cost recovery mechanisms and supporting policies. It should be noted that:</p> <ul style="list-style-type: none"> In case implementers are using cost recovery rate, Unitaid will agree to fund such expenses provided (1) the overall level of general administrative expenses remains below the calculated ceiling and (2) the recovery ratio is eventually applied to actual expenses incurred during the grant implementation, and not to budget expenses. In case the grant implementer itemizes the general administrative expenses, Unitaid will agree to fund such expenses provided (1) the overall level of administrative expenses remains below the calculated ceiling (2) a fixed percentage is derived from these itemized budget expenses and then used and applied to actual expenses incurred during the grant implementation, not to budget expenses. 	<ul style="list-style-type: none"> General administrative expenses exceeding the maximum thresholds calculated using the 2% and 13% rates.

Annex 3. Request for Reprogramming template

Template available upon request.



Annex 4. Financial Budget template

Template available upon request.



Annex 5. Financial Report and Disbursement Request template

Template available upon request.



Annex 6. Audit Terms of Reference template

Template available upon request.

Annex 7. Financial Risk Categories

#	Risk	Description
1	Financial instability and funding gap	Financial instability or insolvency as well as constrained, decrease in or lack of funding at implementers' or project-level may put the project implementation at risk. This includes risks associated to uncertainties and adverse changes in co-funding arrangements but excludes financial sustainability risks beyond the grant lifetime (this exposure is covered under the sustainability category of risk).
2	Weak fiduciary capacity and inadequate financial arrangements	Weak financial management and oversight systems (at project level and/or across consortium if applicable) as well as inadequate or suboptimal financial arrangements in the flow of funds may put the project implementation at risk.
3	Ineligible costs	Costs included in grant budgets or expense reported and charged to the project during implementation may not be ineligible for funding as per financial guidelines for Unitaid implementers.
4	Inadequate budget assumptions	Inaccurate, incomplete or outdated assumptions may make the grant budget irrelevant with regards to, or not commensurate with, the actual financial resources needed to achieve the project. Inflated or unrealistic budget does not support best value for money and distorts the budget implementation and cash absorption analysis during implementation.
5	Unreliable financial information	Inaccurate, incomplete or unsupported financial information may result in financial misstatements which may not fairly represent the reality.
6	Asset loss	Loss of financial and-or nonfinancial assets* due to unforeseen situations and adverse events may result in financial liabilities and unintended operational consequences. [*A nonfinancial asset is an asset with a physical value. Examples include commodity, equipment or vehicles]
7	Wrongdoing-Misuse of funds	Wrongdoing and unethical practices, including but not limited to corruption, theft, diversion of financial and nonfinancial assets, as well as associated financial consequences, may put the project implementation at risk.
8	Financial noncompliance	Noncompliance with financial terms and conditions of the grant agreement incl. failure to meet compliance conditions attached to laws and regulations in countries where the project is implemented may imply unintended financial liabilities and negative operational consequences.
9	Inadequate assurance arrangements	Inappropriate or insufficient assurance arrangements at project level may result increase in the amount of risks that Unitaid is willing to take as well as in unexpected financial liabilities, ineffective grant management or inefficiencies.

Annex 8. Special Guidance on Nonfinancial Grant Assets

General definition

From an accounting standpoint, nonfinancial grant assets generally include fixed tangible assets with a useful life of more than one accounting period. Accounting treatments for such assets may vary based on applicable accounting standards and principles used by implementers. In this respect, the term “nonfinancial asset” in this document is used beyond the standard accounting definition and includes all property with physical substance purchased with Unitaid funding support, irrespective of their accounting treatment by the implementers. This effectively means that both the nonfinancial grant assets that are capitalized (i.e. recorded in the balance sheet and depreciated through accounting periods) and directly expensed will be considered as assets for the purposes of these guidelines. Importantly, as mentioned in its budgeting guidance, Unitaid does not fund purchase of land and/or real estate property as types of nonfinancial assets.

Budgeting guidance

To accommodate its specific financial reporting requirements, Unitaid has grouped nonfinancial grant assets under the following two expense groups.

Expense group/expense type		Most common items – examples
Health commodities and health equipment	<i>Commodities³</i>	<ul style="list-style-type: none"> • Medicines • Reagents • Equipment related consumables • Lab consumables
	<i>Equipment⁴</i>	<ul style="list-style-type: none"> • Diagnostic equipment
Equipment other than health and related	<i>Transport related</i>	<ul style="list-style-type: none"> • Cars • Vans (e.g. mobile clinics) • Motorcycles
	<i>Telecommunications related</i>	<ul style="list-style-type: none"> • Phones • Tablets
	<i>Office related</i>	<ul style="list-style-type: none"> • Generators • Video projector
	<i>IT related</i>	<ul style="list-style-type: none"> • Computers/laptops • Servers

In cases where it is unclear which expense group a nonfinancial grant asset falls into, seek guidance on proper classification from Unitaid as this may have a bearing on the amount of general administrative expenses funded by Unitaid. Specific budgeting guidance by expense group is available in the annex 2 of these financial guidelines and applies to the above listed non-financial grant assets.

³ Commodities are tangible objects with inherent value. In general, commodities are intended to be used within a reasonable timeframe and have a limited lifetime.

⁴ Equipment are also tangible objects with inherent value but are usually intended to be used through periods of more than one year.

Financial reporting of non-financial grant assets

When reporting nonfinancial grant assets in financial reports, regardless of the accounting treatment applied by implementers in their own books, 100% of the face value (i.e. original purchase value) of the nonfinancial grant assets must be reported in the Unitaid financial report against the approved budget.

Procurement of nonfinancial grant assets

It is expected that the implementers have policies and procedures for procurement of nonfinancial grant assets. In terms of procurement practices, Unitaid expects that implementers:

- Ensure that all nonfinancial grant assets procured with Unitaid funds adhere to principles and requirements outlined in the Unitaid procurement guidelines (e.g. the health products are WHO prequalified).
- Run competitive procurement processes, and secure at least three quotes;
- Keep a track record and document the selection of the suppliers;
- Procurement of nonfinancial grant assets are approved by implementers' authorized personnel, in accordance with applicable and relevant delegations of authority.

Title, transfer of title and liabilities

Unless stated differently, the title of non-financial assets bought by implementers with Unitaid funds must stay with the implementer. In case implementers wish to transfer the title of the assets during the grant implementation, or by the end of the grant implementation, prior approval from Unitaid must be secured in the first place.

In case any liability claim arises from the use of the nonfinancial grant assets, the following principles apply:

- With respect to any development, introduction, procurement or use of products by the Grant implementer, the Grant implementer will indemnify and hold harmless WHO/Unitaid for (i) any third-party product liability claim against any product supplied, (ii) any defects in any product supplied, and (iii) any non-compliance by such manufacturers or suppliers with any technical requirements applicable to any product supplied;
- The lead grant implementer is liable for any potential issues that might arise in relation to nonfinancial grant assets procured with Unitaid funding, including those procured by the third-party recipient/subs;
- It is the responsibility of the implementers to secure appropriate insurance and to put in place adequate safeguards over the nonfinancial grant assets to ensure they are kept in good condition.
- Unitaid will not be liable in any way for any claims, liabilities and or disputes which may arise relating to, or as-a-result of the activities concerning the management of the nonfinancial grant.

Asset utilization, safeguards and maintenance

Implementers should ensure that during the grant term, nonfinancial grant assets are used exclusively for the Unitaid grant implementation and that appropriate measures are in place to adequately track and safeguard such assets. This includes ensuring appropriate insurance coverage are secured and, where necessary, that adequate maintenance plans are prepared and followed.

Asset traceability

Implementers must ensure that nonfinancial grant assets are properly arranged in warehouses or storage areas for easy physical tracking. Nonfinancial grant assets with either a unit purchase value of >US\$5'000 or for cumulative purchase value of >US\$5'000, must be physically identified and tagged to allow for traceability.

Implementers should ensure that nonfinancial grant assets procured using Unitaid funds are appropriately registered, capturing at least the following information:

- Grant agreement number
- Purchase costs and delivery date
- Brief description of the asset
- Manufacturer's serial number or any other unique identifier
- Geographical location (e.g. entity, country, address, storage room)
- Last periodic physical verifications date, last maintenance date, working condition status.
- Disposal-related information if the asset is no longer in working order or use. This could include the method of disposal (e.g. transfer to local government, destruction, sales record), disposal date and sale price (if relevant).

Asset registers are expected to also be periodically updated and reviewed by authorized personnel.

Periodic physical verifications

Unitaid expects implementers to conduct periodic physical verification of nonfinancial grant assets. It is an international accounting practice to conduct such verifications at least once a year. Physical verifications can also be requested by Unitaid and conducted by grant auditors or the EVA as and when relevant.

Implementers are responsible for providing regular updates on the use status of nonfinancial grant assets to Unitaid as part of the regular progress reports, where relevant. Specific nonfinancial grant asset reporting schedules may be added to the grant reporting package when deemed necessary relevant.

Wrongdoing issues relating to nonfinancial grant assets

Nonfinancial grant assets can be subject to risks of wrongdoing as the project funds and other financial grant assets. Unitaid has established a guidelines on prevention, reporting and management of wrongdoing where more information can be found. See the following link for reference: <https://unitaid.org/assets/Guidelines-prevention-reporting-and-management-of-wrongdoing.pdf>

Besides acts of wrongdoing, Unitaid recognizes that other adverse incidents could negatively affect and cause damage to, or complete loss of, nonfinancial grant assets. This includes accidental losses or damages caused by force majeure events (e.g. earthquake, fire, flood, landslide), unforeseeable adverse events (e.g. war, riots) as well as unintentional operating losses (e.g. obsolescent stock of medication). As part of its incident management and reporting process, Unitaid requests implementers to report such incidents as early as they occur, and preventively, ensure diligent asset safeguards are in place, including insurance policies.

Disposals of nonfinancial grant assets

Nonfinancial grant asset disposal is the act of selling or discarding an asset, typically after it is no longer in use or needed by the project because it is either no longer in working order, planned to be transferred from one party to another, or being used for purposes other than originally intended in the Unitaid project. In all instances, implementers are expected to seek approval from Unitaid regarding disposal of nonfinancial grant assets.

Transfer of assets

Where implementers request and are authorized by Unitaid to transfer the nonfinancial grant assets during or at the end of the Unitaid project implementation, the transfer procedures should be as follow:

- *Priority transfer destinations.* The implementers should plan to transfer the assets in the following order of priority:
 - Transfer to another ongoing Unitaid grant implemented by the same grantee in the same geographical area
 - Transfer to another Unitaid grant implemented by another grantee in the same geographical area
 - Transfer to another grant financed by other UN agencies
 - Transfer to local government through the respective Ministry of Health
 - Transfer to local partners/sub-implementers
- *Approval and documentation.* The asset transfer must be documented, formally signed by the disposing and receiving parties, describing roles and responsibilities of the receiving party, including in terms of insurance and asset control and safeguards.
- *Compliance with laws and regulations.* The grant implementer is responsible for ensuring that the nonfinancial grant asset transfer is conducted in compliance with applicable laws and regulations, including taxation and import regulations when relevant.

Disposal through sales

Where the grant implementer is required and authorized by Unitaid to sell the nonfinancial grant assets before, or on the project closure, the following guidance should be followed:

- The asset value must be assessed, and the selling price determined based on both the net book value and the current market price (based on relevant, documented benchmarks);

- The selling process must promote fair competition to the extent practicable and result in the highest possible selling price;
- The selling process should be subject to managerial review by the grant implementer's Finance director (or equivalent) and approval by the CEO (or equivalent).
- Proceeds from the asset sales should be reported back to Unitaid as project income.

Disposal through destruction

A nonfinancial grant asset may be disposed of through destruction when:

- The nonfinancial grant asset is no longer in function and repairs are not cost effective, or the shelf-life of the nonfinancial grant asset has expired;
- There is factual, documented proof that the nonfinancial grant asset is defective and can no longer be used;

In the above case, the destruction process must be executed under managerial supervision and in line with applicable laws and regulations. Destruction costs (if any) can be charged to the Unitaid grant, subject to prior approval from Unitaid.

UNITAID SECRETARIAT

Global Health Campus
Chemin du Pommier 40, 5th floor
1218 Grand-Saconnex
Geneva, Switzerland

Tel: +41 22 791 12 00
unitaid@who.int

www.unitaid.org

Unitaid is a hosted partnership of the World Health Organization

