

GUIDELINES FOR ANNUAL AUDITS OF GLOBAL FUND GRANT PROGRAM FINANCIAL STATEMENTS

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Glossary

Accruals	Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Accounting Principles	The bases by which the transactions, assets and liabilities are valued and presented in the financial statements.
Audit Results	The audited financial statements (including the audit opinion thereon) and the Management Letter.
Cash Accounting	A method of accounting that recognizes receipts and payments in the financial statements when cash is received and cash is paid out, respectively.
IFRS	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). This Board sets accounting standards globally for the private sector and upon its creation in 2001, it adopted all International Accounting Standards (IASs) which had been previously issued by its predecessor body, the International Accounting Standards Committee (IASC).
Internal Controls	These include control policies, financial and non-financial, geared towards mitigating risks associated with various activities at PR/SR levels.
INTOSAI	The International Organization of Supreme Audit Institutions. This is a global body comprising Supreme Audit Institutions (or national audit offices) which issues public sector/government auditing standards to be applied by its members.
IPSAS	International Public Sector Accounting Standards. These are standards of accounting applicable to public sector/government entities. They are issued by the International Public Sector Accounting Standards Board of IFAC (the International Federation of Accountants).
ISAs	International Standards on Auditing (ISAs) are developed by the International Auditing and Assurance Standards Board (IAASB) and contain basic principles and essential procedures together with related guidance in the form of explanatory and other material.
Management Letter	A document prepared by the auditor for the management of an audited entity highlighting all

findings as a direct consequence of the audit work performed to form an opinion on the financial statements. It also sets out findings (e.g. weaknesses in internal controls, inter-alia), implications and recommendations and solicits the response of the audited entity's management to the audit findings and recommendations.

Statement of Sources and Uses of Funds

A SSUF is a cash flow statement submitted by the PR as part of PUDR for the period covered by the progress update.

Sub-Recipients and Sub-sub Recipients

A Sub-recipient receives grant funds from the Principal Recipient in order to complete certain activities under the grant program. The Principal Recipient signs an agreement with a Sub-recipient to formalize the legal terms and conditions of the sub-grant arrangement. A Sub-sub recipient would be a recipient of grant funds from a Sub-recipient under similar arrangements.

1. Introduction

- 1.1. Implementation – These Guidelines are valid with immediate effect. However, certain provisions will only come fully into effect for accounting periods ending 31 December 2014 onwards. These include: (a) the requirement for a consolidated audit report (refer para. 2.2) and, (b) timing of auditor appointment (refer para. 3.3). In all cases early uptake of the Guidelines is highly encouraged.**
- 1.2. A core component of the Global Fund's (GF's) risk and assurance framework is the financial audit of the grant. In accordance with the Grant Agreement, the transactions and balances of Principal Recipients (PR) and Sub-recipients (SRs) have to be audited annually as well as at the closure of the grant.
- 1.3. For the purpose of these guidelines when referring to Sub-Recipients it should be assumed that reference is also being made to Sub-sub recipients (SSRs).
- 1.4. Annual audits are important parts of the assurance process regarding proper use of GF funds and provide an important component of decision-making on the disbursement of those funds, the renewal of grants within the framework of the GF's performance-based funding principles and form an important part of the GF's grant risk management framework. The audits are primarily intended to provide the GF with assurance that disbursed funds were used for the intended purposes in accordance with the Grant Agreement, including the approved budget and the Performance Framework and that the Financial Statements fairly represent the financial transactions and balances of the Grant.
- 1.5. The purpose of these guidelines is to clarify for relevant stakeholders the GF's requirements for audit arrangements, in particular concerning:
- i. The required Terms of Reference for audits;
 - ii. The selection of auditors;
 - iii. The content of audit reporting, including the review of audit findings and follow up on recommendations; and
 - iv. Roles and responsibilities of the relevant parties to the audit process, including the GF Secretariat, CCMs, PRs, SRs, LFAs and the audit service providers (the Auditors) themselves.
- 1.6. These Guidelines shall evolve based on best practices and will be updated on an ongoing basis.
- 1.7. Under the standard terms and conditions of the Grant Agreement the GF reserves the right to withhold disbursements to PRs, to terminate grant arrangements or carry out other sanctions against the PR if the audit arrangements are not satisfactory as guided by this document.

2. Scope of audit and applicable auditing and accounting standards

2.1. Grant or Program audit

The Global Fund requires an annual grant-specific audit report. Thus, a financial report which does not distinguish each GF grant would not be acceptable. However, a wider program (or entity) audit e.g. a national program report or the annual report of the legal entity of the PR may be acceptable, provided (a) it clearly distinguishes GF income, expenditure and balances by grant, (b) the auditor expresses an opinion on the GF income and expenditure by grant separately, and (c) the auditor comments separately on other aspects of the GF grants to cover other requirements of the standard Terms of Reference (ToRs) referred to in these guidelines.

2.2. Consolidated PR and SR audits

For periods ending 31 December 2014 onwards the Global Fund will require a consolidated grant-specific audit – this involves one overall audit opinion combining the balances and transactions of the PR and SRs.

The separate entity approach may be acceptable as an exception in certain circumstances, such as:

- i. The time taken to perform a consolidated audit of expenditures would extend too far beyond the required deadline (refer para. 4.2) for submission of the audit report;
- ii. Where the level of fiduciary risk is considered high, a full scope audit of some SRs may be commissioned by the Secretariat.

Where an SR is being audited separately these audit guidelines would apply to the full extent to their audit.

2.3. Other specific audit situations

2.3.1. Grant closure

To ensure financial accountability following grant closure, all PRs must prepare the final grant program statements covering the grant closure period and ensure that these are audited as per the Grant Agreement. This includes any constituent grants being closed because they are consolidated into another grant. The final audit report should be submitted to the GF. For details on grant closure requirements, refer to the GF's Operational Policy Note on Grant Closure: <http://www.theglobalfund.org/en/library/guidelinestools/>.

2.3.2. Audits of grants involving common funding mechanisms (CFM)

Where the Global Fund jointly finances a program along with other donors which involves the common pooling of funds and/or a common budget (e.g. as part of a sector wide approach (SWAp)), a single financial statement and audit report covering all receipts and expenditures is acceptable as long as the GF contribution to the program is clearly indicated in the notes to the financial statements.

In relation to expenditures the common distinguishing feature of the CFM is that expenditures cannot always be directly attributable to the GF. However, provided the GF contribution as per the Grant Agreement can be reconciled with the overall CFM expenditures, the GF will accept a CFM audit report which meets the needs of both the country authorities and development partners where it is considered in all other respects to be of acceptable quality at its determination. Where the audit

arrangements deviate materially from GF requirements (e.g. severely delayed submission of audit reports), the GF may finance an independent audit to seek compliance with its requirement for timely assurance.

For a definition of Common Funding Mechanisms and the GF's policy approach thereto refer to the Operational Policy Note on Common Funding Mechanisms: <http://www.theglobalfund.org/en/library/guidelinestools/>.

2.3.3. Audits of grants involving Headquarters (HQ)-generated expenditures

In some cases, particularly related to International NGOs, there may be expenditure transactions generated from the PR's or SR's HQ, in a different country to the grant implementation. In principle this does not change the scope of the grant audit and the PR/SR is responsible to provide the auditor with sufficient and reasonable evidence, at the auditor's determination, of HQ-generated expenditures.

The GF reserves the right to agree special arrangements with the organization to audit the HQ-generated expenditures centrally. In such cases the in-country auditor would be advised to restrict their scope to the local expenditures only.

2.4. Auditing standards

The audit of Grant Program Financial Statements should be conducted in accordance with International Standards on Auditing (ISAs) or, for Governmental auditees, The International Organization of Supreme Audit Institutions (INTOSAI) standards.

2.5. Accounting and reporting basis and standards

The financial statements should be derived from the PR's/SR's reporting systems. Financial statements should be prepared by the PR in accordance with internationally recognized accounting standards. In all cases the set of financial statements and the notes to such statements must include information on the basis of accounting that was used in their preparation together with all significant accounting policies. Where a local reporting framework is used it should be in line with the internationally accepted standard and disclosed in the audit report. Any material deviations should be brought to the Global Fund's attention.

The Global Fund prefers auditees to use the accruals basis of accounting but also accepts that a cash or modified cash approach may be followed using the IPSAS cash accounting standard.

2.6. The financial statements should include the following components:

- i. In the currency of the grant agreement¹, a Statement of Financial Performance² (Income and Expenditure Statement (IES)) showing GF funds received, any other grant related income received and all grant expenditures. Grant expenditures should be reported against the budget as defined in the grant agreement for the period;
- ii. A statement of financial position;
- iii. A statement of changes in net assets;
- iv. Any other footnotes applicable;

¹ The statements may be presented in local currency but the grant reporting currency equivalents must be shown

² When the cash basis of accounting underlies the preparation of the financial statements the primary financial statement is the Statement of Cash Receipts and Payments

- v. Supplemental statements of advances and fixed assets, including: (a) a statement or annex showing SR advances and reconciliation of total amount advanced by PR to SRs with SR recorded expenditure and SR cash balances at the end of the reporting period, (b) a listing of fixed assets purchased with grant funds.

2.7. Recipient obligations

Recipients must ensure that all books and records are available to the independent auditors, all accounting entries and adjustments are made and all other necessary steps are taken to enable the auditors to complete their work.

The PR shall maintain proper accounting books, records, documents and other evidence, adequate to show, without limitation, all balances, costs incurred and revenues earned by the PR and SRs for the program which is the subject of the Grant Agreement and the overall progress toward completion of the program. Financial records must be kept in the possession of the PR and sub recipients for at least seven years from the date of last disbursement on the grant or for any additional period as may be required under the country's legislation.

3. Audit arrangements

3.1. Definitions

This section of the guidelines applies to PR audit and the audits of SRs, if these are done separately.

3.2. Audit Terms of Reference (ToRs)

In principle PRs must apply the standard ToR as set out in Annex 2. However, PRs with existing audit ToRs may retain those arrangements provided their scope incorporates the GF standard requirements. Those ToRs will be reviewed by the GF to confirm that they meet the GF's standard requirements.

In addition to the standard audit ToR, in some circumstances the Global Fund may require additional procedures to be planned and carried out by the auditors. In this case the extent of the procedures and the form of reporting will be agreed upon between the GF and the auditors prior to the commencement of the assignment and the additional costs if any will be covered by the grant.

3.3. When is the Auditor appointed?

Audit arrangements, including such issues as overall approach to selection and approval of the auditor, should be agreed between the Global Fund and the Principal Recipient prior to signing the grant agreement. The auditor should be selected within three months from signing the grant agreement.

The PR may choose to align the audit period with its fiscal year or the grant year provided that the first period of audit does not exceed 18 months.

The GF may approve the use of an existing or incumbent auditor provided they meet the standards required of any auditor as laid out in these guidelines. The GF reserves the right to insist on a retendering where there is a sitting auditor.

3.4. Auditor selection and accreditation.

3.4.1. Minimum requirements

The following are the minimum requirements for an auditor of a GF grant. The auditor must:

- i. be included on an accredited list of auditors of a recognized donor³ with operations in the country. In the case of SAIs the auditor should be accredited as meeting required standards by any relevant authority which is qualified to assess work standards. If in doubt about the issue of accreditation the GF should be consulted.
- ii. Be an independent firm, free from conflicts of interest with the auditee;
- iii. Be professionally competent and have experience in planning and conducting audits of this nature;
- iv. Be eligible to practice as an external auditor and express audit opinions pursuant to the laws, rules and other requirements of the country where the grant is implemented;
- v. In some cases, particularly those considered as high risk by the GF, the GF will provide its own pre-qualified shortlist of acceptable audit firms.

³ For example: World Bank, EBRD, OIG/RIG (USAID), European Commission (Court of Auditors)

- vi. The recipient in question should ensure that the selected auditor is aware of the GF's Code of Conduct for Suppliers⁴ and complies with its provisions. In case of non-compliance, the recipient must take appropriate corrective measures, up to and including dismissal of the auditor.

3.4.2. Approval procedures

The auditor must be approved by the GF, including already appointed auditors. The auditor must be selected on a competitive basis. An indicative step-by-step process follows:

- i. The PR administers the tender for the audit but the GF must approve the final selection of auditor⁵. GF may waive the need for pre-approval in exceptional cases. There must be written evidence of the auditor selection decision;
- ii. In exceptional cases, at the GF's discretion, the GF will administer the audit tender and agree fees with the auditor, which would be paid by direct disbursement;
- iii. The PR submits a list of eligible audit firms to the GF, together with all documents related to the audit tender for approval. The GF may delegate the review of documents to the LFA;
- iv. GF approves the tender documents and eligible list of firms with reference to the list of accredited audit firms. If the tender documents are not in agreement the GF may insist on changes to the tender documents;
- v. The PR conducts the tender process and makes a report of its recommendations to the GF;
- vi. GF endorses the selection of auditor or refers back to the PR if not in agreement. The GF will, in some cases, request the LFA to review the recommendations and supporting documentation to confirm that the PR's procedures and the tender process were followed;
- vii. The auditor must confirm in writing any conflicts of interest prior to engagement. Conflicts can only be waived in agreement with the GF.

3.4.3. Government Supreme Audit Institutions (SAIs)

The recipient country's principal government audit agency, often referred to as the 'Supreme Audit Institution' (SAI), may be required by national legislation to audit GF grants being implemented by government agencies. Where the audit field work and/or preparation of the audit report is contracted to another party by the SAI the same list of minimum requirements applies as in para 3.4.1 above.

The GF may seek the independent advice of any regulatory or representative⁶ body charged with overseeing the quality of work of its members to provide a reference as to the SAI's suitability.

Where the GF determines that the SAI does not meet the required standards the SAI may propose sub-contracting the audit work to an independent firm under the overall signature of the SAI. If this would infringe the local legislative requirements the Principal Recipient should seek advice direct from the GF.

⁴ available at: <http://www.theglobalfund.org/documents/business/CodeOfConduct.pdf>

⁵ In cases where the CCM has an Ethics Committee, a right of no objection exists with the Committee

⁶ An example body would be the AFROSAI (Anglophone and Francophone)

3.5. Auditor performance assessment, rotation and termination

The auditor's performance in completing the terms of reference will be assessed by the GF or by the CCM if it has the capacity. The manner of the audit including staffing and coverage will be compared to the contract with the auditor. The GF may request the auditor to explain its quality assurance and internal compliance procedures and how they applied to the GF assignment. The auditor is required to make available its audit working papers to the Global Fund if requested.

The GF does not mandate a maximum period for an auditor to be in place and has no specific policy of auditor rotation. The GF respects the best practices promulgated by the relevant professional body to which the audit firm belongs. However, if there is any evidence that the auditor is not performing its duties in a fully independent and professional way the GF may insist on a retendering of the audit.

PRs must notify the GF in writing, prior to terminating a contract with an existing auditor for GF no objection. Notification must include detailed reasons for termination and plans to enter into another audit arrangement. Any such alternative arrangement must meet the GF's minimum requirements as stipulated in these guidelines. The GF would justify the termination of an audit contract where this is done in the interest of auditor independence and would be following international best practice.

3.6. Audit Fees

The GF grant audit fees may be financed from the GF grant budget. However, the fees normally associated with the annual audit of the program or institutional Financial Statements of a PR, which would otherwise have been incurred regardless of the GF grant, will not be financed by the GF. The same applies to SR audits in the event where a separate SR audit has been agreed with the GF. Actual incremental audit fees associated with fulfilling the Global Fund audit requirements may be financed through the grant.

The PR must demonstrate that the audit fee has been agreed in a fair and transparent manner and the payment thereof is on the basis of an agreed schedule. The GF reserves the right to be directly involved in the negotiations or to request the LFA to represent the GF. The GF may also insist that the audit fees be paid by direct disbursement to the auditor rather than paid out of funds disbursed to the PR.

In certain situations, at the GF's discretion, the entire audit tendering and contracting and fee negotiation would be conducted by the GF, with the funds to pay the audit fees set aside within the grant budget and paid by direct disbursement. In such case the GF would determine that the work has been performed to the required standard and approve the payment to the auditor.

3.7. Exceptional cases of United Nations affiliated Organizations

Where such Organizations assume the role of the PR (such as UNDP, UNICEF) the entities' policies on accounting, preparing financial statements and auditing shall apply, subject to comment by the GF. If the need arises the GF will liaise with the Organizations' Headquarters on any issues relating to the proposed audit arrangements. The GF retains the right to apply GF audit guidelines to SRs that receive funds from a UN PR.

4. Submission and review of audited financial statements

4.1. Timeliness of annual audits

In accordance with the Grant Agreement, transactions and balances of PRs and SRs have to be audited annually. The annual period to be audited should be aligned to the grant annual reporting calendar, and any deviations agreed with the Global Fund in advance. Where the first period under audit is less than six months from the start of the grant the first period under audit may be extended from the grant start date until the end of the second year⁷ provided that the maximum length of audit period is not more than eighteen months.

4.2. Due date

The audited Financial Statements, respective audit report and the Management Letter, should be submitted to the Global Fund within six months after the Principal Recipient's financial year end. The reporting deadline will be amended to three months from periods ending 31 December 2014 onwards. The Global Fund will discuss at the individual country level how the accelerated reporting deadlines may be achieved and work on a phased approach in some cases. The audited Financial Statements are also a requirement for continued funding at the time of periodic (or Phase 2) review. A grant scheduled for periodic review should have any due financial audit completed and submitted as part of the renewal process. Under the New Funding Model audit compliance is a requirement of the annual funding decision. The potential consequences of late submission are noted in para. 1.7.

4.3. Format of submission

All Financial Statements submitted must be in a format that cannot be altered or changed (e.g. PDF), with all pages in sequence. The GF will not accept audited Financial Statements that are incomplete or have been altered.

4.4. Review of audited financial statements

The GF reviews the submitted report(s)⁸ and management letter(s) and may request the LFA to review the same. The GF and/or the LFA may follow up on specific aspects eg progress towards implementation of past recommendations. The review will flag critical issues that need to be addressed as part of the management action plan. This will be communicated to the PR. The implementation status of previous audit findings will also be reviewed. GF reserves the right to be present (in person or telephonically) at an audit clearance meeting involving the auditee and auditor.

4.5. Refunds

Under the terms of the Grant Agreement the Global Fund will require a refund from the PR in instances where the audit has identified ineligible or unsupported expenditures financed by the GF resources.

⁷ For example, assuming a Principal Recipient has a fiscal year end date of 31st December with a Phase 1 or 1st commitment period start date of 1st August 2009, the first audit period coverage will be from 1st August 2009 to 31st December 2010 instead of the 5 month period ending 31st December 2009.

⁸ Reports include audited financial statements, audit report and management letter.

5. Roles and Responsibilities

5.1. CCM

Where the CCM has set up an Audit and/or Ethics, or equivalent Committee, the Committee should have a right of objection to the proposed auditor on grounds of independence or other substantive reasons. Whilst most CCMs are not equipped to deal with the technical aspects of auditor selection, if a CCM has a finance sub-committee or members with experience in auditor selection and management, the CCM may oversee the auditor selection process.

5.2. Principal Recipients

The recipient must engage an auditor based on the minimum requirements set out in this guideline, facilitate the conduct of the audit, and submit the audit report to the GF and respond to queries from the GF or the LFA. The recipient responds to and implements audit recommendations, as necessary.

5.3. The Local Fund Agent

The LFA may be requested by the GF Secretariat to conduct certain tasks in the area of grant audit depending on an assessment of risk.

5.4. The Global Fund Secretariat

The auditor must be acceptable to the Global Fund and the Secretariat is responsible for approving the audit arrangements using the advice of the LFA or other partner(s) as applicable.

The GF therefore approves the short list of possible auditors and the audit tender documents prior to publication and approves the final selection of the PR auditor. In exceptional cases the GF will manage the entire selection and contracting process. Where separate SR audits are being conducted the same may apply to significant SRs.

The GF, through the Country Team (CT) monitors the receipt of audit reports, reviews the reports and seeks an understanding of the actions to be taken. The CT closely monitors the implementation of audit recommendations and assesses PR performance in acting on and clearing recommendations. The GF may decide to take certain actions in regards to delayed or problematic audit reports, for example: revision of disbursed amounts, setting deadlines for completion of certain tasks, change of implementation arrangements.

ANNEXES

Annex 1: Terms of Reference for [Consolidated/single entity] External Audit of Global Fund (TGF) Supported Programs

Principal Recipient (PR): [to be completed by the PR]
Grant Number: [to be completed by the PR]
Title of Program: [to be completed by the PR]
Period covered by the audit: [to be completed by the PR]

Terms of Reference

1. Program background, audit structure and description of entities

1.1. Program Background: [to be completed by the PR] The PR should include a brief background on the grant including its main objectives and activities. Reference may be made to the program description in Annex A of the Grant Agreement.

The PR should describe any key information about the grant amount and implementation cycle which is important to understand the scope of the audit. For example the phase of the grant, the total amount committed, any changes to the structure of the grant e.g. consolidation with another grant, amount budgeted for the year of audit and amount disbursed by TGF to the PR and from the PR to the SRs.

1.2. Program Entities and audit approach: [to be completed by the PR] The PR should describe the nature of the audit and how it is categorized, explaining any agreed exceptions. The PR should tabulate all entities covered by the audit including entity name, legal status, audit scope, main activities funded and amount of expenditure in the reporting period and any other pertinent information that should be brought to the attention of the auditor.

2. Contacts [to be provided confidentially to the auditor]

The PR shall provide a list of important contacts for the conduct of the audit including their full contact details. This should include at a minimum: PR Chief Executive and Chief Finance Executive, program manager, grant finance manager, SR Chief Executives, program managers and key finance contacts.

3. Available documents and facilities

The PR shall provide the auditor with access to all books and records pertaining to the grant as requested by the auditor, including a list of all key PR and SR locations, noting the key documents held at each location. An indicative list of the documents which may be requested by the auditor includes:

- i. The grant program financial statements;
- ii. Grant and sub-grant agreements;
- iii. Main supporting schedules to the financial statements including: income and expenditure, assets and liabilities, cash records;

- iv. Interim monthly or quarterly grant activity reports (programmatic as well as financial);
- v. General ledger, cash book, other important books and records;
- vi. Original supporting documentation to all reported expenditures (invoices, full support for all procurement of health products or other procurements requiring tender procedures, payrolls, bank vouchers, journal vouchers etc);
- vii. Bank statements;
- viii. Important correspondence between GF and PR, PR and SRs pertaining to grant implementation matters;
- ix. Financial procedures manuals, systems descriptions or any other documentation explaining the processes contributing to the production of reliable financial reports and maintaining internal control;
- x. Minutes of management meetings;
- xi. Internal audit reports relevant to GF expenditures or any systems, governance or other issue which impinges on GF grants.

4. Objectives of the Audit

4.1. The **objective of the audit** of the Grant Program Financial Statements (GPFS) is to enable the auditor to express an independent professional opinion on:

- i. Whether the financial position of the grant program at the end of the reporting period and of the funds received and expenditures for the reporting period, are presented fairly in all material respects by the PR (and SRs⁹) in the GPFS and in accordance with the applicable accounting framework;
- ii. Whether, in all material respects, the grant funds have been used in conformity with the provisions of the Grant Agreement, including the approved budget and workplan and any amendments thereto as contained in implementation letters;
- iii. Whether the GPFS agree with the program accounts (books of account) which provide the basis for preparation of the GPFS and reflect the financial transactions of the program, as maintained by the program implementing entities;
- iv. Whether the GPFS agree or reconcile with other information reported to GF i.e. Progress Updates and Enhanced Financial Reports.

5. Responsibility for the preparation of Grant Program Financial Statements (GPFS).

5.1. The responsibility for the preparation of consolidated GPFS or of separate GPFSs for each entity covered by the audit, if applicable, lies with the PR which delegates the responsibility to the SRs for their respective sub-grants.

6. Grant Program Financial Statements (GPFS).

The financial statements should include the following components:

- i. In the currency of the grant agreement¹⁰, an Income and Expenditure Statement (IES) showing GF funds received, any other income received and all grant expenditures. Grant expenditures should be reported against the budget as defined in the grant agreement for the

⁹ Depending on the scope of the audit report as described in the foreword.

¹⁰ The statements may be presented in local currency but the grant reporting currency equivalents must be shown

period with the actual expenditure allocated to the same budget categories disclosed for the implementing entity;

- ii. A statement of financial position
- iii. A statement of changes in net assets
- iv. Any other footnotes applicable.
- v. Supplemental statements on advances and fixed assets, including: (a) a statement or annex showing SR advances and reconciliation of total amount advanced by PR to SRs with SR recorded expenditure and SR cash balances at the end of the reporting period, (b) a listing of all fixed assets purchased with grant funds.

7. Audit Scope of Work

- 7.1. The minimum requirement is that the audit will be carried out in accordance with International Standards on Auditing (ISA) or International Standards of Supreme Audit Institutions (ISSAIs) and will include such tests and controls as the auditor considers necessary under the circumstances.
- 7.2. As part of the audit testing procedures, particular attention should be paid to the following areas:
 - i. **Compliance with applicable legislation** – Verify that the transactions comply in all material respects with any applicable legislation;
 - ii. **Grant expenditures** - Funds received by the Program¹¹ from disbursements, or generated by the Program's funds¹², were spent in conformity with the approved budget and workplan existing at the time of the expenditure and in line with provisions of the Grant Agreement, including any applicable grant conditions (as amended by any Implementation Letters), and only for the purposes for which the funds were provided;
 - iii. **System of internal controls** - Assessment of the adequacy and effectiveness of the accounting and overall internal control system to monitor expenditures at all levels of the Program and other financial transactions including special attention to the adequacy and effectiveness of controls around cash transactions;
 - iv. **Follow up on the status of findings of previous audit reports** – The auditor should follow up on management's intended actions to address the findings of previous audits, including external audit, relevant internal audits and audits issued by the Office of the Inspector General (OIG) of TGF;
 - v. **Designated bank accounts** - Where Designated Accounts (including those being used under an approved pooled funding program implementation mechanism) have been used by PR and SRs, they have been maintained and operated in accordance with the provisions of the Grant agreement and in accordance with the Global Fund's rules and procedures;
 - vi. **Safeguarding of assets** - Verify that the PR has put in place mechanisms for the tracking and safeguarding of assets purchased with grant funds and that they are being used for the intended purposes. Verify that Program's fixed assets register exists, is maintained in accordance with the Grant agreement; that property rights or related beneficiaries' rights are established in accordance with the Grant's conditions;
 - vii. **Disbursements to SRs** - Verify that disbursements made by the PR to SRs are in line with the SR sub-grant agreements and the approved work plan and budget. Verify that the PR follows adequate process for validating expenditure reports submitted by the SRs;

¹¹ Including goods and services from direct disbursements to third parties.

¹² From Interest generated, Revenues, exchange gains, VAT recoveries, recovery of funds from ineligible expenditures or other concept, etc.

- viii. **Data retention and supporting documentation** - Necessary supporting documents, records, and accounts have been retained in compliance with provisions of the Grant Agreement. Procedures exist for security and management of electronic data (backup systems and procedures, etc.);
- ix. In addition the Global Fund may request the auditors to review the following areas of concern, in which case the additional scope would be agreed between the Global Fund and the auditors in advance:
- x. **Goods and services** - have been procured transparently, competitively and in accordance with the Grant Agreement and relevant procurement Guidelines approved by TGF;
- xi. **Procurement systems for pharmaceutical and health products** – Verify the evidence that procurement transactions were undertaken in accordance with the grant agreement and the organization’s policies and procedures;
- xii. **Value for Money** – review grants expenditures with due attention to economy and efficiency.

8. Auditor’s report

- 8.1. In preparing the audit report, the selected audit firm will issue an audit opinion on the financial statements in accordance with ISA or ISSAI.

9. Management Letter.

- 9.1. In addition to the audit report, the auditors will prepare a management letter in which they shall:
 - i. Set out any instances of non-compliance with the Grant agreement that were noted by the auditors in the course of their work to form an opinion on the GPFS;
 - ii. Provide a schedule of ineligible and unsupported expenditures identified by the auditors in the course of their work;
 - iii. Comment on instances of non-compliance in the accounting records, procedures, systems and controls that were examined during the course of the audit with particular reference to ineligible expenditures and systematic weaknesses;
 - iv. Provide recommendations to address the observed deficiencies and areas of weakness in systems and controls which may be effected promptly;
 - v. Communicate matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the grant program;
 - vi. Report on the implementation status of recommendations contained in previous audit reports;
 - vii. Include responses made by the PR in discussing audit recommendations, along with a timeline for implementing agreed recommendations. In cases where either the PR does not accept an audit finding or the auditor disagrees with the adequacy of the management response, the management report will acknowledge that disagreement. All observations and recommendations will be discussed with PR management before the letter is finalized.
- 9.2. It must be clearly noted on the face of the Management Letter that it is a confidential document and must be treated as such.

- 9.3. The Management Letter should state that the auditor acknowledges and agrees that the Management Letter shall be shared with GF and the Local Fund Agent (LFA) on a confidential basis.
- 9.4. The Management letter should use a system of grading points depending on the level of severity in line with that proposed in the *Guidelines for the annual audits of PRs' and SRs' financial statements*.

10. General Information

- 10.1. The audit report and accompanying management letter, including the PR's responses, should be received by the Global Fund within six (6) months after the end of the reporting period under audit. For years ending December 31 2014 onwards reports should be received within three (3) months after the end of the reporting period under audit.
- 10.2. The selected audit firm will also be granted timely, full and unrestricted access to PR's (and SRs') financial management system, accounting record, asset, property and personnel that may assist in clarifying any matter related to the audit.
- 10.3. To assist the selected audit firm in planning the audit, the PR will make available as a minimum the documents and information stated below. It is highly recommended as part of auditing requirements on understanding the nature of the entity's operations, that the auditors familiarize themselves with the following:
 - i. GF's *Guidelines for the annual audits of Global Fund Grant Program Financial Statements*: [Guidelines and Tools - The Global Fund to Fight AIDS, Tuberculosis and Malaria](#);
 - ii. Grant agreements between the PR and GF and sub-grant agreements concluded with SRs. Any correspondence from GF approving a reprogrammed budget affecting the audited year;
 - iii. Progress Updates (PU/DRs) and Management Letters. Confirmation of amounts disbursed and outstanding at the Global Fund should also be obtained;
 - iv. Enhanced Financial Reports (EFR);
 - v. Guidelines for Budgeting on GF programs: [Operational Policies, Guidelines and Tools - The Global Fund to Fight AIDS, Tuberculosis and Malaria](#);
 - vi. PR's approved Finance, Procurement, SRs' Management and other relevant Manuals;
 - vii. *It is also recommended to obtain an understanding of the Proposal/Concept Note under which the grant is being implemented. Proposals are available at the following link [Grant Portfolio - The Global Fund to Fight AIDS, Tuberculosis and Malaria](#) and then navigate to the respective country page.*
- 10.4. The auditors are strongly encouraged to contact the LFA prior to preparing the audit plan enabling the LFA to highlight any key weaknesses and areas of concern upfront. During the course of the audit, the Auditors are encouraged to contact the LFA as and when needed to obtain any additional information/clarifications.

Annex 2: General Guidelines for Management Letter (M/L)

The following is a general guide on the essential elements of the M/L and should not be viewed as an exhaustive list of requirements. Guidance should be sought from the IAASB's:

- i. standard on communicating management letter issues to those charged with governance of an entity: http://web.ifac.org/download/ISA_260_standalone_2009_Handbook.pdf
- ii. also that on reporting internal control deficiencies: http://web.ifac.org/download/ISA_265_standalone_2009_Handbook.pdf.

In the case of public-sector or government auditors (i.e. the Supreme Audit Institution) guidance can be obtained from INTOSAI Standards (see Chapter 4's **Reporting Standards in Government Auditing** of INTOSAI's Code of Ethics & Auditing Standards: <http://intosai.connexcc-hosting.net/blueline/upload/1codethaudstande.pdf>).

A typical M/L format follows:

STRICTLY PRIVATE AND CONFIDENTIAL

[It must clearly be noted on the face of the Management Letter that it is a confidential document and must be treated as such, in accordance with Global Fund Policy]

[The Management Letter should state that the auditor acknowledges and agrees that that the Management Letter shall be shared with the Global Fund on a confidential basis. The audience of the letter, however, is the PR/SR]

(Name of PR) - MANAGEMENT LETTER FOR THE AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED (Insert year end date)

[Background information is provided on the applicable auditing framework that was employed in auditing the Financial Statements, for which there is this management letter]

[The purpose of the financial statement audit should be stated here which is the expression of an opinion on the Financial Statements. Also, a brief description of the methodology used in carrying out the audit as regards the use of testing as the basis for examining evidence supporting the amounts and disclosures contained in the Financial Statements, inter-alia.]

[An explanation of the purpose of the management letter should be provided in terms of the value-added in its provision to management for the improvement of systems and processes for the organization, thereby aiding the achievement of broader organizational goals.]

[A description of system of grading of the management letter issues or findings should be provided in order that the PR is able to better prioritize implementation of recommendations emanating from findings. The following system of grading is recommended:

Grade 1 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 findings are those that may have significant impact on the control environment. Here control environment looks at risk factors derived from **management's attitude to risk** as regards operational activities within the PR/Sub-recipient organization.

Grade III findings are those which are less significant than Grade 1 and II but nevertheless merit attention.

For each finding:

1.0 [Brief heading for finding and Grade 1, 2 or 3 as is applicable]

[Where there is a criteria (or criterion as the case may be) which is the object of non-compliance by the PR/Sub-recipient, then this must be stated or quoted where applicable. A criterion is defined as any law, policy, regulation or framework that an audited entity has to comply with in carrying out its activities. A deviation or complete non-compliance of it would trigger a finding. In some instances, criteria would not be present hence it would not be necessary to state it here.]

1.1 FINDING

[The condition or issue presently obtaining which could have been as a result of non-compliance of a criteria is stated here fully. This must be consistent with the grading level indicated above. Where possible, the reason(s)/rationale for the non-compliance to the criteria or factors responsible for the finding issue should be stated in a separate paragraph or section under FINDING.]

1.2 IMPLICATION

[The effect of the finding both from a financial and non-financial perspective should be clearly stated here as this will provide better insights to the PR/SR entity in formulating a robust management response and action plan for implementation of recommendations.]

1.3 RECOMMENDATION

[Practical recommendations relevant to the findings stated in 1.1 above should be put in this category. Recommendations should be capable of eliminating or reducing the effects identified in 1.2 above (to an acceptable level) such that there will be no negative material impact on grant implementation upon its initiation by PR/SR management.]

1.4 BENEFITS

[The advantages of implementing the recommendations stated in 1.3 above should be highlighted here from a financial and non-financial perspective. The use of financial data in terms of for example, cost savings, should be stated here.]

1.5 MANAGEMENT'S RESPONSE

[PRs/SRs are required to state the extent to which they agree or disagree with the finding indicated above. This should extend further to whether they agree or disagree with all the other elements to the management letter (i.e. 1.2 to 1.4). These should include reasons for the agreement or disagreement.

As part of the management response the PR should develop an action plan to address any pertinent recommendations emanating from the PR and SR Audits.

Finally, all M/Ls must contain a “**Matters arising from previous audits**” section in tabular form that will serve as a tracking tool in determining the status of implementation of recommendations.]

See below:

MATTERS ARISING FROM PREVIOUS AUDITS

Audit period covered	Issue (i.e. the finding identified)	Recommendations	Status of Implementation	Comments
<p>The period covering the audit is stated here: it should follow chronologically from one year to the next</p>	<p>The findings of previous audits are entered here. The findings should be quoted verbatim or reproduced from the relevant management letter</p>	<p>The recommendations related to the findings from the previous column are entered here quoting verbatim from the relevant management letter</p>	<p>The state of implementation is entered here via the following key:</p> <p>Y (Yes) – showing full implementation of recommendations,</p> <p>N (No) - showing that the recommendation remains to be implemented and as such no steps have been taken to commence implementation,</p> <p>P (Partial) – showing that implementation has commenced but is yet to be completed</p>	<p>For N and P categories, an indication of the audit period from when the finding & recommendation was first identified should be stated, inter- alia</p>