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|  **Guidelines for Annual Audit of Global Fund Grants**Annex 5: Systems Audit report template (Design and Operating Effectiveness of Internal Control System) |

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November 2019 Geneva, Switzerland

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**Independent Auditor’s Report – Systems Audit (Design and Operating Effectiveness of the Internal Control System)**

Principle Secretary

Ministry of Health

P. O. Box 30152-00100

Ficticia

1. **Independent Auditors’ Report on Design and Operating Effectiveness of Internal Control System**
2. 1. **Independent auditors’ report (unqualified)**

We have audited the Internal Control System set up and operated by [name], the ‘Principal Recipient (or Sub-recipient)’ for the Program entitled [title of the Program], the ‘Program’ and for the purpose of managing risks to the achievement of the objectives of the Program. These risks include risks to the Program funding provided by the Global Fund not being 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, and the risk of error, irregularities and fraud with regard to Program funding.

This systems audit covers the design and operating effectiveness of the Internal Control System in the period from [date] to [date].

Our findings are set out in the relevant sections of our report, which is made solely to the Global Fund in order to gain assurance that risks to the achievement of the objectives of the Program are properly managed and controlled.

**Respective Responsibilities of the Principal Recipient (or Sub-recipient)'s management and the Auditors**

The Principal Recipient (or Sub-recipient)’s management is responsible for the design, implementation and effective operation of the Internal Control System, including the management and control of risks to the achievement of the objectives to the Program.

Our responsibility is to audit the Internal Control System and to report our findings to the Global Fund in accordance with the terms of reference for the audit engagement. These specify that we should carry out our work in accordance with the International Framework and Standards for Assurance Engagements (issued by the International Federation of Accountants) insofar as these standards can be applied in the specific context of a systems audit intended to provide assurance that risks to the achievement of the objectives of the Program are properly managed and controlled. These standards require us to observe applicable ethical standards in the conduct of our work.

**Scope of the audit**

The scope of our audit is set out in our Terms of Reference as noted in Section 4 of our report. It includes an assessment of the main risks to the achievement of the objectives of the Program including risks to the Program funding provided not being 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, and the risk of error, irregularities and fraud with regard to Program funding. The scope of our audit includes an assessment of whether the design of the Internal Control System sufficiently mitigates those risks and whether it is operating effectively.

Our work is designed to focus only on the key internal controls of the Principal Recipient (or Sub-recipient) and specifically those relating to the Program which are designed to prevent and detect material errors, irregularities or fraud with regard to the Program funding.

For the purpose of determining what is a material weakness or deficiency in the Internal Control System, we have assessed whether the absence or failure of a control or a series of controls results in a significant risk of material error, irregularity or fraud in the use of the Program funds provided by the Global Fund.

Accordingly, our findings cannot be relied upon to disclose every weakness in internal control that may exist at the Principal Recipient (or Sub-recipient) or Program level. Additionally, although our audit scope includes consideration of qualitative as well as quantitative factors, it is not a performance audit and therefore focuses on internal financial controls rather than operational controls.

We have considered all the available evidence presented to us during our fieldwork which we finalized on [date of closing meeting], including the subsequent comments and information of the Principal Recipient (or Sub-recipient) and the Global Fund up to the date of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

**Unqualified Opinion**

In our opinion, the Internal Control System set up and operated by the Principal Recipient (or Sub-recipient) for the purpose of managing material risks to the achievement of the objectives of the Program, was suitably designed and operated effectively in the period from [date] to [date].

**Emphasis of Matter** *<remove this paragraph if not applicable>*

Without qualifying our opinion, we draw your attention to the findings as set out in Section 5 of our report detailing minor weaknesses in the Internal Control System. As these weaknesses do not pose a significant risk to the achievement of the objectives of the Program, they are not considered to be material in the context of our audit. Nevertheless, we report them to you in accordance with our Terms of Reference in order that they may be brought to the attention of the Principal Recipient (or Sub-recipient) and remedied in order to further strengthen the Internal Control System.

**Distribution and Use**

This report is intended for the information of the Ministry of Health and the Global Fund.

*Auditors' signature <person or firm or both, as appropriate>.*

*Name of Auditor signing <person or firm or both, as appropriate>.*

*Auditor's address <office having responsibility for the audit>.*

*Date of signature <not be used for draft reports. The date when the final report is signed.>*

* 1. **Independent auditors’ report (qualified)**

We have audited the Internal Control System set up and operated by [name], the ‘Principal Recipient (or Sub-recipient)’ for the Program entitled [title of the Program], the ‘Program’ and for the purpose of managing risks to the achievement of the objectives of the Program. These risks include risks to the Program funding provided by the Global Fund not being 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 and the risk of error, irregularities and fraud with regard to Program funding.

This systems audit covers the design and operating effectiveness of the Internal Control System in the period from [date] to [date].

Our findings are set out in the relevant sections of our report, which is made solely to the Global Fund in order to gain assurance that risks to the achievement of the objectives of the Program are properly managed and controlled.

**Respective Responsibilities of the Principal Recipient (or Sub-recipient)'s management and the Auditors**

The Principal Recipient (or Sub-recipient)’s management is responsible for the design, implementation and effective operation of the Internal Control System, including the management and control of risks to the achievement of the objectives to the Program.

Our responsibility is to audit the Internal Control System and to report our findings to the Global Fund in accordance with the Terms of Reference for the audit engagement. These specify that we should carry out our work in accordance with the International Framework and Standards for Assurance Engagements (issued by the International Federation of Accountants) insofar as these standards can be applied in the specific context of a systems audit intended to provide assurance that risks to the achievement of the objectives of the Program are properly managed and controlled. These standards require us to observe applicable ethical standards in the conduct of our work.

**Scope of the audit**

The scope of our audit is set out in our terms of reference as noted in Section 4 of our report. It includes an assessment of the main risks to the achievement of the objectives of the Program including risks to the Program funding provided not being used in conformity with the applicable Contractual Conditions and the risk of error, irregularities and fraud with regard to Program funding. The scope of our audit includes an assessment of whether the design of the Internal Control System sufficiently mitigates those risks and whether it is operating effectively.

Our work is designed to focus only on the key internal controls of the Principal Recipient (or Sub-recipient) and specifically those relating to the Program which are designed to prevent and detect material errors, irregularities or fraud with regard to the Program funding.

For the purpose of determining what is a material weakness or deficiency in the Internal Control System, we have assessed whether the absence or failure of a control or a series of controls results in a significant risk of material error, irregularity or fraud in the use of the Program funds provided by the Global Fund.

Accordingly, our findings cannot be relied upon to disclose every weakness in internal control that may exist at the Principal Recipient (or Sub-recipient) or Program level. Additionally, although our audit scope includes consideration of qualitative as well as quantitative factors, it is not a performance audit and therefore focuses on internal financial controls rather than operational controls.

We have considered all the available evidence presented to us during our fieldwork which we finalized on *[date of the closing meeting]*, including the subsequent comments and information of the Principal Recipient (or Sub-recipient) and the Global Fund up to the date of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Basis for Qualified Opinion**

We refer to our findings as set out in Section 1 (Summary of Findings) of our report detailing significant weaknesses in the Internal Control System and which therefore pose a substantial risk to the achievement of the objectives of the Program. The effects of these weaknesses to the design and operating effectiveness of the Internal Control System are considered to be material in the context of our audit.

[We were unable to obtain sufficient appropriate audit evidence about [describe issues] because [describe reasons/circumstances]. The effects of this to the design and operating effectiveness of the Internal Control System are material but not pervasive in the context of our audit.]

**Qualified Opinion**

In our opinion, except for the effects of the matters referred to in the preceding 'basis for qualified opinion' paragraph, the Internal Control System set up and operated by the Principal Recipient (or Sub-recipient) for the purpose of managing material risks to the achievement of the objectives of the Program was suitably designed and operated effectively in the period from [date] to [date].

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*Auditor's address <office having responsibility for the audit>.*

*Date of signature <not be used for draft reports. The date when the final report is signed.>*

* 1. **Independent auditors’ report (adverse)**

We have audited the Internal Control System set up and operated by [name], the ‘Principal Recipient (or Sub-recipient)’ for the Program entitled [title of the Program], the ‘Program’ and for the purpose of managing risks to the achievement of the objectives of the Program. These risks include risks to the Program funding provided by the Global Fund not being 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 and the risk of error, irregularities and fraud with regard to Program funding.

This systems audit covers the design and operating effectiveness of the Internal Control System in the period from [date] to [date].

Our findings are set out in the relevant sections of our report, which is made solely to the Global Fund in order to gain assurance that risks to the achievement of the objectives of the Program are properly managed and controlled.

**Respective Responsibilities of the Principal Recipient (or Sub-recipient)'s management and auditors**

The Principal Recipient (or Sub-recipient)’s management is responsible for the design, implementation and effective operation of the Internal Control System, including the management and control of risks to the achievement of the objectives to the Program.

Our responsibility is to audit the Internal Control System and to report our findings to the Global Fund in accordance with the terms of reference for the audit engagement. These specify that we should carry out our work in accordance with the International Framework and Standards for Assurance Engagements (issued by the International Federation of Accountants) insofar as these standards can be applied in the specific context of a systems audit intended to provide assurance that risks to the achievement of the objectives of the Program are properly managed and controlled. These standards require us to observe applicable ethical standards in the conduct of our work.

**Scope of the audit**

The scope of our audit is set out in our terms of reference as noted in Section 4 of our report. It includes an assessment of the main risks to the achievement of the objectives of the Program including risks to the Program funding provided not being 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 and the risk of error, irregularities and fraud with regard to Program funding. The scope of our audit includes an assessment of whether the design of the Internal Control System sufficiently mitigates those risks and whether it is operating effectively.

Our work is designed to focus only on the key internal controls of the Principal Recipient (or Sub-recipient) and specifically those relating to the Program which are designed to prevent and detect material errors, irregularities or fraud with regard to the Program funding.

For the purpose of determining what is a material weakness or deficiency in the Internal Control System, we have assessed whether the absence or failure of a control or a series of controls results in a significant risk of material error, irregularity or fraud in the use of the Program funds provided by the Global Fund.

Accordingly, our findings cannot be relied upon to disclose every weakness in internal control that may exist at the Principal Recipient (or Sub-recipient) or Program level. Additionally, although our audit scope includes consideration of qualitative as well as quantitative factors, it is not a performance audit and therefore focuses on internal financial controls rather than operational controls.

We have considered all the available evidence presented to us during our fieldwork which we finalized on *[date of the closing meeting]*, including the subsequent comments and information of the Principal Recipient (or Sub-recipient) and the Global Fund up to the date of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

**Basis for Adverse Opinion**

We refer to our findings as set out in Section 2 (Summary of Findings) of our report detailing fundamental weaknesses in the Internal Control System and which therefore pose a critical risk to the achievement of the objectives of the Program. The effects of these weaknesses to the design and operating effectiveness of the Internal Control System are considered to be both material and pervasive in the context of our audit.

[We were unable to obtain sufficient appropriate audit evidence about [describe issues] because [describe reasons/circumstances]. The effects of this to the design and operating effectiveness of the Internal Control System are material and pervasive in the context of our audit.]

**Adverse Opinion**

In our opinion, because of the fundamental nature of the matters referred to in the preceding 'basis for adverse opinion' paragraph, the Internal Control System set up and operated by the Principal Recipient (or Sub-recipient) for the purpose of managing material risks to the achievement of the objectives of the Program was not suitably designed and did not operate effectively in the period from [date] to [date].

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*Auditor's address <office having responsibility for the audit>.*

*Date of signature <not be used for draft reports. The date when the* ***final*** *report is signed.>*

* 1. **Independent auditors’ report (disclaimer)**

We have been engaged to audit the Internal Control System set up and operated by [name], the ‘Principal Recipient (or Sub-recipient)’ for the Program entitled [title of the Program], the ‘Program’ and for the purpose of managing risks to the achievement of the objectives of the Program. These risks include risks to the Program funding provided by the Global Fund not being 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 and the risk of error, irregularities and fraud with regard to Program funding.

The purpose of this systems audit was to cover the design and operating effectiveness of the Internal Control System in the period from [date] to [date].

**Respective Responsibilities of the Principal Recipient (or Sub-Recipient)'s management and auditors**

The Principal Recipient (or Sub-recipient)’s management is responsible for the design, implementation and effective operation of the Internal Control System, including the management and control of risks to the achievement of the objectives to the Program.

Our responsibility is to audit the Internal Control System and to report our findings to the Global Fund in accordance with the terms of reference for the audit engagement. These specify that we should carry out our work in accordance with the International Framework and Standards for Assurance Engagements (issued by the International Federation of Accountants) insofar as these standards can be applied in the specific context of a systems audit intended to provide assurance that risks to the achievement of the objectives of the Program are properly managed and controlled. These standards require us to observe applicable ethical standards in the conduct of our work.

**Basis for Disclaimer of Opinion**

The scope of our audit is set out in the terms of reference as noted in Section 4 of our report. We were unable to obtain sufficient appropriate audit evidence about the [describe issues] because [describe reasons/circumstances]. The possible effects of this to the design and operating effectiveness of the Internal Control System could be both material and pervasive in the context of our audit. As a result of this uncertainty, we do not have a basis for an opinion.

**Disclaimer of Opinion**

Because of the significance of the matters described in the 'basis for disclaimer of opinion' paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the design and operating effectiveness of the Internal Control System in the period from *[date] to [date].*

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*Date of signature <not be used for draft reports. The date when the final report is signed*

1. **Summary of Findings**

**2.1 Summary of Internal Control Findings**

The internal control findings detailed in section 5 are summarized here below:



1. **Program background, audit structure and description of entities**
	1. **Program Background: [to be completed be Principal Recipient]**

*[The Principal Recipient should include a brief background on the grant including its main objectives and activities. Reference may be made to the program description in the Grant Confirmation.]*

*The Principal Recipient 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 the Global Fund to the Principal Recipient and from the Principal Recipient to the Sub-recipients.*

* 1. **Program Entities and audit approach: [to be completed by the Principal Recipient]**

*The Principal Recipient should describe the nature of the audit and how it is categorized, explaining any agreed exceptions. The Principal Recipient 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 the auditor should be aware of.*

1. **The Audit**
	1. **Audit Objectives**

*[Text from this section should normally be the same as in section 2 of the terms of reference.]*

* 1. **Audit Scope**

*[Text from this section should normally be the same as in section 5 of the terms of reference.]*

* 1. **Audit Procedures**

*[Text from this section should normally be the same as in section 6 of the terms of reference.]*

1. **Findings and Recommendations**

*[The auditor should document the details findings and recommendations*. *Each finding should be given a sequence number.]*