|  |
| --- |
|  |

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  |

|  |
| --- |
| **Guidelines for Annual Audit of Global Fund Grants**Terms of Reference for Fraud-related Engagements/Forensic Audit of [grant#] |

 |  |

November 2019 Geneva, Switzerland

Contents

[1. Program background, audit structure and description of entities 3](#_Toc27401830)

[**1.1.** **Program Background: [to be completed by the Principal Recipient.** 3](#_Toc27401831)

[[If the audit if for all grants in the country, then this section should provide the description of all grants] 3](#_Toc27401832)

[**1.2.** **Program Entities and audit approach:** [to be completed by the Principal Recipient] 3](#_Toc27401833)

[2. Contacts [*to be provided confidentially to the auditor*]: 3](#_Toc27401834)

[3. Objectives of the Audit 3](#_Toc27401835)

[4. Principal Recipient responsibilities 4](#_Toc27401836)

[5. Standards 4](#_Toc27401837)

[6. Scope 4](#_Toc27401838)

[7. Audit Procedures 5](#_Toc27401839)

[**7.1.** **Verification evidence** 6](#_Toc27401840)

[**7.2.** **Planning** 6](#_Toc27401841)

[**7.2.1.** **Kick-off meeting with the Principal Recipient** 6](#_Toc27401842)

[**7.2.2.** **Audit planning** 6](#_Toc27401843)

[**7.2.3.** **Risk Assessment** 6](#_Toc27401844)

[**7.2.4.** **Complementary letter** 7](#_Toc27401845)

[**7.2.5.** **Debriefing Memorandum** 7](#_Toc27401846)

[**7.2.6.** **Closing Meeting** 7](#_Toc27401847)

[8. Reporting 7](#_Toc27401848)

[**8.1** **Draft report** 7](#_Toc27401849)

[**8.2** **Final report** 7](#_Toc27401850)

[9. Requirements for the Auditor 8](#_Toc27401851)

[**9.1** **General Principles** 8](#_Toc27401852)

[**9.2.** **Qualifications, Experience and Team Composition** 8](#_Toc27401853)

[**9.2.1.** **Qualifications and Experience** 8](#_Toc27401854)

[**9.2.2.** **Team composition** 8](#_Toc27401855)

Terms of Reference for Fraud-related Engagement/Forensic Audit of [grant number]

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

[If the audit if for all grants in the country, then this section should provide the description of all grants]

1. The Principal Recipient should include a brief background on the grant including its main objectives and activities. Reference may be made to grant confirmation.
2. 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]
3. 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 should be brought to the attention of the auditor.
4. **Contacts** [*to be provided confidentially to the auditor*]:
5. The Principal Recipient shall provide a list of important contacts for the conduct of the audit including their full contact details. This should include at a minimum: Principal Recipient Chief Executive and Chief Finance Executive, Program Manager, Grant Finance Manager, Sub-recipient Chief Executives, Program Managers and key finance contacts.
6. **Objectives of the Audit**
* Assess whether the implementing entities (Principal Recipient or/and selected Sub-recipients) have adequate fraud prevention and detection control mechanisms;
* Whether these controls operate effectively
* [In case of suspicion of fraud, the country team/ Principal Recipient should include a specific objective for the assignment e.g. assess the cash management process and related allegations in the audit complementary letter dated [insert date] for confirmation and determination of the possible amount of loss]
* Provide specific recommendations to the Principal Recipient [The Global Fund] on effective anti-fraud procedures and controls
1. **Principal Recipient responsibilities**
2. The Principal Recipient should ensure that the auditor should have timely, full and unrestricted access at any time to all records and documents (including accounting records, contracts, minutes of meetings, bank records, invoices etc.), to employees of the Principal Recipient and sub-recipients, and to the Principal Recipient and sub-recipient locations insofar as this is possible and relevant to the assignment. The auditors should also be granted full access to other entities that do not appear in the Summary Budget, but that received funds from the grant for implementation (Not service provider[[1]](#footnote-1)). The auditor may request the Entity to get access to banks (e.g. to request a bank confirmation), consultants and other persons or firms engaged by the Entities.
3. **Standards**
4. The auditor will perform this fraud related/ forensic audit in accordance with the following standards:
* International Standard on Related Services (ISRS) 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information of the International Federation of Accountants (IFAC);
* The above standard is a subset of the International Standard on Quality Control (ISQC) which in turn, is a subset of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountant. The engagement should also be performed in accordance with both these standards.
1. **Scope**

*[To be adjusted by the Country Team/Principal Recipient in relation to the objective of the review and the potential red flags identified. The Global Fund guidelines on Financial Fraud Risk provides with the main fraud schemes the Global Fund face]*

1. The audit will be performed at the Principal Recipient’s offices and could include the offices of all or some selected the sub-recipients:
* Principal Recipient should fill out and provide the Office of the Inspector General’s Anti-Fraud and Corruption Self-Assessment to the auditor for assessment and as part of the planning stage of the audit. The template can be found in the following link (<http://www.ispeakoutnow.org/resources-en/>)
* In line with the objective, the audit will include a walkthrough at the Principal Recipient and selected sub-recipients to understand their fraud management procedures, identify the key controls particularly around (indicative list, not exhaustive):
	+ Management override of controls;
	+ Access rights management;
	+ Controls around journal entries;
	+ Conflict of interest management;
	+ Ethics and anti-corruption procedures.
* Assess the operating effectiveness of the identified controls per key process.
1. As part of the audit testing procedures, particular attention should be paid to the following areas [to be tailored based on the main activities in the grant]:
* Internal control: review the internal control fraud prevention mechanism in relation to five main categories for all the main processes of the Principal Recipient/sub-recipients:
	+ Proper authorization of transaction and activities
	+ Segregation of duties
	+ Design and use of appropriate documents and records
	+ Adequate safeguards over access to and use of assets and records
	+ Independent checks on performance
* Fraud schemes: The auditor should assess the preventive and detective controls relative to the following schemes [*to be updated by the Country Team/Principal Recipient accordingly]*
	+ Fraud schemes in Payroll particularly on ghost employees/ consultants,
	+ Fraud schemes in Travel Related Cost specifically on mischaracterized expense reimbursement and overstated expense reimbursement
	+ False billing fraud
	+ Fraud schemes in procurement more specifically on kickbacks schemes, bribery, bid- rigging schemes and conflict of interest schemes
	+ Cash, assets and financial statements schemes

[*Where tailored procedures have to be included, the Finance Specialist could consult the Global Fund Guidelines on Management of financial fraud risks to guide her/him*]

1. The Principal Recipient management must collaborate with the auditor and provide them with all the necessary information. The auditor must inform the Global Fund for immediate action in situations where a limitation in the auditor’s scope of work is noticed. This will consist of assessing whether the audit should continue or not and, should it continue, whether the audit scope and the timelines of reporting should be changed.
2. **Audit Procedures**
3. The auditor should review and understand the terms and conditions of the Grant Confirmation, detailed budget and Performance Framework approved by the Global Fund that applied at the time the activity was performed.
4. The auditor should be familiar with Global Fund Budgeting Guidelines, PU/DR Guidelines, AFR guidelines, or any other guidelines the Global Fund indicates as necessary for the review. The auditor should have a good knowledge of the country’s law and regulations.
5. The auditor should be familiar with resources and information available online for the [Speak out Now](http://www.ispeakoutnow.org/) campaign made by the Office of the Inspector General at the Global Fund.
6. Where the Principal Recipient has outsourced part or all the processes to a third-party organization, the auditor is required to review the controls implemented by this organization. Organizations such as the Fiscal Agents, the Fiduciary Agents and so on, may be selected by the Global Fund or the Principal Recipients to mitigate some of the operational risks of the program[[2]](#footnote-2).
	1. **Verification evidence**
7. When performing the specific procedures listed in these terms of references, the auditor may use techniques such as inquiries with the Principal Recipient staff; inspections of relevant documents and assets, observation of implementation of the controls and reperform some of the processes.

**7.2. Planning**

**7.2.1. Kick-off meeting with the Principal Recipient**

1. The auditor will arrange for an opening meeting with the Principal Recipient and the Fiscal/Fiduciary agent if applicable, to discuss and agree on the approach, objectives, scope and expected timelines of the audit.
2. During the preparatory and kick-off meetings, the auditor may request some information that he/she considers important for the preparation of the planning meeting. He/She may also contact the Principal Recipient directly to obtain such information. For all Focused countries, the attendance of the Local Fund Agent is mandatory. In High Impact and Core countries, the participation of the LFA would be based on Country Team request.

**7.2.2. Audit planning**

1. The auditor should plan the audit so that it is done effectively and efficiently. The auditor must ensure that appropriate attention is devoted to the main processes of the grant that must be determined in line with the grant budget and the initial risk assessment.
2. The auditor should have an audit plan documenting the audit approach and key principles of audit planning, fieldwork and reporting. The auditor should have an audit work program that details and document the audit tests and procedures.
3. Before the start of the fieldwork and before the kick-off meeting, the auditor should provide to the Global Fund and the Principal Recipient, the audit plan for each grant including the scope of the review. Particular attention will be paid to the audit approach at Principal Recipient but also at the selected Sub-recipients.

**7.2.3. Risk Assessment**

1. The main risks to achieve the program objectives must be assessed by the auditor. The assessment should form the basis of the auditor’s approach and should be sufficient to design the audit procedures.
2. **Risk assessment** is the identification and analysis of risks associated with the achievement of operations, financial reporting, and compliance goals and objectives. This, in turn, forms a basis for determining how those risks should be mitigated and managed during grant implementation[[3]](#footnote-3).
3. The Operational Risk Framework of the Global Fund uses the following sub-categories of financial risk to determine the overall financial risk assessment of individual grants:
* Inadequate Flow of Funds Arrangements
* Inadequate Internal Controls
* Financial Fraud, Corruption and theft
* Inadequate Accounting and Financial Reporting
* Limited Value for Money
* Inadequate Auditing Arrangements

**7.2.4. Complementary letter**

1. The auditor may issue at a complementary letter if he/she considers that the Global Fund should be made aware facts and issues that are or may be urgent or of particular interest and importance to the Global Fund.
2. For instance, this could be the case of any fraud or irregularity that has occurred or that is likely to occur. The Global Fund will decide on follow-up measures including where appropriate the launching of an investigation by its Office of Inspector General.

**7.2.5. Debriefing Memorandum**

1. The auditor will draft a Debriefing Memo for the closing meeting which will provide the main findings for discussion. The Principal Recipient should send a copy of the memo or draft report to the Global Fund.

**7.2.6. Closing Meeting**

1. The auditor is expected to provide the conclusions of his/her work during a closing meeting with the Principal Recipient and the selected Sub-recipients when relevant. The Country Team representatives should attend the meeting. The purpose of this meeting is to discuss the Debriefing Memo and to obtain the confirmation and initial comments of the Principal Recipient (and the selected Sub-recipients) on the auditor's findings and recommendations. The auditor and the Principal Recipient should agree outstanding information to be provided by the Principal Recipient and where applicable a deadline for submission.
2. The auditor can inform the Principal Recipient about the reporting procedures. Using his/her professional judgement and/ or the appropriate standards, the auditor will deal with the comments of the Principal Recipient and by the Global Fund Country Team representatives and take these into account for the audit report.
3. **Reporting**

**8.1 Draft report**

1. The Principal Recipient would provide comments on the auditor’s draft report within ten calendar days from receipt of the draft report. The relevant Global Fund’s Country Team may also request to review the draft report. Following the review of the draft report, should the Global Fund request the auditor to carry out additional work, a new reporting deadline could be agreed.
2. The auditor should submit an updated draft report which takes into account the comments to the Principal Recipient (and eventually the Global Fund) within five calendar days from receipt of the comments. The Principal Recipient would provide feedback to the auditor within five calendar days from receipt of the updated draft report.
3. If the Principal Recipient 's comments are not received within this deadline, the auditor reminds the Principal Recipient until a written reply from the Principal Recipient is received. In case of excessive delays from the Principal Recipient (more than ten calendar days), the auditor should contact the Global Fund to find out an appropriate solution.

**8.2 Final report**

1. Once the auditor receives the final comments from the Principal Recipients, the final report is expected to be issued within the next five calendar days.
2. The auditor should submit three original hard copies to the PR *[The Principal Recipient should agree the number of hard copies with the auditor]* and one electronic copy of the final report to the Principal Recipient and to the Global Fund[[4]](#footnote-4). In the cover note, the auditor should confirm that three original paper versions of the final audit report have been sent to the Principal Recipient.
3. In any case, the Principal Recipient should ensure the auditor sends directly to the Global Fund an electronic copy of the reports[[5]](#footnote-5)
4. **Requirements for the Auditor**

**9.1 General Principles**

1. To perform the audit, the audit firm must confirm its affiliation with a national accounting/auditing professional body. This professional body should:
* be a member of the International Federation of Accountants (IFAC)
* If not, the auditor should commit to undertake the engagement in accordance with the standards described above

**9.2. Qualifications, Experience and Team Composition**

**9.2.1. Qualifications and Experience**

1. The auditor will use staff with appropriate professional qualifications and suitable experience with IFAC standards, in particular theInternational Standard on Related Services (‘ISRS’) 4400 Engagements to perform Agreed-upon Procedures of entities comparable in size and complexity to the Entity. The following experience will be required:
* Knowledge and understanding of health-related programmes in general and demonstration of the understanding of the peculiarities of donors funded programmes;
* The team leader and at least one more hand-on staff should have a Certification in fraud management (e.g. CFE of the Association of Certified Fraud Examiners (ACFE));
* It is desirable that key staff (audit manager or partner) to have experience in the audit of Global Fund programmes;
* Knowledge the country’s law and regulations.

**9.2.2. Team composition**

1. The team composition will depend on the nature and complexity of the assignment. The composition remains the ultimate responsibility of the engagement partner who must ensure adequacy of the nature of the engagement with the qualifications, skills and competencies of the engagement team. The engagement team, their respective roles and responsibilities in the team as well as their experience in relevant sector/ engagements must be included by the auditor in the proposal.
1. This might not apply to UN entities depending on their respective framework agreement [↑](#footnote-ref-1)
2. The Global Fund Guidelines on Financial Risk Management could provide further details on the definition and roles of such third-party agents. [↑](#footnote-ref-2)
3. "Guide to Internal Controls - Finance.missouri.edu." <https://finance.missouri.edu/wp-content/uploads/guide-to-internal-controls.pdf>. [↑](#footnote-ref-3)
4. When the Audi firm is directly selected by the PR and therefore has a direct contractual relationship with the PR, it is expected that this contract includes a clause requiring to the Auditor to send directly an electronic copy of the final audit report to the Global Fund. [↑](#footnote-ref-4)
5. This is the responsibility of the auditor and should be mentioned in the contract between the Principal Recipient and the auditor. [↑](#footnote-ref-5)