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|  | |  | | --- | | **Guidelines for Annual Audit of Global Fund Grants**  Terms of Reference for Performance Audit | |  |

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**Terms of Reference for a Performance Audit**

1. **Introduction**

The following are the terms of reference (‘ToR’) on which the Principal Recipient agrees to engage the auditor to perform a performance audit of the [*Main question*] and to report in connection with the project below. [[1]](#footnote-1) The Performance Audits have to be authorized by the Global Fund Country Teams before any action is taking in this process.

1. **Program background, audit structure and description of entities**
   1. **Program Background**: [to be completed by the Principal Recipient]
2. 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.
3. 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]
4. 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.
5. **Contacts** [to be provided confidentially to the auditor]:
6. 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.
7. **Objectives**
8. The objective of the performance audit is to promote economical, effective and efficient governance. It also contributes to accountability and transparency[[2]](#footnote-2). The **objective** of a performance audit is also to answer, verify and conclude against agreed overall and subsidiary audit questions and hypothesis:

* Main audit question: [*defines the subject to be audited, the scope and purpose of the audit, and is the basis for the design of the whole audit*.]
* **Subsidiary questions or hypotheses:** [to formulate the audit questions – criteria - and the sub-question in a normative or analytical way, rather than just descriptive]

1. **Standards and Guidance**
2. The performance audit will be performed in accordance with the following standards:

* The performance auditing standards and guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI).
* All International Standards of Supreme Audit Institutions (ISSAIs) relevant to the audit, including but not limited to ISSAI 3100[[3]](#footnote-3) for defining the approach that will be applied.
* International Framework for Assurance Engagements (ISAE)particularly the International Standards on Assurance Engagements 3000 (ISAE 3000) relating to Assurance Engagements Other than Audits or Reviews of Historical 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.
  1. **General Principles**

1. To perform the audit, the audit firm must confirm its affiliation to 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.
  1. **Qualifications, Experience and Team Composition**
     1. **Qualifications and Experience**

1. The auditor will employ adequate staff with appropriate professional qualifications and suitable experience with ISSAI 3100 standards, in particular with experience in performance audits of entities comparable in size and complexity to the Entity. The following experience will be required:

* Knowledge and understanding of health-related program in general and demonstration of the understanding of the peculiarities of donors funded program;
* It is desirable that key staff (Audit Manager or Partner) to have experience in the audit of Global Fund program;
* Knowledge the country’s law and regulations.
  + 1. **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.
2. **Scope**
3. The audit will be performed at the Principal Recipient’s offices and places where the processes linked to the performance audit take place.
4. The auditor should take into account that the Principal Recipient requires meetings to prepare the audit, inform the Sub Recipients or other entities involved in the process to be audited, and to discuss the draft reports.
5. 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.
6. **Audit Procedures**
7. The auditor should perform the audit in accordance with the **performance audit procedures** set out in the following sectionandwhich cover audit documentation and evidence, planning, fieldwork, and reporting.
   1. **Specific procedures**
8. The performance audit will help to enhance the performance of a grant. The Global Fund will generally initiate such an audit in situation where there are reasons to believe that significant performance problems exist.
9. The review will generally concentrate on the three “E” review but particularly on Economy and the efficiency rather than the effectiveness (as this will be assessed through existing programmatic assurance). However, Country Teams will decide as to whether the review should also cover the “Effectiveness” of the program
10. INTOSAI through ISSAI 300 defines the three “E” as follow:

* Economy: The principle of economy means minimizing the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price.
* Efficiency: The principle of efficiency means getting the most from available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.
* Effectiveness: The principle of effectiveness concerns meeting the objectives set and achieving the intended results.
  + 1. **Procedures to review “Economy” of the inputs**

1. The auditor will be looking at the resource side of the entity (or process) by reviewing the following process [*illustration; should be tailored based on needs]*:

* Budgeting process: is it effective enough to consider optimal resources i.e. are the budgeted costs reasonable?
* Human Resource/Recruitment:
  + Were the key staff available at the right time to ensure effective implementation of the grant [or key activity, key process, etc.?];
  + review key staff competences vis-a-vis the objectives of the program;
  + assess the recruitment process for effectiveness.
* Goods and services:
  + Review the cost of inputs for reasonableness based on market prices;
  + Assess the procurement process to ensure goods and services are available in quantity and quality, as and when needed;
* Sub-recipients: they are key implementers and are therefore an important resource
  + Review the timing of sub-recipient selection and key sub-recipient readiness;
  + review cost per output for each (sub-recipient and benchmark where possible.
* Flow of funds
  + Review funds availability at Principal Recipient and implementation level (sub-recipients, district, etc.);
  + Cost of funds transfer mechanism.
    1. **Procedures to review “efficiency”**
* This concept makes the link between the output and inputs. The auditor will consider the program achievement (based on programmatic assurance) in relation to the targets and assess whether the related processes are effective.
* [Depending on the objective of the audit, the following processes could be reviewed: procurement, cash management, distribution, fixed assets management, advance payment and liquidation, reporting and forecasting, etc.]
* Benchmarking with other entities, the auditor will use various ratios to assess whether the program is efficient or not.
  + 1. **Consideration of the risk of fraud**

1. The auditor shall consider in the analysis whether fraud and corruption may explain the program underlying performance from both “economy” and “efficiency” perspective, including “effectiveness” if deemed necessary. The auditor will assess the system of the principal recipient to prevent and detect fraud and corruption
   1. **Planning** 
      1. **Kick-off meeting with the Principal Recipient and Pre-study*[[4]](#footnote-4)***
2. The auditor should arrange for an initial meeting with the Principal Recipient and the Country Team to discuss and explain the subject matter. The auditor should request additional information and documents that they consider necessary or useful for the planning and fieldwork of the audit.
3. The purpose of the pre-study is to:

* Collect information to increase the auditors’ knowledge of the audit topic;
* Make preliminary observations and find indications on problems in the audit area;
* Structure problems in the area for audit to understand how they are related to each other;
* Identify possible audit problems as alternative focus for a main study;
* Plan the main study, define the audit objective, audit scope, audit questions and sub-questions, audit criteria, strategy and methods for data collection and analysis and administratively plan the audit – all documented in a work plan.
* When planning an audit, auditors should assess the risks of fraud. If this is significant within the context of the audit objectives, the auditors should obtain an understanding of the relevant internal control systems and examine whether there are signs of irregularities that hamper performance.
  + 1. **Audit approach**

1. Based on the main audit question to be provided by the country team/Principal Recipient, the audit should provide its audit approach and explain the different steps
2. The following elements are essential to be developed in the planning stage of a Performance audit[[5]](#footnote-5):
3. The main audit question or problem to be examined;
4. The audit criteria (What should be), the benchmark or the requirements needed for confirmation of hypotheses;
5. The specific issue to be examined for each sub-question;
6. The information needed to answer the sub-questions; i.e. kinds of studies needed;
7. How to collect the information, i.e. kinds of investigations and data gathering techniques needed;
8. The degree of accuracy and completeness needed to answer the audit questions/verify the hypotheses i.e. level of ambitions of data accuracy;
9. Where to collect information and what examination period to be covered;
10. The accessibility, reliability and manageability of available information, i.e. risks or limitations;
11. How to compile and analyze information (qualitative and quantitative methods, graphics etc.).
    1. **Audit field work** 
       1. **Audit Evidence**
12. Performance audits must be carried out thoroughly, with the aim of collecting relevant, valid, reliable and sufficient evidence in order to enable anyone else to arrive at the same conclusions as the performance audit report. This calls for exercising sound judgement when deciding the audit objective, the scope of the audit, the audit questions and criteria, the strategy for data collection and analysis, the methods to be used, the issues to be reported and the overall audit conclusion[[6]](#footnote-6).
13. The auditor should obtain sufficient and appropriate audit evidence to support audit findings and to draw reasonable conclusions on which to base conclusions and recommendations.
14. Procedures to obtain evidence regarding the subject matter may include:

* Inspecting Grant Agreement conditions, manuals of procedures, guidelines, etc.
* Inquiring of the Principal Recipient staff who may have relevant information;
* Observation of implementation of the controls;
* Reperforming internal control procedures, or processes related to the sub-questions and/or hypothesis.
* Interviews with relevant staff and consultants that participated in the process which is being evaluated;

1. In any case, the auditor must provide his/her proposed detailed approach to achieve the objectives of the audit to the Global Fund or/and to the Principal Recipient.
   * 1. **Complementary letter**
2. The auditor may at any time during the audit process issue a complementary letter if he/she considers that the Global Fund must be informed about facts and issues that are or may be urgent or of particular interest and importance to the Global Fund.
3. 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.
   * 1. **Debriefing Memorandum**
4. 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.
   * 1. **Closing Meeting**
5. 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 can 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.
6. 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.
   1. **Reporting**
      1. **Findings (“What is”, compared to “what should be”)**
7. According to ISSAI 300:39, performance auditors should provide audit reports which are comprehensive (i.e. include all information needed in light of the objectives and sufficiently detailed to provide an understanding of the subject matter, the scope of the audit, the finding, and the conclusions) and convincing (i.e. logically structured, presenting a clear relationship between audit objectives, criteria, findings, conclusions and recommendations). The reports should also be timely, reader-friendly and balanced. The sources of audit evidence and other important information should be indicated in the report and, when appropriate, also how the information has been collected[[7]](#footnote-7).
8. Audit teams should, when possible, try to quantify the effects. For example, the cost of expensive processes, expensive inputs or unproductive facilities can be estimated. Also, the effect of inefficient processes such as idle resources or poor management may become apparent in terms of time delays or wasted physical resources. When the effects cannot be quantified the team could give examples of the effects of lack of control, poor decisions or lack of concern for service.
   * 1. **Audit Conclusions and Recommendations**[[8]](#footnote-8)
9. Performance audit reports are not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness at the level of the audited entity in the same way as the opinion on financial statements. This is also not a requirement of the ISSAI framework. Whether economy, efficiency and effectiveness have been achieved may be conveyed through an overall view on aspects of economy, efficiency and effectiveness, when the audit objectives, the subject matter, the evidence obtained and the findings reached to allow for such conclusions, or by providing specific information in the report on different points, including the audit objective, the questions asked, the evidence obtained, the criteria used, the findings reached and the specific conclusions.
10. For recommendations to be practical, it is important that they are realistic, which in principle means that it should be possible to implement them within available resources.
    * 1. **Draft report**
11. The Principal Recipients would provide comments on the auditor’s draft report within 10 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.
12. The auditor should submit an updated draft report which takes into account the comments to the Principal Recipient (and eventually the Global Fund) within 5 calendar days from receipt of the comments. The Principal Recipient would provide feedback to the auditor within 5 calendar days from receipt of the updated draft report.
13. 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 10 calendar days), the auditor should contact the Global Fund to find out an appropriate solution.
    * 1. **Final report**
14. Once the auditor receives the final comments from the Principal Recipients, the final report is expected to be issued within the next 5 calendar days.
15. The auditor should submit three original hard copies to the Principal Recipient and one electronic copy of the final report to the Principal Recipient and to the Global Fund[[9]](#footnote-9). 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.
16. In any case, the Principal Recipient should ensure the auditor sends directly to the Global Fund an electronic copy of the reports[[10]](#footnote-10).

1. This TOR were developed mainly based on information from the documents: Designing performance audits: setting the audit questions and criteria, INTOSAI, Performance Audit Handbook, November 2013, AFROSAI-E, And the Template Performance Audit Manual by AFROSAI-E, 2014. [↑](#footnote-ref-1)
2. Performance Audit 2014 AFROSAI-E Template Performance Audit Manual Part I1\_00, page 10 [↑](#footnote-ref-2)
3. <http://www.intosai.org/issai-executive-summaries/detail/detail/News/issai-3100-performance-audit-guidelines-key-principles.html> [↑](#footnote-ref-3)
4. Performance Audit Handbook, November 2013, AFROSAI-E, pages 55-59 [↑](#footnote-ref-4)
5. INTOSAI Performance Audit Subcommittee - PAS Designing ... (n.d.). Retrieved from [http://www.psc-intosai.org/data/files/70/47/89/DB/90B07510C0EA0E65CA5818A8/Desig...](http://www.psc-intosai.org/data/files/70/47/89/DB/90B07510C0EA0E65CA5818A8/Designing-performance-audits_-setting-audit-questions.pdf) [↑](#footnote-ref-5)
6. ISSAI 3000, Section 2.2, page 38. See also ISSAI 300:37 [↑](#footnote-ref-6)
7. [↑](#footnote-ref-7)
8. "INTOSAI." Fundamental principles of performance auditing. <http://www.psc-intosai.org/data/files/1E/96/00/30/4EBF6510C0EA0E65CA5818A8/ev-is...> [↑](#footnote-ref-8)
9. When the audit firm is directly selected by the Principal Recipient and therefore has a direct contractual relationship with the Principal Recipient, 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-9)
10. This is the responsibility of the auditor and should be mentioned in the contract between the Principal Recipient and the auditor. [↑](#footnote-ref-10)