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

November 2019 Geneva, Switzerland

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[*Date]*

[*Principal Recipient official e.g. Principle Secretary]*

*[Address*]

Ministry of Health

P. O. Box 30152-00100

Ficticia

Dear Sir,

**AUDIT OF GLOBAL FUND GRANT NUMBER FUR-H-MOH FOR THE PERIOD [State the period e.g. January 1, 2019 to December 31, 2019]**

We have now completed the audit of [*Principal Recipient name e.g. the Ministry of Health*] of [*Country e.g. Ficticia*] and are pleased to present our report and findings thereon.

Should you require to discuss any of the issues raised in this report, please do not hesitate to contact us.

Yours faithfully

ABC Auditors

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.
4. Also, this section should specify investments that are planned and already made (acquisition costs or Net Book Value if tracked by the Principal Recipient/Sub-recipients) as well as main implementers and users of the grant assets. This could include material investments in assets *[please refer to the description of assets in the section 5.2]* that have been made in a prior grant agreement and are expected to be used in the current grant implementation period.
   1. **Program Entities and audit approach**: [to be completed by the Principal Recipient]
5. 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.
6. **Contacts** *[to be provided confidentially to the auditor]*
7. 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.
8. **Objectives**
9. The objective of the audit is to provide assurance on the following:

* Whether the Principal Recipients *[and/or main sub-recipients and/or national drugs stores and/or any entity storing and managing assets acquired with grants funds]* have an asset management policy and that the related controls are designed effectively;
* Whether the policy is enforced by management and the related controls on assets management operate effectively;
* Identify and report any material assets mismanagement, diversion, damage and wastage and quantify – where applicable- the estimated loss for the Global Fund;
* Identify the good practices and the weaknesses noted during the audit. The auditor is expected to provide some recommendations for improvement on the weaknesses identified, suggest the timeline for implementation and grade them by severity[[1]](#footnote-1).

1. **Standards and Guidance**
2. The auditor who performs this asset safeguard audit is governed by:

* The International Standard on Related Service will be used to perform an agreed-upon procedure on asset safeguard.
* ISAE 3402 on "Assurance Reports on Controls at a Service Organization" could be additionally used to ascertain control at third-party entities used by either the Principal Recipient or the Global Fund to manage all or part of the asset purchased with grant funds.

1. **Scope**
   1. **Geographical coverage**
2. The audit will be performed at the premises of the Principal Recipient (and sub-recipients as applicable) and any location where a material amount of stock or fixed assets purchased under the current (or if applicable any prior Global Fund grant) are stored or used. This could include the premises of all or some of the sub-recipients included in the grant’s implementation map, depending on their involvement in the delivery of the services until final intended user[[2]](#footnote-2)*.* The audit could also be performed at the national drug store, specifically to review the design and operating effectiveness of the controls in relation to stock management. The auditor should take into account that the Principal Recipient requires meetings to prepare the audit and to discuss the draft reports.
   1. **Type of Assets to be audited**
3. All assets purchased with Global Fund grant funds could potentially be included in the scope of an assets safeguard audit. The main types of assets are the following:

* Motorized and non-motorized vehicles (Vehicles, forklifts, Motorcycles and bicycles, etc.)
* Equipments (including non-health and health equipments)
* Stock of health products
* Civil works (renovation, refurbishment, etc.)

1. Period covered: The period covered will be agreed with the Global Fund but will generally refer to an implementation period or an annual period.
   1. **General procedures**
2. The auditor should perform the following procedures:

* Obtain an understanding of the entity’s policy on the safeguarding of assets and assess the adequacy of the policy vis-a-vis the assets acquired for the program;
* Identify the control (entity, process and transaction) including the oversight mechanism for the sub-recipients and third-party entities involved in managing assets acquired with grant funds and assess the design of the controls for effectiveness;
* Obtain and review any agreement with a third party for assets management
* Assess the operating effectiveness of the key controls identified on asset management in the previous steps at both the implementing entity and the third-party contractor
  1. **Specific procedures**

Review the design and implementation of the following policies and processes (as a minimum):

1. *For Motorized vehicles:* review the following process:

* Optimization of use of the fleet (vehicle assignment and use, including parking after working hours).
* Log books and related analysis/review including fuel management.
* Inventory practices.
* Maintenance and insurance.
* Theft and misuse prevention.
* Protection against nature elements and fire.

1. *Equipments*

* Control of conformity at reception of the equipment.
* Labelling and inventory practices and allocation to users.
* Management of the fixed asset register as a control mechanism.
* Maintenance and insurance.
* Theft and misuse prevention.

1. *Stock management[[3]](#footnote-3)*

* Inventory practices.
* Warehouse safety control and management.
* Stock out prevention and management.
* Prevention of expiries and related controls (design and operating effectiveness).
* Theft prevention and warehouse security (incl. building condition and protection against nature elements and fire).

1. *Cross cutting safeguards:*

* Reconciliation between accounting records and asset records (stock/inventory) and Policies regarding regular and surprise stock and inventory counts;
* Asset procurement as well as disposal policy and procedure: Review design and implementation.

1. Specific cases of construction (or/and refurbishment/rehabilitation) will be discussed and agreed with the Global Fund on a case by case basis.
2. Where the Principal Recipient has outsourced part or all of the above processes to a third-party organization, the auditor is required to review the controls implemented by this third-party organization. These organizations may include the Fiscal Agents, the Fiduciary Agents, Procurement Agents, Payment Agents etc. who may be selected by the Global Fund or the Principal Recipients to mitigate some of the operational risks of the programs[[4]](#footnote-4).
3. For each of the specific processes described above, the Auditor will identify the related safeguard procedures and provide recommendations where necessary to improve this process.
4. **Planning**
   1. **Kick-off meeting with the Principal Recipient**
5. For each grant, the auditor will arrange for an opening meeting with the Principal Recipient *[and the fiscal/fiduciary agent if applicable]*, to discuss and agree the approach, objectives, scope and expected timelines of the audit.
6. During the preparatory and kick-off meetings, the auditor may request some information that she/ he considers important for the preparation of the planning meeting. She/He 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.
   1. **Audit planning**
7. For each grant, the auditor should plan the audit in order 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.
8. 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.
9. 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.
10. **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[[5]](#footnote-5).
11. 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

1. Assets management is included in the “Inadequate Internal Controls” and “Financial Fraud, Corruption and Theft”. The auditor should refer to the Global Fund Guidelines on Financial Risks and the Financial Management Handbook or Grant Implementers for further details.
2. **Audit Procedures**
3. The auditor should perform the assets safeguardaudit in accordance the standards defined supra. If the nature of the intervention to be audited require additional procedures, those need to be communicated and agreed by the Country Team beforehand.
4. The auditor should exercise due professional care and judgment and determine the nature, timing and extent of audit procedures to fit the objectives, scope and context of the audit.
5. The auditor should agree with the Principal Recipient and the Country Team the audit procedures to be performed for this type of audit, including the ones that are not contemplated the standards.
6. If relevant for the audit, ISA 610 “Using the Work of Internal Auditors” should be used by the auditor. If the auditors assess that an internal audit function can be relied on for the assignment, the auditor should
7. Evaluate the specific work of the internal auditor and to what extent such work can be considered for the audit
8. Assess if the work of the internal audit is adequate for the objective of the audit.
9. **Completion**
   1. **Written representations**
10. In assurance engagements other than audits or reviews of historical financial information (ISAE 3000) the auditor should obtain representations from the management. A written representation is a statement by the management provided to the auditor to confirm certain matters or to support other audit evidence. The management of the Principal Recipient who has the primary responsibility for the program and its financial aspects will be requested to sign the representation letter.

* 1. **Complementary letter**

1. The auditor may at any time during the audit process draw up 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.
2. For instance, this could be the case of any theft of assets 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**
3. 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**
4. 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.
5. 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.
6. **Reporting**
   1. **Basic Reporting Requirements and Language**
7. The auditor will issue a fact finding report as mandated by the International Standards on Related Services (ISRS). When a service contractor is used by the PR, the auditor could also issue a type 2 report per International Standards on Assurance Engagements (ISAE) 3402. The report should be provided in English.
   1. **Submission of the draft report**
8. 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.
9. 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.
10. 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.
    1. **Submission of the final report**
11. Once the auditor receives the final comments from the Principal Recipient, the final report is expected to be issued within the next five calendar days.
12. The auditor should submit three original hard copies to the Principal Recipient [Principal Recipient to specify the number of copies requested] and one electronic copy of the final report to the Principal Recipient and to the Global Fund Country Team[[6]](#footnote-6).
13. In any case, the Principal Recipient should ensure the auditor sends directly to the Global Fund an electronic copy of the reports[[7]](#footnote-7).

1. Using the grading system in annex 1 [↑](#footnote-ref-1)
2. When the Principal Recipient includes entities not mentioned in the grant’s implementation map or in the grant’s Summary Budget, the auditors should bring this to the attention of the Country Team for deciding on the way forward. [↑](#footnote-ref-2)
3. Stock management on health products could be done in accordance with ISAE 3402 Assurance Report on Controls at Service [↑](#footnote-ref-3)
4. The Global Fund Guidelines on Financial Risk Management could provide further details on the definition and roles of such third-party agents. [↑](#footnote-ref-4)
5. "Guide to Internal Controls - Finance.missouri.edu." <https://finance.missouri.edu/wp-content/uploads/guide-to-internal-controls.pdf>. [↑](#footnote-ref-5)
6. When the audit 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 an electronic copy of the final audit report directly to the Global Fund. [↑](#footnote-ref-6)
7. This is the responsibility of the auditor and should be mentioned in the contract between the PR and the auditor. [↑](#footnote-ref-7)