Terms of Reference

Review of Controls over Financial Reporting

July 2025

**Background information**

These Terms of Reference (ToR) provide a general framework for **Review of Controls over Financial Reporting** assurance assignments but should be tailored to each case’s specific needs and context for maximum relevance and effectiveness.

**Objective and Scope of work**

The main objective of this assignment is to provide reasonable assurance that the internal controls over financial reporting are robust and operate effectively.

In particular:

1. Review the Principal Recipients’ processes to book, consolidate and report financial information consistent with the assertions embodied in each cost category and module/intervention of the Annual Financial Report.
2. Identify and test those procedures that have been determined as necessary to achieve this objective as stated in (1) above and assess their operating effectiveness throughout the period.

Internal controls over financial reporting, when designed appropriately and operated effectively, provide many benefits:

1. Safeguarding an entity’s assets from fraud or significant loss,
2. Maintaining integrity of financial data and transactions,
3. Facilitating compliance with the applicable financial reporting and statutory compliance frameworks and enabling information flows across the entity.
4. Providing insights for decision making and promoting accountability.

**Not covered by this ToR**

IT General Controls (ITGC) or General Computer Controls (GCC) are controls which relate to the environment that supports IT Applications. Obtaining assurance over the appropriateness and effectiveness of ITGC’s is out of scope for this ToR but rather subject to another specialist IT audit.

**Applicable Corporate Risk**

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| Grant-related Fraud & Fiduciary | Flow of Funds Arrangement |
| Internal Controls |
| Financial Fraud, Corruption & Theft |
| Value for Money - Financial Management |
| Accounting & Financial Reporting by Countries | Accounting & Financial Reporting |
| Auditing Arrangements |

1. **Detailed Scope of work**

The scope of the review will cover the following areas:

**Initial assessment**

1. Verify that the implementer has an adequate structure and staff possessing the appropriate skills and experience to perform the financial reporting responsibilities.
2. Verify that the implementer has in place a Financial Management Information System (FMIS) and the system robust enough to ensure effective control and accountability over funds and assets and reliable accounting records are maintained.
3. Verify that a formal financial reporting mechanism is in place specifying the nature, content, frequency format, review, approval and responsible staff for each type of financial report.
4. Determine that the reports adhere to the principles of understandability, relevance, reliability and comparability.
5. Confirm that the reporting mechanism has the capacity to link the financial information with the program’s progress.

**Periodic reviews**

1. Confirm that there is a formal structure in place to ensure the quality and timeliness of financial reporting.
2. **Recommended procedures - Detailed approach and methodology**

| **A. Initial assessment of PR controls over financial reporting** | | |
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|  | **Objective** | **Recommended procedures** |
| 1. | Verify that the implementer has an adequate structure and staff possessing the appropriate skills and experience to perform the financial reporting responsibilities. | Verify that:   1. The PR has dedicated designated employee as   the head of the function. The supporting staff all have an adequate combination of accounting experience and education to fulfill the assigned responsibilities.   1. The finance department has an organigram with   clear roles and responsibilities including reporting lines for responsibility and accountability.   1. The number of finance staff is sufficient to allow for   adequate segregation of duties over the financial reporting process.   1. Finance staff are aware of and understand   compliance requirements and are encouraged and empowered to communicate all instances of noncompliance to management. |
| 2. | Verify that the implementer has in place a Financial Management Information System (FMIS) and the system robust enough to ensure effective control and accountability over funds and assets and reliable accounting records are maintained. | 1. Verify that the Financial Management Information System of the implementer has the following mandatory modules:  * General ledger * Budget Management * Accounts Receivable (AR) and Accounts Payable (AP) * Asset and Inventory Management * Cash Management * Reporting   Other Optional/Additional Module to be considered:   * Human Resources Management * Procurement Management * Business Intelligence * Documents Management * Project Management  1. For the **General ledger** module:  * Verify that the system is capable of uploading/maintaining Global Fund approved budgets in grant currency and payment currencies, showing all its costing dimensions – modules, interventions, cost groupings, cost inputs, activities etc.   Following on from the above, verify that the software is able to maintain at least 2 versions of the budget: originally approved grant agreement budget, latest approved grant budget (if applicable) backed by an implementation letter (IL) and a working version of the budget (with 1st and 2nd versions being a minimum requirement)   * Confirm that there is automatic reconciliation of GL with sub-ledgers. * There is an audit trail for all entries into the general ledger. No general ledger account balance can be changed without visible evidence that a change has taken place. * The general ledger tracks balances for balance sheet accounts, such as receivables, prepayments, fixed assets, and payables, in addition to those for cash. * Verify that the systems require as part of the controls for processed transactions to be reviewed and posted before they are integrated into the General Ledger. * Verify that system is enhanced or has functionality for periodic closure capability.   That the system can perform monthly closure of accounts and also yearly account closure, after passing journal entries to make any required and approved postings to correct any errors or omissions (using ID of officer in finance).   * There is a documented process for ensuring that allocatable direct costs are fairly and consistently distributed to the cost centers and projects that benefit from those expenses. * Assess that the chart of accounts mapping is as per business requirements and that the system has the organization’s chart of accounts fully implemented therein. * The chart of accounts contains account numbers   and descriptions for all assets, liabilities, revenues, and expenses.  - The account codes should be structured to enable identification, monitoring and reporting of financial information for the financial management of grant activities.  - The account labels should reflect as much as possible the nature and the purpose of the income or expenditure.  - The accounts should be arranged and designated to give maximum information without the need for supplementary analysis.  - The guidelines on the use of the accounts codes should be provided to the relevant staff.  - Periodic review of the chart of accounts must be performed to ensure that it adequately supports the financial management and internal control requirements of the organization; and  - Modification to the chart of accounts must be controlled and approved by the appropriate person as per the delegation of authority of the organization.   * That the system can automatically generate the Trial Balance or a flat/output file containing required accurate financial sets that can feed (using the access ID of the finance manager or finance officer): * Financial Statements: income statement or statement of financial performance, balance sheet or statement of financial position * Annual Financial Report (AFR)/Principal Recipient expenditure * Verify that the annual financial reports reconciled with progress update and disbursement reporting (PUDR).   For **Budget management**, confirm that the system has:   * Capability to store agreed budget and revised budget in the financial system * Budgetary control by Activities and Interventions * Capability to report budget consumption, variance and accurate forecasts.   For **Accounts Receivable (AR) and Accounts Payable (AP),** confirm that the system has:   * Automatic reconciliation of AP and AR transactions with GL. * Integration with Cash Management. * Automatic re-evaluation of open balances (monthly or quarterly). * Reporting capability (Aging balance, Open invoices / receivables…). * Supplier and Customer Master Data Management (shared with Procurement module). * Check that the treatment of advances is in compliance with GF and implementer guidelines, and that an aged advances report can be extracted.   For **Asset and inventory management**, confirm that the system has:   * Integration with procurement module to automate asset / inventory entry * Capability to record asset / goods movement * Standard reporting to track assets and monitor stocks   For **Cash management**, confirm that:   * Cash ledgers (cashbooks) are maintained and updated daily for recording all cash (currency) receipts and disbursements and for keeping running balances of all cash-on-hand funds. * Automated integration of bank statement & generation of payment file. * The system can perform automated monthly bank reconciliation (using access ID of finance officer) and is able to generate a bank reconciliation statement for review and approval by finance manager (note: review and approval by finance manager is done on the system-generated bank reconciliation statement sheet even if the approval is not by automated workflow approval but involves physical signature on the sheet). * Capability to report cash balance and cash forecast.   For **Procurement management**, confirm that the system:   * Has commitment accounting in place to impact budget and reporting.   Prior to obtaining approval, use is made of business intelligence functionality in system that will provide analytics to track budget adjustments so that for each activity at time of PO creation for approval, the system is capable of providing information on deviations from approved budget at intervention level and also for discretionary cost categories to assist in determining whether or not the +/- 25% threshold at intervention level and the less than 10% increase for discretionary cost categories (excluding HR, which is material for any change whatsoever) has been breached for GF approval.   * Has capability to manage approval hierarchy for PO. * Can manage supplier master data (using the access ID of someone in the procurement/logistics department that is different from someone in finance accounts payable). * Can raise and approve Purchase Order (PO) for the supplier above, after doing a funds check to ensure that there is an available budget (using 2 access IDs: one for the one generating PO from logistics/procurement and another ID for the approving authority). Where there is unavailability of funds, approval is needed before funds can be transferred from another budget line(s) to this budget line. * Confirm that there is automatic control between PO, receipt and invoice. * That an invoice linked to a PO can be processed in the system, impacting accounts payable, relevant expense and indirect tax accounts such as VAT, withholding taxes as may be applicable (using access ID of a finance officer charged with AP responsibility). * That 2 payments against the invoice in (VII) above can be processed in the system, impacting accounts payable and bank (using access ID of someone in finance treasury different from the finance officer in (VI), above). This includes system processing statutory obligations such as withholding taxes. * Confirm that system has functionality for automatic re-evaluation of open balances (monthly or quarterly). * Confirm reporting capability (generate trial balance, generate customized report for donors based on mapping table…). * Confirm that the system allows for accounting journal adjustments for current and previous periods. * Confirm for FX management if applicable. * Confirm for Tax Management.   For **Sub-recipient management** (scope to be tailored on a grant-by-grant basis)   * Separate cost centers or project numbers are used to identify each project conducted by the subrecipient. * Each bank account has been given a separate account number in the subrecipient's general ledger. * The PR maintains a single, formal general ledger that includes all financial transactions and uses double-entry bookkeeping. * Each month the subrecipient closes its books and prepares a trial balance (summary of all general ledger account balances). * The general ledger is closed out at the end of the subrecipient's fiscal year and starts over on the first day of the following year. * The subrecipient has an organization chart that is regularly reviewed and revised. |
| 3. | Verify that a formal financial reporting mechanism is in place specifying the nature, content, frequency format, review, approval and responsible staff for each type of financial report. | The following reports should be prepared every month and shared with program management (more reports can be produced if needed):   * Monthly Trial Balance. * Budget Monitoring/Budget versus Actual Reports (budget, expenditures, disbursements made, etc.). * Cash and Bank Reconciliation Statements and Petty Cash Account Reconciliation. * Cash Forecast based on agreed periods – say one quarter in advance. * List of outstanding advances (not yet liquidated). * List of commitments and liabilities. |

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| **B. Periodic review of controls over financial reporting as of the period under review** | | |
|  | **Objective** | **Recommended procedures** |
|  | Assess the effectiveness and adequacy of controls over financial reporting for the period under review, ensuring compliance with relevant financial regulations, policies, and best practices. | * Ascertain the completeness and accuracy of the GL. * Confirm the classification of transactions in relation to Global Fund cost categories. * Assessment of system's reporting capabilities, specifically its alignment with Global Fund reporting requirements specifically, the PU/DR. * Assess the completeness and accuracy of the reports generated by the system. * Compare the budgets in the system with the current approved budgets to check that they are aligned. * Check the budget utilization report and compare the cumulative and current budget utilization figures to the figures reported in the PUDR for the period. * Check the system’s capability to generate Trial Balances disaggregated by grant and associated cut-off procedures. * Review the presence and effectiveness of journal entry controls. |

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| C. Other procedures related to Enterprise Resource Planner (ERP)/Integrated Financial Management System (IFMS) | | |
|  | **Objective** | **Recommended procedures** |
|  | 1. Data migration procedures assessment (Where applicable) | * Assess the data migration and reconciliation strategy including data cleansing procedures. * Assess procedures put in place to ensure integrity, completeness and accuracy of data migrated from the source to the ERP/IFMS * Inspect dry run results and reconciliations. * Assess data migration sign offs. |
|  | 1. Assessment of system performance and hardware sizing (Where applicable) | * Assess process of identifying and monitoring compliance to defined thresholds. * Inspect performance optimization procedures. * Conduct user and server-based tests. * Assess memory utilization thresholds and resource allocation. * Assess the resource capacity utilization post go live. * Assess the licensing model, requirements and usage. * Inspect hardware configuration in line with hardware sizing document. |
|  | 1. Issues resolution & post go live support (where applicable) | * Assess adequacy of post go live support contract with the vendors which appliable. * Inspect issues logs and assess whether all issues were appropriately disposed off prior to go-live. * Confirm work around procedures have been put in place for open issues/undelivered functionality. * Inspect procedures for tracking and resolving post go live issues. * Assess effectiveness of post go live support. |
|  | 1. Change management and post-go live transition assessment- (where applicable) | * Assess outcomes for change management and training plans. * Inspect the user training strategy, training feedback forms and results if any. * Assess knowledge transfer plan and confirm the extent to which it has been delivered. * Assess adoption level of IFMS/ERP. |

1. **Required Deliverable/Output**

To document the outcomes of the review, the Assurance provider will prepare and submit a detailed report including:

* Overall objectives of the review as per approved TOR
* Entities covered by the assignment, period and sample under review as applicable
* Main findings against each of the specific areas of the review highlighting any identified gaps in policy, process, and controls – specific to each implementer covered by the review.
* List of recommendations and proposed practical improvements based on the findings from the assignment.

Complete the table below:

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| **Findings** | **Recommendation/Management Action** | **Other** |
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**Appendix 1: Global Fund’s Minimum Requirements for a Financial Management Information System from Financial Management Handbook for Grant Implementers**

The Financial Management Information System of an implementer should have following modules:

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| Mandatory/Core Modules | Optional/Additional Module |
| General Ledger | Human Resources Management |
| Budget Management | Procurement Management |
| Account Receivables and Account Payables | Business Intelligence |
| Asset and Inventory Management | Documents Management |
| Cash Management | Project Management |
| Reporting |  |