

Terms of Reference For Special Purpose Grant Financial Statement (SPGFS) Audit

Principal Recipient (PR): Yayasan Spiritia (“Spiritia”)
Grant Number: 1598 IDN-H-SPIRITI
Title of Program: Indonesia HIV Response: Eliminating the AIDS epidemic in Indonesia by 2030
Period covered by the audit: 2018 – 2021 (Each year 1st January – 31th December)

1. Program background, audit structure and description of entities

1.1. Program Background:

Recent epidemic modelling suggests that, except among men who have sex with men (MSM), program efforts have stabilized and begun to reduce the annual number of new HIV infections among Key Affected Populations (KAPs). The modelling also indicates that Indonesia is not yet on course to end HIV and AIDS by 2030.

Indonesia lags behind other countries in the region in terms of ART coverage. While some success has been achieved in increasing the number of persons on ART reaching nearly 78,000 by the end of 2016, the most recent “cascade” data available indicate that further progress is needed. According to UNAIDS data, there were an estimated 620,000 people living with HIV in 2016, among whom 13% were accessing antiretroviral therapy.

The country is also lagging in terms of PMTCT coverage. Among pregnant women living with HIV, 14% were accessing treatment or prophylaxis to prevent transmission of HIV to their children, and an estimated 3,200 children were newly infected with HIV due to mother-to-child transmission in 2016 (UNAIDS). Estimated prevalence among KAPs (including sex workers, MSM, transgender, people who inject drugs and prisoners) remains high.

At the same time, the latest HIV Epidemic Update estimated that 64% of PLHIV and 37% of new HIV infections in 2015 were among non-KAPs. Non-KAPs are a heterogeneous group consisting of (1) sex partners of KAPs, (2) former KAPs (e.g. former sex workers, men who were clients of sex workers in the past, former PWID), (3) sex partners of former KAPs and (4) others, including KAPs that don’t self-identify. While priority attention should continue to be directed to KAPs, ending HIV and AIDS in Indonesia will also require getting non-KAP PLHIV onto treatment. In Tanah Papua, the epidemic profile is more generalized and response must be targeted accordingly.

Given the low ART coverage relative to the National AIDS Program aim of reaching Fast Track 90-90-90 targets by 2027, the program has given high priority to the HIV Testing Services and Treatment, and Care and Support (TCS) modules. Interventions are included that will increase the rate of HIV testing while also making progress in identifying the sizeable number of non-KAP PLHIV not yet on treatment. A tiered set of TCS service packages will be implemented in different districts following a district priority targeting scheme.

Global Fund grant funds will be used to augment Government of Indonesia (GOI) funds for Treatment, Care and Support and will support some of the enhancements in the acceleration, complete and medium coverage districts. Global Fund resources will also support RSSH interventions described below. Catalytic funding is included in the grants to strengthen data systems and data use, and to reduce human rights barriers to accessing HIV services.

Under the 2018-2021 Funding Request period, the program will be implemented by 2 PRs, namely 1) Ministry of Health (MOH) of the Government of Republic of Indonesia; and 2) Spiritia Foundation. PR MOH will continue implementing the pivotal roles of ensuring HIV Testing, Treatment, Care and Support, as well as other RSSH activities including: Health Management Information System and Monitoring and Evaluation, Integrated Service Delivery and Quality Improvement, and Procurement and Supply Chain Management System. As an SR under the MOH, UNFPA will support the national program on prevention for female sex workers and their clients, while providing capacity strengthening to Indonesia AIDS Coalition (IAC) as an SR to eventually assume this role. IAC as a sub-recipient to MOH will be responsible for interventions in addressing human rights barriers to HIV services, and Community Responses and Systems intervention. PR Spiritia Foundation will continue to provide comprehensive prevention programs for men who have sex with men, transgender people, and people who inject drugs, as well as comprehensive support for people living with HIV. Among others, tracking patients who are lost to follow up is one of the significant roles of Spiritia Foundation to increase retention cascade of those on ART.

Planned Activities:

Spiritia Foundation will provide prevention (with total 121 districts) and PLHIV support packages according to the district prioritization scheme (with total 141 districts). Main activities will include:

- Providing integrative outreach service package (face to face, virtual outreach or a combination of both) to MSM and transgender (including IEC materials; distribution of condom and lubricant, HIV testing and adherence support for retention, STI mobile testing through peer driven mobilization; advocacy campaign events; community mobilization support; community clinics; community-based HIV screening, piloting self-HIV testing; capacity building for field workers on co-infection, co-morbidity and referrals; pilot for PrEP implementation; MSM will focus on 111 districts and Transgender will focus in 90 districts.
- Providing integrated outreach services package to PWID with complete IEC materials (basic HIV, HCV, TB, drugs, list of general services and human rights issues); community mobilization; OST; HIV testing (mobile and static clinics); partner referral, TB/HIV and STI referral and addiction counselor training (at intensified districts); PWID interventions will focus on 65 districts.
- Building and supporting community capacity to: (i) prevent human rights crises; (ii) document human rights crises to generate evidence for more effective legal, political and policy development; and (iii) provide legal support to respond to human rights crises;
- Provide psychosocial support to PLHIV on 141 districts; and
- Support 18 friendly clinic/sites to strengthen health services provided to KAPs to reduce stigma or discrimination, including after clinic operational hour services.

The current audit ToR cover four years (January 2018 - December 2021). The audit service might be continued after 2018 subject to quality of the audit reports and acceptance by the GF. The PR reserves the right to change the audit firm for the period in case the audit report does not fulfill the requirements of the Global Fund in terms of compliance with audit guidelines, quality standards, and timeliness.

Project Budget

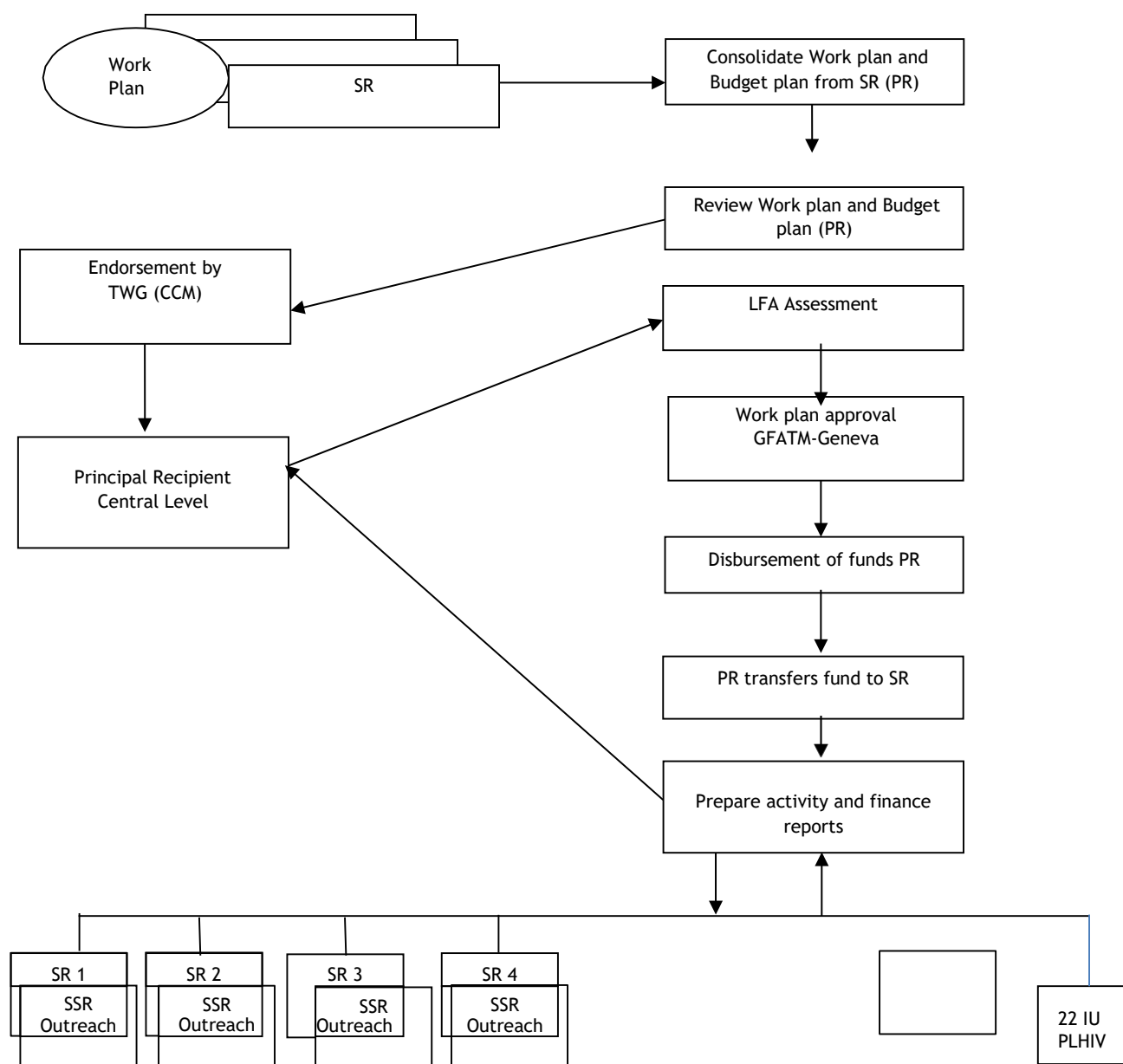
Total grant funds for four years up to USD 32,116,331 or its equivalent in other currencies. The following table shows the budget for the last three years (2019 - 2021).

Costing Dimension (Cost Grouping or Cost Input)	Budget 2019	Budget 2020	Budget 2021
1. Human Resources (HR)	5,016,244	6,553,978	5,824,197
10. Communication Material and Publications (CMP)	28,416	42,062	82,197
11. Indirect and Overhead Costs	433,227	431,459	424,519
13. Payment for Results	-	-	463,816
2. Travel related costs (TRC)	2,063,705	1,681,959	879,623
3. External Professional services (EPS)	380,597	628,844	126,632
5. Health Products - Non-Pharmaceuticals (HPNP)	-	8,153	61,242
6. Health Products - Equipment (HPE)	-	837	136,045
7. Procurement and Supply-Chain Management costs (PSM)	5,549	8,840	69,206
8. Infrastructure (INF)	1,241	910	-
9. Non-health equipment (NHP)	6,281	2,915	114,481
Total	7,935,262	9,359,956	8,181,959

Modular Approach	Budget 2019	Budget 2020	Budget 2021
Comprehensive prevention programs for MSM	2,729,777	3,187,807	2,321,901
Comprehensive prevention programs for people who inject drugs (PWID) and their partners	511,395	376,679	198,566
Comprehensive Prevention Programs for TGs	570,984	646,245	324,325
HIV Testing Services	-	-	50,611
Program Management	1,933,439	1,986,779	1,963,308
Programs to reduce human rights-related barriers to HIV services	162,908	54,147	-
RSSH: Health management information systems and M&E	24,611	21,998	90,020
Treatment, Care and Support	2,002,147	3,086,301	3,233,228
Total	7,935,262	9,359,956	8,181,959

Modular Approach - Interventions	Budget 2019	Budget 2020	Budget 2021
Behavioral interventions for PWID	488,480	363,057	185,992
Community empowerment for PWID	6,804	11,386	12,575
Overdose prevention and management	714	-	-
OST and other drug dependence treatment for PWID	6,040	2,235	-
Interventions for young people who inject drugs	537	-	-
Prevention and management of coinfections and co-morbidities for PWID	8,822	-	-
Behavioral interventions for MSM	2,242,775	2,498,255	1,941,412
Behavioral interventions for TGs	503,871	571,971	299,972
Community empowerment for TGs	67,113	74,274	24,352
Community empowerment for MSM	170,643	207,949	69,881
Condoms and lubricant programming for MSM	1,667	4,533	14,117
Pre-exposure prophylaxis (PrEP) for MSM	1,880	-	136,045
HIV testing services for MSM	312,813	477,069	160,445
Treatment adherence	373,502	368,461	-
HIV care	1,628,645	2,717,840	124,470
Grant management	1,835,431	1,934,975	1,963,308
Policy, planning, coordination and management of national disease control programs	98,008	51,804	-
Program and data quality	24,611	21,998	90,020
Stigma and discrimination reduction	96,969	42,952	-
Improving laws, regulations and policies relating to HIV and HIV/TB	65,939	11,195	-
Counseling and psycho-social support	-	-	3,108,758
Differentiated HIV testing services	-	-	50,611
Total	7,935,262	9,359,956	8,181,959

Fund Releasing Mechanism



Fund Transfer Procedure from GFATM to PR

- a. PR arranges the work plan and financial needs.
- b. PR processes and reviews the work plan.
- c. PR sends a work plan to the Local Fund Agent (LFA) as a representative of GF ATM after it is approved by the CCM
- d. GF ATM sends the fund to the PR after the work plan approved
- e. By the time the funds received, Financial Officer (FA) writes and fills in the form of receiving the funds. Then follow the procedure for acceptance of grant funds.
- f. The sending of funds for the next semester will be done after the PR sends the report (SSRs report compilation, SR and PR) to GF ATM within 45 days after the end of the evaluation period and finalizing LFA and LFA also sends the evaluation report to the Global Fund, which will be followed up by the Portfolio Manager.

Fund Transfer Procedure from PR to SR

- a. PR reviews and processes the Work Plan and the financial needs of the SR.
- b. The amount of funds for activities that are written in the SR work plan must not be greater than the platform / amount written in the Work Plan that has been budgeted PR and should not be allocated to other activities.
- c. If there is demand for additional funds greater than the written amount on the Work Plan, then SR should make the Program Implementing Letter (PIL) and send it to the PR.
- d. PR made an agreement / contract that previously has been created and attached to the approved work plan.
- e. After the SR approved the work plan, finance staff (FA) PR processes the transfer of funds to the account of the SR.

1.2. Program Entities and Audit Approach

Global Fund refers a *consolidated grant-specific audit* – this involves one overall consolidated audit opinion combining the revenues and expenditures of the PR, SRs, and IUs. In other words, this will be an audit of the consolidated financial statements of PR, SRs, and IUs where the auditors apply their professional judgement with regards to the sampling approach. This would not amount to a full scope audit of each entity and the auditor would use a sampling approach on PR and SR transaction in order to reach consolidation opinion. Additional audit procedures may therefore be required on the individual entities in certain circumstances. For the purpose of this ToR when referring to Sub-recipient it should be assumed that reference is also being made to Sub-sub recipients (SSRs).

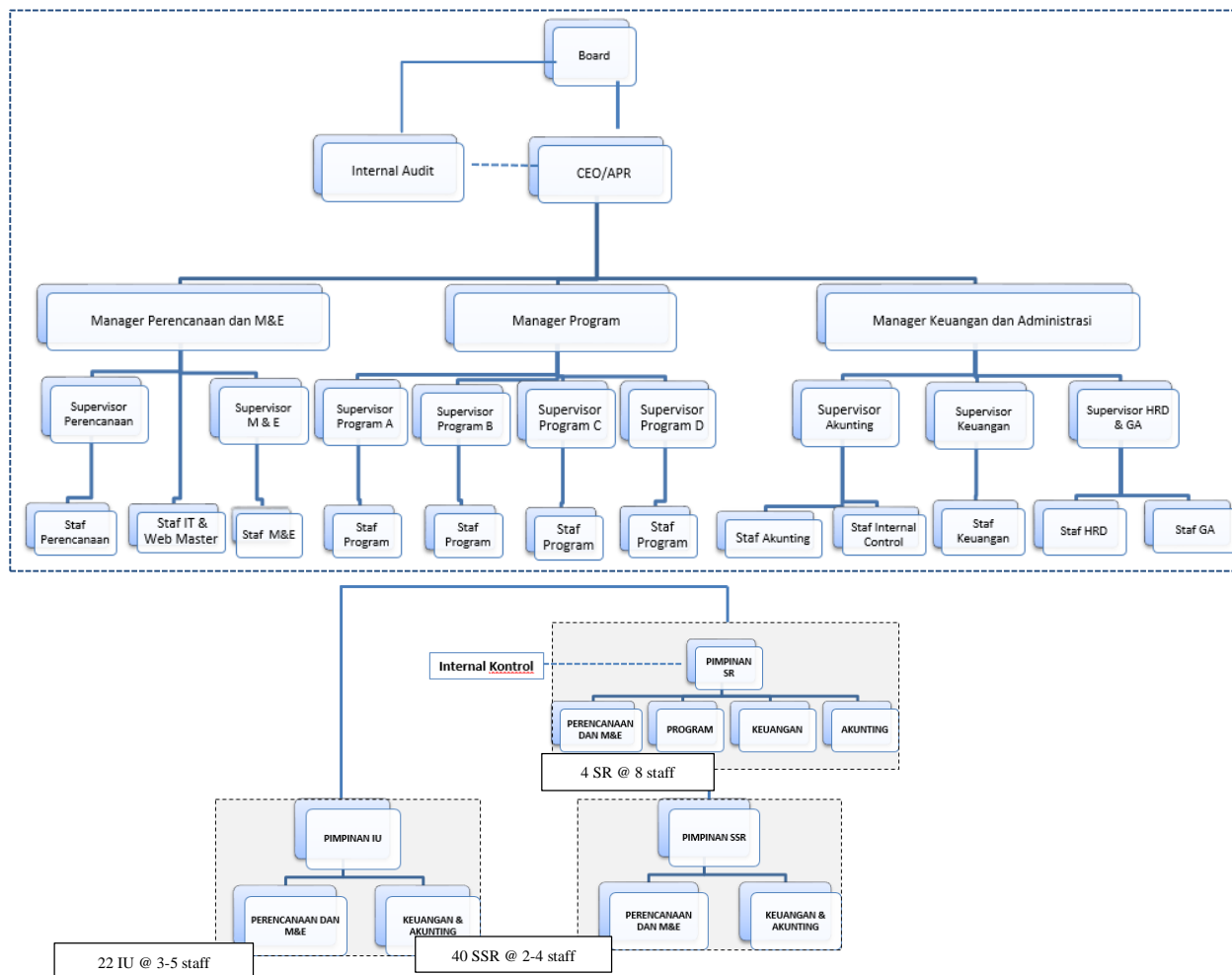
Entities covered by the audit including the following 4 SRs and 22 IUs:

No.	Name of SR	Address	Area Intervention (Province)
1	Lembaga Kesehatan PBNU (LKPBNU)	Gd. PB Nahdlatul Ulama Lt. 7, Jl. Kramat Raya No. 164, Kenari, Senen, Jakarta Pusat 10110 Telepon 021-21232278 Email; lkpbnu@gmail.com	Jawa Timur, Kalimantan Timur, Kalimantan Barat, Kalimantan Selatan, Kalimantan Utara, Kalimantan Tengah, Maluku, Maluku Utara, Riau, Kepulauan Riau, DI Yogyakarta, and Bangka Belitung.
2	Yayasan Pelita Ilmu	Jl. Peruk No.6 RT.07 RW03 Bukit Duri, Kec. Tebet Jakarta - Selatan 12840 Telepon 021-8296163 Email; ypilmu@ypi.or.id	Sumatera Utara, Sumatera Barat , Nusa Tenggara Barat , Bali , Sulawesi Selatan , Sulawesi Utara, Sulawesi Tengah , and Sulawesi Tenggara .
3	SR PKBI Jawa Barat	Jl. Soekarno Hatta No. 496 Bandung 40266 Telepon 022 - 7567997 Email: pkbijabar@pkbi.co.id	Jawa Barat, Banten, and Bandar Lampung
4	YPK eLSA	Perumahan Bukit Walisongo Permai Blok V No 11, Kelurahan Tambakaji-Kecamatan Ngaliyan Semarang 50185 Telepon: 024-7627587 Email :srypkelsa@gmail.com; srelsa@elsaonline.com	Jawa Tengah, Sumatera Selatan, and Bengkulu

2. Contacts

The Organization Spiritia of GF ATM for TBHIV Component is as follow:

ORGANIZATION STRUCTURE OF SPIRITIA GF ATM-NFM CONTINUATION SUPPORTED GLOBAL FUND (CENTRAL LEVEL)



Address of PR Yayasan Spiritia GF ATM NFM Continuation

Mail Address : Jl. Cirebon No. 9, Jakarta 10310

Telephone : +62 21 21230242/3

Email : info@spiritia.or.id

Contact person at PR Level and SR/TA Level

No.	Name	PR & Position	Phone Number & Email Address
1	Daniel Marguari	PR - Authorized	0818 780455; danielmarguari@gmail.com
2	Prihartono	PR - Finance Mgr.	0811 883709; prihartono@spiritia.or.id
3	Agus Rahmat Hidayat	PR - Planning Mgr.	0812 85228814; rahmat@spiritia.or.id
4	Christin Wahyuni	PR - Program Spv.	0811 9131266; yuni@spiritia.or.id
5	Yusuf K Nugroho	PR - Program Spv.	0816 4273868; yusuf.kn@spiritia.or.id
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7	Santi Sardi	PR - Program Spv	087781075282, santi@spiritia.or.id
8	Dellayana	PR - Finance Spv.	0811 154115; della@spiritia.or.id
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10	Ardiansyah Arsil	PR – Internal Audit	0812 9879344; a_arsil@spiritia.or.id

No.	Full Name	Position	Phone Number & Email Address (Current)
1	Lucky Henjaya	Coordinator SR LK PBNU	0856 92333372; mylucky_hen@yahoo.co.id
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3	Muhammad Fahmi	M&E Coordinator	081315394949; fahmicuy84@gmail.com
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5	Muhamad Furqon	Internal Control	087776416346; Muhamad.Furqoon07@gmail.com
6	Husein Habsyi	Coordinator SR YPI	0812 1834881; habsyi98@yahoo.com
7	Usep Solehudin	Program Coordinator	0815 10550752 ; Usep@ypi.or.id
8	Enny Zuliatie	M&E Coordinator	0813 11064268 ; Ennyzuliatie@ypi.or.id
9	Wahyu Shanti Prameswari	Finance Coordinator	0815 9203021 ; Shanti@ypi.or.id
10	Karang Gurita Sari	Internal Control	0858 24126389 ; Karangguritasarii@gmail.com
11	Dian Mardiana, M Ag.	Coordinator SR PKBI Jawa Barat	081564678536 ; dian_dedpkbi@yahoo.co.id
12	Rudi Amin	Program Coordinator	081222671452 ; aminkbit2@gmail.com
13	Giri Sugara	M&E Coordinator	0818228887 ; giripkbijb@gmail.com
14	Sri Wahyuni	Finance Coordinator	081313130793 ; srinchi0793@gmail.com
15	Abdurrahman Shaleh	Internal Control	08562212074 ; abdurrahmanshaleh@gmail.com
16	Tedi Kholiludin	Coordinator SR eLSA	0813 25773057; tedi@elsaonline.com; tedikh@gmail.com
17	Wahyu Indriawan	Program Coordinator	085640190999; wahyuind@elsaonline.com
18	M. Risya Islami	M&E Coordinator	085741234987; risya@elsaonline.com
19	Dwi Lestari	Finance Coordinator	081325788679; tariparlan@elsaonline.com
20	Cahyono	Internal Control	085941305046; cahyo91@elsaonline.com

3. Objectives of the Audit

3.1. The **objective of the financial audit** is to enable the auditor to express an independent professional opinion on:

- Whether the Special Purpose Grant Financial Statements (SPGFS) present fairly in all material respects the financial position, funds received and expenditures by the PR and (SRs¹) for the reporting period and in accordance with the applicable accounting framework
- Whether, in all material respects, the grant funds have been used in conformity with the provisions of the Grant Agreement, including the approved budget and work plan and any amendments there to as contained in implementation letters;

3.2 The **objective of the audit is also** to evaluate, obtain sufficient understanding and comment on whether the program internal control framework is satisfactory and to report on the weaknesses identified. The auditor **must** review the internal control framework of the PR and key SRs identified by TGF Country team in consultation with the PR. This review includes any third-party agent managing a process in the implementation of the grant²:

4. Responsibility for the preparation of Special Purpose Grant Financial Statements (SPGFS).

The responsibility for the preparation of consolidated SPGFS or of separate SPGFSs for each entity covered by the audit, if applicable, lies with the PR which delegates the responsibility to the SRs for their respective sub-grants.

5. Special Purpose Grant Program Financial Statements (SPGFS).

¹ Depending on the scope of the audit report as described in section 1.2.

² E.g. fiduciary agents, fiscal agents, central medical stores, and others. However, this excludes the Global Fund managed processes such as the Pool Procurement Mechanisms/Wambo

The SPGFS should include the following components:

- i. In the currency of the grant agreement³, an Income and Expenditure Statement (IES) showing the Global Fund's funds received, any other income received and all grant expenditures⁴. Grant expenditures should be reported against the budget in the format appended to the guidelines;
- ii. Any other notes applicable including as a minimum the breakdown of the following [To be tailored by *the Country Team/ Principal Recipient where necessary*]⁵:
- iii. Supplemental statements on advances and fixed assets, including:
 - a. a statement showing sub-recipient advances and reconciliation of the total amount of grant funds advanced by the Principal Recipient to sub-recipients and total grant cash balance with sub-recipient recorded expenditure and Principal Recipient/sub-recipient cash balances at the end of the reporting period;
 - b. summary statement of assets showing the fixed assets purchased with grant funds. This summary statement should show the assets brought forward from previous periods (opening balances) as well as the additions, disposals, write-offs Of the period being audited and the closing balance ⁶; and
 - c. The notes to the supplemental statements. These notes include information that would enhance a user's understanding of the supplemental statements (significant assumptions, accounting estimates and related disclosures etc.) as well as the necessary tax recoverable disclosures ⁷.

6. Available documents and facilities

With respect to each grant, the Principal Recipient will provide the auditor with access to all books and records pertaining to the grant as requested by the auditor, including a list of all key Principal Recipient and sub-recipient locations, noting the key documents held at each location. An indicative list of the documents which may be requested by the auditor includes:

- i. The grant program financial statements;
- ii. Grant and sub-grant agreements; including the detailed budgets;
- iii. Main supporting schedules to the financial statements including: income and expenditure, assets and liabilities, cash records;
- iv. Interim monthly or quarterly grant activity reports, as applicable (programmatic as well as financial);
- v. General ledger, cash book, other important books and records held at either Principal Recipient or sub-recipient level;
- vi. Original supporting documentation to all reported expenditures (invoices, full support for all

³ The statements may be presented in local currency, but the grant reporting currency equivalents must be shown

⁴ When the audited period overlaps two Allocation Utilization Periods (AUP), the Financial Statements prepared by the Principal Recipient must distinguish Revenues and Expenditures for each AUP. This will be the case for extensions funded with the next Allocation funds

⁵ Staff Advances (With age analysis if possible); Refundable deposits; Any unreconciled balances; schedule of commitments. See Annexes 1 and 2.

⁶ The Principal Recipient must maintain a fixed asset register which could be required when needs by the Country Team and the different assurance providers

⁷ Refer to the Principal Recipient tax information described in [the Core PUDR guidelines](#) for relevant details

procurement of health products or other procurements requiring tender procedures, payrolls, bank vouchers, journal vouchers etc.) held at either Principal Recipient or sub-recipient level;

- vii. Bank statements;
- viii. Important correspondence between GF and PR, PR and SRs pertaining to grant implementation matters;
- ix. Financial procedures manuals, systems descriptions or any other documentation explaining the processes contributing to the production of reliable financial reports and maintaining internal control, either at Principal Recipient or sub-recipient levels;
- x. Minutes of management meetings;
- xi. Internal audit reports relevant to GF expenditures or any systems, governance or other issue which impinges on GF grants

7. Audit Scope of Work

- 7.1. The audit should be conducted in accordance with International Standards on Auditing (ISA) or International Standards of Supreme Audit Institutions (ISSAIs) and will include such tests and controls as the auditor considers necessary under the circumstances.
- 7.2. As part of the audit testing procedures, particular attention should be paid to the following areas:
 - i. **Compliance with applicable legislation** – Verify that the transactions comply in all material respects with any applicable legislation;
 - ii. **Reconciliation of General ledger with SPGFS:** Review of the general and program ledgers to determine whether costs incurred were properly recorded ensuring that the costs charged to the grant reconcile to the program and general ledgers. Reconciliation of the SPGFS to the underlying records, principally the cash book
 - iii. **Grant expenditures** - Funds received by the Program⁸ from disbursements, or generated by the Program's funds⁹, were spent in conformity with the approved budget and work plan existing at the time of the expenditure and in line with provisions of the Grant Agreement, including any applicable grant conditions (as amended by any Implementation Letters), and only for the purposes for which the funds were provided. The auditor should also pay attention to the shared costs especially on the allocation mechanism and review these costs for accuracy, completeness and reasonableness;
 - iv. **Eligible costs:** Review of the costs charged to the grant identifying and quantifying any ineligible costs as well as agreeing expenditure to supporting documents on a sample basis. Compare actual expenditure with the budget, and obtain explanations for variances obtained (unapproved material budget variations should be included in the ineligible expenditure schedule)
 - v. **System of internal controls** - Assess the Principal Recipient and key risky sub-recipient's internal controls based on the COSO framework. The auditor will be requested to identify the key controls of the program (entity, process and transaction levels) for each of the main operational processes and test them for effectiveness (design and operation). Based on risk, the auditor **must** review the internal control framework (financial and non-financial controls)¹⁰ of the **Principal Recipient** and **key sub-recipients** identified by the Global Fund Country team in consultation with the Principal Recipient. If an important process is outsourced or entrusted to a **third-party**¹¹, the auditor must also include such third-party in

⁸ Including goods and services from direct disbursements to third parties.

⁹ From Interest generated, Revenues, exchange gains, VAT recoveries, recovery of funds from ineligible expenditures or other concept, etc.

¹⁰ Program management and monitoring (including sub-recipients' management), stock management, financial management (including management of the risk of fraud)

¹¹ For example, fiduciary agents, fiscal agents, central medical stores, and others. However, this excludes the Global Fund managed processes such as the Pool Procurement Mechanisms/Wambo

the scope of the review. For the Focused countries, the auditor should limit their assessment to the financial controls of the Principal Recipient/sub-recipients. Specific attention should also be paid to controls with respect to the risk of fraud at the Principal Recipient and Sub Recipients.

- vi. **Follow up on the status of findings of previous audit reports** – The auditor should follow up on management’s intended actions to address the findings of previous audits, including external audit, relevant internal audits and audits issued by the Office of the Inspector General (OIG) of TGF;
 - vii. **Designated bank accounts** - Where Designated Accounts (including those being used under an approved pooled funding program implementation mechanism) have been used by PR and SRs, they have been maintained and operated in accordance with the provisions of the Grant agreement and in accordance with the Global Fund’s rules and procedures;
 - viii. **Funds flow mechanisms:** Review of the procedures used to control the funds, including their channelling to contracted financial institutions and other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary;
 - ix. **Safeguarding of assets** - Verify that the PR has put in place mechanisms for the tracking and safeguarding of assets purchased with grant funds and that they were used for the intended purposes. Verify that Program’s fixed assets register exists, is maintained in accordance with the Grant agreement; that property rights or related beneficiaries’ rights are established in accordance with the Grant’s standard term and conditions;
 - x. **Disbursements to SRs.** Verify that disbursements made by the PR to SRs are in line with the SR sub-grant agreements and the approved work plan and budget. Verify that the PR follows adequate process for validating expenditure reports submitted by the SRs;
 - xi. **Data retention and supporting documentation** - Necessary supporting documents, records, and accounts have been retained in compliance with provisions of the Grant Agreement. Procedures exist for security and management of electronic data (backup systems and procedures, etc.);
- In addition, the Global Fund may request the auditors to review the following areas of concern, in which case the additional scope would be agreed between the Global Fund and the auditors in advance:
- xii. **Goods and services** - have been procured transparently, competitively and in accordance with the Grant Agreement and relevant procurement Guidelines approved by TGF;
 - xiii. **Procurement systems for pharmaceutical and health products**¹² – Review of the procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the quality and quantities of products received
 - xiv. **Human Resource costs** - Review of direct salary charges to determine that salary rates are reasonable for that position, in accordance with those approved by the Global Fund when approval is required and supported by appropriate payroll records.
 - xv. **Travel and related costs** - Review of travel and transportation charges to determine whether they are adequately supported and approved

¹² Excludes all procurement directly performed by the Global Fund on behalf of the Principal Recipient such as the Pool Procurement Mechanisms/Wambo .

8. Audit Procedures

8.1 Planning

8.1.1 Kick off Meeting with the Principal Recipient:

- 1 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 explain the planning, fieldwork and reporting. The auditor will explain the nature, objectives and scope of the audit.
- 2 During the preparatory and kick-off meetings, the auditor may request additional information and documents that he/she considers necessary or useful for the planning and fieldwork of the audit. The auditor may 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 needs.

8.1.2 Planning Activities, Audit Plan and Audit Work Programs

1. For each grant, the auditor should plan the audit so that it is performed in an effective and efficient manner. Adequate planning involves ensuring that appropriate attention is devoted to important areas of the audit, that potential problems are identified and resolved on a timely basis and that the audit is properly organized and managed within the due dates.
2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment.
3. The auditor should have an audit plan documenting the audit approach and key principles of audit planning, fieldwork and reporting. The auditor should have audit work programs that detail and document the audit tests and procedures.
4. Before the start of the fieldwork and before the kick-off meeting, the auditor should provide to TGF Finance Specialist ¹³ and the PR, the audit plan for each grant including the scope of the review. Enhanced focus will be placed on the audit approach at the Principal Recipient but also at the selected SRs.

8.2 Materiality

The auditor should apply materiality and a risk-based approach to detect material errors and misstatements in the expenditure and revenue stated in the Grant Financial Statements, whether caused by error or fraud.

The auditor uses professional judgment to assess whether a finding of non-compliance is material. A reasonable basis should be determined as used by the auditor to set the materiality level. For instance, the threshold may be applied to the total amount of gross expenditure ¹⁴ for the Grant for the period being audited. Gross expenditure is the total actual expenditure incurred for the Grant before deduction of Grant related revenue (e.g. interest).

8.3 Fieldwork

8.3.1 Obtaining evidence regarding the design of controls and performing tests of controls

The auditor will perform procedures to obtain evidence regarding the design of controls and perform tests of controls if he/she considers this appropriate or necessary for the purpose of this financial audit.

¹³ The Global Fund Finance Specialist may engage directly with the auditor in instances where independence and the unpredictable nature of audits may be compromised by sharing the detailed audit plan with the Principal Recipient.

¹⁴ PPM related cost should be deducted from this gross total given the low level of risk associated with this mechanism

The auditor will focus the tests of controls on key financial controls, which relate to the subjects described in the terms of reference and which are relevant to the management of the risks. Findings of significant weaknesses and deficiencies in the design or operating effectiveness of the Principal Recipient controls should be reported in the Management Letter.

For Core countries, High Impact countries and a selected number of high risk Focused countries, the auditor **must** review the internal control framework (financial and programmatic) of the Principal Recipient and key sub-recipients identified by the Global Fund Country team in consultation with the Principal Recipient and report thereon. At the discretion of the Country Team, such testing could be performed during an **interim audit** at the Principal Recipient.

8.3.2 Substantive Procedures

The auditor should perform substantive procedures to be responsive to his/her assessment of the risks of material errors or misstatements in the expenditure and revenue stated in the Grant Program Financial Statements, whether caused by error or fraud. The results of tests of controls, if any, should be taken into account. The auditor should perform substantive procedures which cover the subjects described in the terms of reference and which are relevant to the management of the risks ¹⁵.

Regarding the risk of fraud, the auditor must comply with the International Standard on Auditing 240 “the Auditor’s responsibilities relating to fraud in an audit of financial statements”

8.3.3 Sampling and other means of selecting items for testing

When designing and performing tests of controls and substantive tests, the auditor should apply audit sampling or other means of selecting items for testing. Audit sampling involves the application of audit procedures to less than 100% of items within a population of audit relevance (e.g. a class of transactions or account balance) such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

Audit sampling can use either a statistical or a non-statistical approach. The auditor may use a judgmental selection of specific items from a population (e.g. high value or key items, all items over a certain amount, items to obtain information or items to test control activities).

While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute sampling. The projection to the entire population, of results of procedures applied to items selected in this way is not possible; accordingly, selective examination of specific items does not provide evidence concerning the remainder of the population. Sampling, on the other hand, is designed to enable conclusions to be drawn about an entire population based on testing a sample drawn from it.

The auditor **must** clearly provide details of the expenditure coverage by budget line and recipient and the sample selection methodology. Annex 3 to these terms of reference should be used to document this information.

8.3.4 Analytical procedures

Analytical procedures must be performed by the auditor, such procedures consists in verifying the financial data by assessing the plausible connections between both financial

¹⁵ When Designing and Performing Tests of Controls The ..." <<https://www.coursehero.com/file/p13iulp/When-designing-and-performing-tests-of-c>>.

and non-financial information. The analytical review of actual expenditure incurred with the Grant budget (budget – actual comparisons) is a critical compliance check.

8.3.5 Using the work of internal auditors

If the auditor assesses that the internal audit function can be relied on for the assignment, the auditor should:

- Evaluate the specific work of the internal auditor and to what extent such work can be considered for the audit.
- Assess if the work of the internal audit is adequate for the objective of the audit.

Where the Principal Recipient has an internal audit function and the auditor does not rely on it, the auditor will be required to provide recommendations for improvement of the internal audit function in a dedicated section in the management letter.

8.3.6 Using the work of an expert

The auditor may use the work of an individual or organization presenting an expertise in a field other than accounting or auditing, that is necessary to obtain sufficient evidence to reach his/ her conclusion. The auditor should comply with ISA 620 (Using the Work of an Auditor's Expert) insofar as this ISA is relevant to the audit.

8.3.7 Written representations

Per the standard requirement stipulated in ISA 580 - Written Representations, the Principal Recipient Management should provide the auditor with a written representation letter. The auditor must request a letter of representation signed by the member(s) of the management of the Principal Recipient who has the primary responsibility for the grant and its financial aspects.

8.3.8 Complementary letter

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 made aware of facts and issues that are urgent, very unusual or of particular interest and importance to the Global Fund.

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.

8.3.9 Debriefing Memorandum ('Aide Mémoire')

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.

8.3.10 Audit Exit Meeting in country

The auditor should organize a closing meeting with the Principal Recipient. The purpose of this meeting is to discuss the Debriefing Memo and to obtain the confirmation and initial comments of the Principal Recipient on the auditor's findings and recommendations. The auditor and the Principal Recipient can agree outstanding information to be provided by the Principal Recipient and where applicable, a deadline for submission.

At the request of the Global Fund Country Team, the auditor will also debrief the Country Coordinating Mechanism on the conclusion of the audit. The Local Fund Agent should, at the request of the Global Fund, also be invited to participate in this meeting. For the Focused countries, attendance of the LFA is mandatory.

9 Auditor's report and Language

In preparing the audit report for each grant, the auditor must comply with the financial audit report template provided in Annex 3 of the auditing guidelines. The auditor will issue:

- an opinion on the consolidated financial statements in accordance with ISA or ISSAI.
- an opinion on the implementer's compliance with the grant agreement in accordance with ISA or ISSAI.

The audit report should be presented in one of the official Global Fund languages as indicated in the terms of reference. Annex 3 to these terms of reference presents the comprehensive auditor's report template that will be used by the auditor.

10 Management Letter.

In addition to the audit report, the auditor will prepare a Management Letter for each grant in the Portfolio, consolidating Principal Recipient and sub-recipient findings. The Management Letter must not only provide a response to the review of the internal control but also to the financial risk profile of the grant (Principal Recipient and key selected sub-recipients).

10.1 Internal Control Framework¹⁶

The Management Letter must highlight the weaknesses in the internal control framework of the grant noted with respect to the processes mentioned in paragraph 7.11 of these terms of reference. For each weakness, the auditor is requested to provide a recommendation. For Core and High Impact countries having an interim audit, a Management Letter shall be issued on the internal control framework. The auditor must also present a summary of the control procedures of the Principal Recipient in the Management Letter.

The auditor must comment on instances of non-compliance in the accounting records, procedures, systems and controls that were identified during the course of the audit with particular reference to ineligible expenditures and systematic weaknesses.

The auditor must communicate matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the grant program in the Management Letter which shall include the following five sections at a minimum:

- **Internal control:** this section should capture all other key internal control issues noted by the auditor in performing the review described in the scope of work particularly in the following sub-categories (a) Financial Management, (b) Sub-recipient management (c) Program management (d) Stock management;
- **Compliance with grant agreement and applicable law:** this section should highlight any instances of non-compliance with the relevant grant agreement that were noted by the auditor in the course of their work in forming an opinion on the SPGFS or confirm that none has been identified in the sample tested. This implies that the auditor should ensure that the expenditure corresponds to the activity approved in the detailed budget for the relevant period under review as well as corresponds to any subsequent budgetary adjustments including the required necessary approvals for such budget reallocations;
- **Value for Money:** this section should capture the auditor's view on the Principal Recipient and sub-recipient's considerations regarding economy and efficiency as part of the auditor's review of grant expenditures. The Global Fund country team can make a request for this additional service to be delivered by the auditor. All issues noted around value for money (control deficiency, estimated loss incurred as a result of inefficient process and others) should be stated in this section of the Management Letter;
- **Ineligible and unsupported expenditures:** this section should provide a schedule of non-compliant expenditures identified by the auditors in the course of their work;
- **Follow-up on previous audit report:** in this section, the auditor will report on the implementation status of recommendations contained in previous audit reports.

¹⁶ All deficiencies relating to program management, stock management, financial management, etc. not described in the other 4 sections of the Management Letter

10.2 Risk Management

Specific to the Financial management section in the Management Letter, the auditor is expected, to categorize each finding, where applicable, into one of the six sub-categories of the Global Fund defined financial risks and to provide a summary table showing the findings per sub-risk category and grading. The six categories are:

- Inadequate Flow of Funds Arrangements;
- Financial Fraud, Corruption and theft;
- Inadequate Accounting and Financial Reporting;
- Limited Value for Money; and
- Inadequate Auditing Arrangements.

The definitions of each of these categories are provided in [*the Global Fund Financial Risk Management guidelines*](#)¹⁷. The auditor is expected, to categorize each finding, where applicable, into one of these six sub-categories and to provide a summary table showing the findings per sub-risk category and grading.

10.3 Other important disclosures

Based on the findings of the internal control framework review (eventually including a third-party agent) and the grade of these weaknesses, the Management Letter **must** include a high-level executive summary with the following statistics and information:

- The financial risk rating per risk category
- The quality of the financial statements provided by the Principal Recipient prior to the auditor's proposed adjustments
- Statistics on the number of findings per grade and their evolution over time
- Summary of key control procedures of the recipients, such as policies on procurement, travel, expenditure allocation etc.
- The auditor's judgement of what are the key audit risks and the methodology used to address these key risks.
- The number of recommendations from previous audit solved and those not solved
- Any other important information management should focus their attention on.

The Management Letter must include responses made by the Principal Recipient in discussing audit recommendations, along with a timeline for implementing agreed recommendations. In cases where either the Principal Recipient does not accept an audit finding or the auditor disagrees with the adequacy of the management response, the management letter will acknowledge that disagreement. All observations and recommendations will be discussed with Principal Recipient management before the letter is finalized.

- It must be clearly noted on the face of the Management Letter that it is a confidential document and must be treated as such.
- The Management Letter should state that the auditor acknowledges and agrees that the Management Letter shall be shared with Global Fund and the Local Fund Agent (on a confidential basis).
- The Management Letter should use a system of grading points depending on the level of severity in line with that proposed in the [*Guidelines for Annual Audit of Global Fund Grant Program Financial Statements*](#).

¹⁷ Refer to section 2.1 of the guideline

10.4 Reports' review process

10.4.1 Draft report

The Principal Recipient 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.

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 on the updated draft report within five calendar days.

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.

10.4.2 Final report

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. The audit report and accompanying Management Letter, including the Principal Recipient's responses, **must** be received by the Global Fund within six (6) months after the end of the reporting period under audit. Successful reception of the audit report and Management Letter implies that all reiterations between the Principal Recipient and the auditors including review by the Global Fund or any of its agents **must** be completed and finalized before the six-month submission deadline.

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 Fund¹⁸.

In any case, the Principal Recipient should ensure the auditor sends directly to the Global Fund an electronic copy of the reports¹⁹

11. Auditor performance assessment, rotation and termination

The he audit must refer to the relevant sections of the Global Fund Guidelines on Grant audit regarding how their performance will be assessed and the implications thereof on the contract.

12. General Information

The audit report and accompanying management letter, including the PR's responses, should be received by the Global Fund within three (6) months after the end of the reporting period under audit.

- The selected audit firm will also be granted timely, full and unrestricted access to PR's (and SRs') financial management system, accounting record, asset, property and personnel that may assist in clarifying any matter related to the audit.
- To assist the selected audit firm in planning the audit, the PR will make available as a minimum the documents and information stated below. It is highly recommended as part of auditing requirements on understanding the nature of the entity's operations, that the auditors familiarize

¹⁸ 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.

¹⁹ This is the responsibility of the auditor and should be mentioned in the contract between the PR and the Auditor

themselves with the following:

- i. TGF's *Guidelines for the annual audits of Global Fund Grant Program Financial Statements*: [Guidelines and Tools - The Global Fund to Fight AIDS, Tuberculosis and Malaria](#);
- ii. Grant agreements between the PR and TGF and sub-grant agreements concluded with SRs. Any correspondence from TGF approving a reprogrammed budget affecting the audited year;
- iii. Progress Updates (PU/DRs) and Management Letters. Confirmation of amounts disbursed and outstanding at the Global Fund should also be obtained;
- iv. Progress Updates (PU/DRs) and Management Letters. Confirmation of amounts disbursed and outstanding at the Global Fund should also be obtained;
- v. Annual Financial Reports (AFR);
- vi. Guidelines for Budgeting on GF programs: : [The Global Fund Guidelines for Grant Budgeting](#);
PR's approved Finance, Procurement, SRs' Management and other relevant Manuals;
- vii. *It is also recommended to obtain an understanding of the Proposal/Concept Note under which the grant is being implemented. Proposals are available at the following link [Grant Portfolio - The Global Fund to Fight AIDS, Tuberculosis and Malaria](#) and then navigate to the respective country page.*

The auditors should contact the LFA prior to preparing the audit plan enabling the LFA to highlight any key weaknesses and areas of concern up front. During the course of the audit, the auditor is encouraged to contact the LFA as and when needed to obtain any additional information/clarifications.

12.1. General Guidelines for Management Letter (M/L)

The following is a general guide on the essential elements of the M/L and should not be viewed as an exhaustive list of requirements. Guidance should be sought from the IAASB's:

- i. standard on communicating management letter issues to those charged with governance of an entity: http://web.ifac.org/download/ISA_260_standalone_2009_Handbook.pdf
- ii. also that on reporting internal control deficiencies:
http://web.ifac.org/download/ISA_265_standalone_2009_Handbook.pdf

In the case of public-sector or government auditors (i.e. the Supreme Audit Institution) guidance can be obtained from INTOSAI Standards (see Chapter 4's **Reporting Standards in Government Auditing** of INTOSAI's Code of Ethics & Auditing Standards: <http://intosai.connexcc-hosting.net/blueline/upload/1codethaudstande.pdf>).

A typical M/L format follows:

STRICTLY PRIVATE AND CONFIDENTIAL

(It must clearly be noted on the face of the Management Letter that it is a confidential document and must be treated as such, in accordance with Global Fund's Policy on documents)

(The Management Letter should state that the auditor acknowledges and agrees that that the Management Letter shall be shared with the Global Fund on a confidential basis. The audience of the letter, however, is the PR/Sub-recipient)

(Name of PR) - MANAGEMENT LETTER FOR THE AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDED ... (Insert year end date)

(Background information is provided on the applicable auditing framework that was employed in auditing the Financial Statements, for which there is this management letter)

(The purpose of the financial statement audit should be stated here which is the expression of an opinion on the Financial Statements. Also, a brief description of the methodology used in carrying out the audit as regards the use of testing as the basis for examining evidence supporting the amounts and disclosures contained in the Financial Statements, inter-alia.)

(An explanation of the purpose of the management letter should be provided in terms of the value-added in its provision to management for the improvement of systems and processes for the organization, thereby aiding the achievement of broader organizational goals)

(A description of system of grading of the management letter issues or findings should be provided in order that the PR is able to better prioritize implementation of recommendations emanating from findings. The following system of grading is recommended:

Grade I findings are those which are particularly significant and the involvement of management may be required for their resolution. These are high level issues which impact seriously on the achievement of overall grant goals

Grade II findings are those that may have significant impact on the control environment. Here control environment looks at risk factors derived from **management's attitude to risk** as regards operational activities within the PR/Sub-recipient organization.

Grade III findings are those which are less significant than Grade 1 and II but nevertheless merit attention.

For each finding:

1.0 (Brief heading for finding) (Grade 1, 2 or 3 as is applicable)

{Where there is a criteria (or criterion as the case may be) which is the object of non-compliance by the PR/Sub-recipient, then this must be stated or quoted where applicable. A criteria is defined as any law, policy, regulation or framework that an audited entity has to comply with in carrying out its activities. A deviation or complete non-compliance of it would trigger a finding. In some instances, a criteria would not be present hence it would not be necessary to state it here}

1.1 FINDING

{The condition or issue presently obtaining which could have been as a result of non-compliance of criteria is stated here fully. This must be consistent with the grading level indicated above. Where possible, the reason(s)/rationale for the non-compliance to the criteria or factors responsible for the finding issue should be stated in a separate paragraph or section under FINDING}

1.2 IMPLICATION

{The effect of the finding both from a financial and non-financial perspective should be clearly stated here as this will provide better insights to the PR/Sub-recipient entity in formulating a robust management response and action plan for implementation of recommendations.}

1.3 RECOMMENDATION

{Practical recommendations relevant to the findings stated in 1.1 above should be put in this category. Recommendations should be capable of eliminating or reducing the effects identified in 1.2 above (to an

acceptable level) such that there will be no negative material impact on grant implementation upon its initiation by PR/SR management}

1.4 BENEFITS

{The advantages of implementing the recommendations stated in 1.3 above should be highlighted here from a financial and non-financial perspective. The use of financial data in terms of for example, cost savings, should be stated here}

1.5 MANAGEMENT’S RESPONSE

{PRs/Sub-recipients are required to unequivocally state the extent to which they agree or disagree with the finding indicated above. This should extend further to whether they agree or disagree with all the other elements to the management letter (i.e. 1.2 to 1.4). These should include reasons for the agreement or disagreement.

As part of the management response the Principal Recipient should develop an action plan to address any pertinent recommendations emanating from the PR and SRs Audits.

Finally, all Management Letters must contain a “**Matters arising from previous audits**” section in tabular form that will serve as a tracking tool in determining the status of implementation of recommendations:

MATTERS ARISING FROM PREVIOUS AUDITS

Audit period covered	Issue (i.e. the finding identified)	Recommendations	Status of Implementation	Comments
<i>(The period covering the audit is stated here; it should follow chronologically from one year to the next)</i>	<i>(The findings of previous audits are entered here. The findings should be quoted verbatim or reproduced from the relevant management letter)</i>	<i>(The recommendations related to the findings from the previous column are entered here quoting verbatim from the relevant management letter)</i>	<i>(The state of implementation is entered here via the following key:</i> <i>Y (Yes)– showing full implementation of recommendations</i> <i>N (No) - showing that the recommendation remains to be implemented and as such no steps have been taken to commence implementation</i> <i>P (Partial) – showing that implementation has commenced but is yet to be completed.</i>	<i>(For N and P categories, an indication of the audit period from when the finding & recommendation was first identified should be stated, inter-alia)</i>

Schedule of non-compliant expenditures

Description	Unsupported expenditures	Expenditures incurred outside of the scope or period of the grant	Expenditures compromised by prohibited practices	Expenditures relating to other types of non-compliance or mismanagement of grant funds (or goods or services purchased with grant funds)
Human Resources				
Travel Related Costs				
Procurement Related				
Other				

Internal Control Findings

#	Functional areas	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		
	Grading	I	II	III	I	II	III	I	II	III	I	II	III	I	II	III	I	II	III
1	Financial management																		
2	Sub-recipient management																		
3	Program management																		
4	Stock management																		
5	Procurement management																		
6	Compliance with grant agreement and applicable law																		
7	Follow-up on previous audit report																		