



Terms Of Reference

For Special Purpose Grant
Financial Statement (SPGFS) Audit

Period covered by the audit
1st January – 31th December 2021

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**Term of Reference
External Audit of the Global Fund Program**

Principal Recipient (PR) : PR Konsorsium Komunitas Penabulu-STPI
Grant Name : IDN-T-PBSTPI
GA Number : 1947
Program Title : Eliminating TB in Indonesia
Period covered by the audit : 1 January – 31 December 2021

1. Program background, audit structure and description of entities

1.1. Program background

The Tuberculosis (TB) control program in Indonesia has been on-going for a long time with many lessons learned. Nonetheless, TB care and prevention are increasingly complex with new challenges, such as TB-HIV co-infection, drug-resistant TB (DR-TB), co-morbid TB (e.g., Diabetes), TB in children, and the pandemic. In addition, TB remains a huge public health problem in Indonesia because many TB cases have not been found, which is a crucial problem to overcome to end transmission in communities.

The Global TB Report (WHO, 2020) shows that the TB incident rate in 2020 was 824,000 cases with 384,035 case notifications. The 'missing cases' gap has increased 20% from 2019, currently, there are still 53% of people with TB that have not been notified. Meanwhile, the confirmed DR-TB cases (i.e., RR, MDR, pre-XDR, XDR) in 2020 was 8,214 cases, but only 5,504 patients or 67% of those diagnosed started treatment. In addition, the success rate treatment in 2020 is 83% for drug-sensitive TB patients and 47% for drug-resistant TB patients, which are below national target.

Acknowledging this situation, it is evident that the role of the community is very important both in case finding and in supporting patients until their treatment is complete. Contact investigation is one of the efforts supported by the volunteer community health workers to improve TB case-finding and, at the same time, to educate their community. Through the contact investigation activity, TB preventive treatment can be delivered to close contacts who do not have TB symptoms in order to support the national goal to eliminate TB in 2030.

In general, tuberculosis care and prevention in 2020-2024 aims to accelerate Indonesia's efforts to achieve TB elimination by 2030 and end the tuberculosis epidemic in 2050. To achieve this goal, the Ministry of Health has developed 6 strategies that will be implemented by multi-stakeholders. The role of the community is clearly stated in strategy 5, namely increasing the participation of communities, partners, and other multi-sectors in TB elimination by:

- Empowering the community by intensifying IEC (Communication, Information and Education / IEC), especially on TB prevention.
- High-level coordination with Ministries and Provincial Government
- Improve community feedback mechanisms on the quality of TB services
- Ensure response to feedback from the community, especially those affected by TB
- Reduce stigma and discrimination in populations affected by TB or those at high risk for TB

In implementing the National TB Strategy 2020-2024, the Indonesian government has collaborated with and received foreign grants from The Global Fund since 2003. In the

2021-2023 grant period, GF funds are used to support comprehensive services in 334 districts with the highest TB burden. The program will focus on the decentralization of TB services, including the management of drug-resistant TB (PMDT) programs, community TB services, surveillance, Public-Private Mix (PPM), TB/HIV and preventive therapy.

The Tuberculosis Program with GF funding for 2021-2023 is carried out by two Principal Recipients (PR):

1. Government PR, namely the Ministry of Health of the Republic of Indonesia (MoH);
2. Community PR, namely the Penabulu Community Consortium - STPI.

Continuing from the previous community PR program, Community PR run by the Community Consortium Penabulu– STPI will support cadres in conducting contact investigation and organizing TB outreach at the community level, treatment adherence for drug-sensitive (DS) TB patients. In addition, we also support community DR-TB case managers and patients supporters in providing psycho-social support and maintain treatment adherence of DR-TB patients. Community PR will also advocate and address the issue of TB-HIV coinfection.

Through the Matching Fund, Community Consortium Penabulu–STPI will coordinate with the National TB Program Manager (including the Provincial Health Office and City/District Health Office) in supporting cadres and patient supporters in conducting contact investigations, support treatment adherence of patients, including those who accessed private healthcare services, supporting the District Based Private Public Mix (DPPM) strategy. In addition, especially for DR-TB activities, TB survivors will be encouraged and invited to work together to support patients undergoing treatment, including tracking patients who are lost to follow-up on a regular basis and bringing them back to treatment.

For the period 2021-2023, the provision of community-based TB care for DS- and DR-TB will be complemented by efforts to overcome social and structural barriers such as stigma and discrimination, violations of human rights and gender inequality, both at work and at home and in the surrounding environment.

In the period 2021-2023, the Community Consortium Penabulu–STPI will also support community systems strengthening with various activities and advocacy for local financing for sustainable TB care delivery.

To implement activities carried out by community PR, the consortium collaborate with various civil society organizations to work in 190 districts at 30 province with the support of Global Fund to Fight Against AIDS, TB, and Malaria.

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, SR, and SSR/ IU 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, SR and SSR/ IU 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).

Attached 1 Entity covered by the audit including the following 31 SRs and 184 SSR/IU

No	Nama SR	PROVINSI
1.	Yayasan Mentari Meraki Asa (Ymma)	North Sumatera
2.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	West Sumatera
3.	Perkumpulan Keluarga Berencana Indonesia (PKBI) Riau	Riau
4.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Riau Islands
5.	Perkumpulan Masyarakat Sehat Sriwijaya	South Sumatera
6.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Bangka Belitung
7.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Bengkulu
8.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Jambi
9.	Inisiatif Lampung Sehat (ILS)	Lampung
10.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Banten
11.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Jakarta Greater Area
12.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	West Java
13.	Yayasan Mentari Sehat Indonesia (MSI)	Central Java
14.	Yayasan Siklus Sehat Indonesia	Special Region of Yogyakarta
15.	Yayasan Bhanu Yasa Sejahtera (YABHYSA)	East Java
16.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Bali
17.	PKBI NTB	West Nusa Tenggara
18.	PERDHAKI NTT	East Nusa Tenggara
19.	Yayasan Bina Asri	West Kalimantan
20.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	Central Kalimantan
21.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	South Kalimantan
22.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI	North Kalimantan
23.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI Provinsi Kalimantan Timur	East Kalimantan
24.	PELKESI WILAYAH IV	North Sulawesi
25.	Yayasan Masyarakat Peduli Tuberkulosis Sulawesi Selatan	South Sulawesi
26.	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI Provinsi Sulawesi Tenggara	Southwest Sulawesi

27	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI Provinsi Sulawesi Barat	West Sulawesi
28	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI Provinsi Sulawesi Tengah	Centra Sulawesi
29	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI Provinsi Papua	Papua
30	SR Pelaksana Cabang Konsorsium Komunitas Penabulu-STPI Provinsi Papua Barat	West Papua
31	Perhimpunan Organisasi Pasien (POP) TB Indonesia	North Sumatera

The detail information of budget and expenditure of each entity will be provided to the appointed audit service provider.

1.3. Project Budget

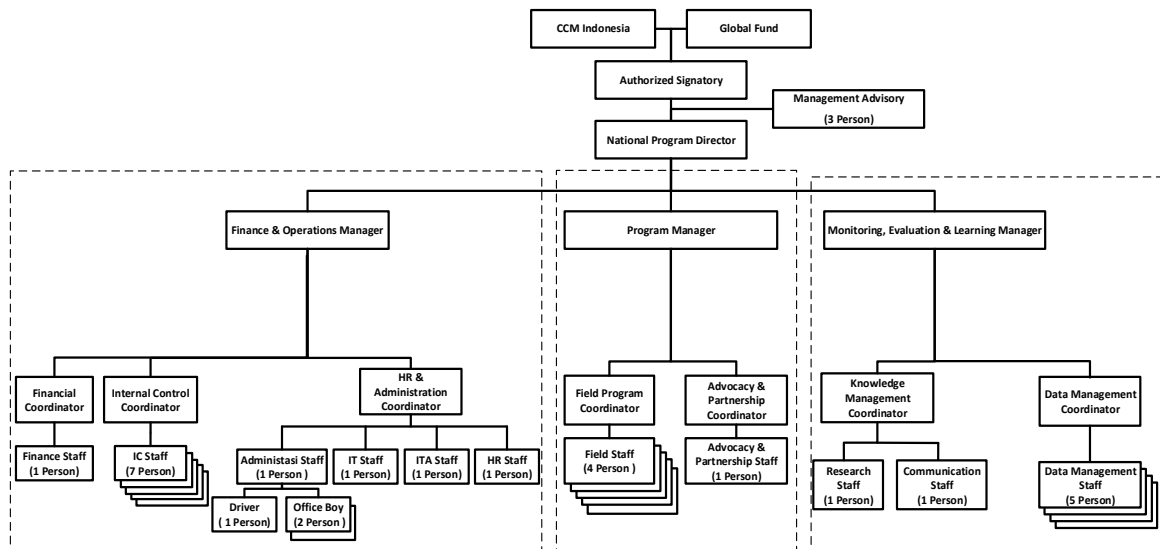
Summary Budget (in USD)

Interventions	Y1	Y2	Y3	Total
Case detection and diagnosis (TB care and prevention)	3,113,184.38	3,379,884.11	3,868,052.79	10,361,121
Engaging all care providers (TB care and prevention)	407,846.59	1,235,012.84	950,593.37	2,593,453
Treatment (TB care and prevention)	512,324.82	508,123.67	595,537.98	1,615,986
Community TB/HIV care delivery	289,909.25	289,697.49	289,697.49	869,304
Social mobilization, building community linkages and coordination	99,146.15	71,269.68	61,963.30	232,379
Community-led advocacy and research	192,834.73	13,809.79	13,809.79	220,454
Institutional capacity building, planning and leadership development	19,704.06	38,396.46	38,396.46	96,497
Community MDR-TB care delivery	314,563.19	490,943.21	656,629.99	1,462,136
Treatment (MDR-TB)	383,232.43	8,017,072.08	8,392,320.47	16,792,625
Engaging all care providers (MDR-TB)	129,580.37	12,874.38	17,219.32	159,674
Community-based monitoring	16,043.74	-	-	16,044
Human rights, medical ethics and legal literacy	-	-	18,211.98	18,212
Legal aid and services	28,855.79	78,892.63	-	107,748
Stigma and discrimination reduction (TB)	2,746.63	29,060.77	20,703.02	52,510
Grant management	2,775,813.15	3,098,421.75	3,227,865.95	9,102,101
Reform of laws and policies	2,292.35	2,292.35	2,292.35	6,877
Collaborative activities with other programs and sectors (TB care and prevention)	42,900.50	20,406.02	6,353.02	69,660
Routine reporting	68,044.24	83,497.74	96,955.41	248,497
Program and data quality	106,478.87	200,007.14	74,225.63	380,712
Coordination and management of national disease control programs	139,050.20	-	-	139,050
Prevention (TB care and prevention)	45,862.75	213,168.75	219,405.67	478,437
Community TB care delivery	531,048.75	934,593.70	78,940.69	1,544,583
Prevention (MDR-TB)	686,760.92	-	-	686,761
Health products and waste management systems	59,145.86	-	-	59,146
Mitigation for TB programs	304,413.83	880,412.06	242,918.96	1,427,745
Grand Total	10,271,783.57	19,597,836.61	18,872,093.63	48,741,714

Modules	Y1	Y2	Y3	Total
TB care and prevention	4,653,167.80	6,291,189.08	5,718,883.51	16,663,240
TB/HIV	289,909.25	289,697.49	289,697.49	869,304
RSSH: Community systems strengthening	327,728.68	123,475.94	114,169.55	565,374
MDR-TB	1,514,136.91	8,520,889.68	9,066,169.77	19,101,196
Removing human rights and gender related barriers to TB services	33,894.77	110,245.75	41,207.35	185,348
Program management	2,914,863.35	3,098,421.75	3,227,865.95	9,241,151
RSSH: Health management information systems and M&E	174,523.11	283,504.87	171,181.04	629,209
COVID-19	363,559.69	880,412.06	242,918.96	1,486,891
Grand Total	10,271,783.57	19,597,836.61	18,872,093.63	48,741,714

1.4. Structure Organization

The Organization PR Konsorsium Penabulu STPI is as follow:



2. Contacts

The list of important contacts for conducting the audit is available on the PR **to be provided confidentially to the selected auditor**. Contacts for SR and SSR levels will be provided later, upon request by the selected auditor.

3. Objectives of the Audit

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

- I. Whether the Special Purpose Grant Financial Statements (SPGFS) present fairly in all material respects the financial position, funds received and expenditures by the Principal Recipient (and sub-recipients) for the reporting period and in accordance with the applicable accounting framework;
- II. 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 workplan and any amendments thereto as contained in implementation letters;

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 Principal Recipient and key sub-recipients identified by the Global Fund Country team in consultation with the Principal.

4. Responsibility for the preparation of Grant Program Financial Statements (GPFS).

- a) The responsibility for the preparation of consolidated GPFS and of separate GPFSs for each entity covered by the audit lies with the PR which delegates the responsibility to the SRs for their respective Sub-grants.
- b) The PR will prepare the consolidated GPFSs in accordance with applicable accounting standards—either the International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS). The PR is responsible for ensuring that all recipients of TGF's funds have effective financial management systems¹ in place capable of producing reliable financial statements in the required format.

5. Special Purpose Grant Financial Statements (SPGFS).

PR konsorsium Penabulu STPI financial statements are prepared based on modified accrual accounting and the financial statement will be in USD.

Using modified accrual accounting will impact on how the PR record the asset, liabilities, income and expenditure. In modified accrual accounting long term asset/liabilities will be recorded as expense so there is no depreciation and PR will use the asset list to records all the information related to asset. PR will record short term asset on cash, bank, account receivable, advance payment, account payable and prepayment. While the income will be recorded when the cash is received and expenditures will be recorded based on accrual basis without depreciation.

The Consolidated GPFS should include:

- i. In the currency of the grant agreement (USD) a Statement of Sources and Uses of funds (SSUF) or an Income and Expenditure Statement by implementing entity and consolidated for the grant program, showing TGF funds received, any other income received and all grant expenditures, preferably in the TGF expenditure categories. Grant expenditures should be reported against the budget as defined in the grant agreement for the period with the actual expenditure allocated to the same budget categories disclosed for the implementing entity;
- ii. A statement of financial position and Cash Flow statement by implementing entity and consolidated;
- iii. A statement of changes in net assets by implementing entity and consolidated;
- iv. Notes to the Source and Usage Fund (SUF) Report and Remaining Balance describing the applicable accounting principles in place and a detailed analysis of the main figures;
- v. Statement of Budget versus Actual Expenditures by implementing entity and consolidated for the grant program, shown by TGF cost categories. This statement should be reconciled to the Annual Financial Report (AFR);
- vi. Statement of SR advances and reconciliation of total amount advanced by PR to SRs with SR recorded expenditures and SR cash balances at the end of the reporting period;
- vii. A reconciliation between the consolidated Income and Expenditure statements (SSUF) and Annual Financial Report (AFR) for the same period as submitted to the GF;
- viii. As an annex to the Source and Usage Fund (SUF) Report and Remaining Balance a comprehensive list of all fixed assets purchased, with dates, values and condition of the assets and a stock position for all major health products at the reporting date.

A specimen set of the GPFS is provided as an attachment to this standard scope of work only to the appointed auditor service provider when it is going to conduct the audit.

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: The key documents that the auditor will receive for conducting the audit services are:

- 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 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 will be carried out 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. Special attention should be paid to the following areas:

- i. **Compliance with applicable legislation** – Verify that the transactions comply in all 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 Program from disbursements, or generated by the Program's funds, were spent in conformity with the approved budget and workplan 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); with due attention to economy and efficiency, and only for the purposes for which the funds were provided. The auditor is expected to verify an ideal proportion of grant expenditures, to identify any ineligible expenditures;
- 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-party¹¹, the auditor must also include such third-party in 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 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** - 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;
- x. **Disbursements to SRs** - Verify that disbursements made by the PR to SRs are in line with the SR 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 products¹²** – 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

8. Audit Procedures

8.1. Planning

8.1.1. Kick off Meeting with the Principal Recipient:

- 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.
- 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

- 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.
- 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.
- 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.
- 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.
- 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 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.

Analytical procedures must be performed by the auditor, such procedures consists in verifying the financial data by assessing the plausible connections between both financial and non-financial information. The analytical review of actual expenditure incurred with the Grant budget (budget – actual comparisons) is a critical compliance check.

8.3.6. 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 Framework

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.

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*.

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 Fund.

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 the accompanying management letter including the PR's responses should be received by the Global Fund within three (3) months after the end of the reporting period under audit. The audit report for period ending 31 December 2021 will be due on 31st March 2019.

- a) The selected audit firm will also be granted timely, full and unrestricted access to any financial management system, accounting record, asset, property and personnel that may assist in clarifying any matter related to the audit.
- b) To assist the selected audit firm in conducting this audit task, the PR will provide copies of all 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 themselves with the following:
 - TGF's *Guidelines for the annual audits of PRs' and SRs' Source and Usage Fund (SUF) Report and Remaining Balance* [<http://www.theglobalfund.org/en/library/guidelinestools/>]
 - 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.
 - Progress Updates (PU/DRs) and Management Letters. Confirmation of amounts disbursed and outstanding at the Global Fund should also be obtained.
 - Annual Financial Reports (AFR);
 - Guidelines for Budgeting on TGF programs (TGF's website: <http://www.theglobalfund.org/en/library/guidelinestools/>).
 - PR's approved Finance; Procurement; SR's Management and other relevant Manuals
 - It is also recommended to obtain understanding of the Proposal under which the grant is being implemented, including accounting, and administration structure system SSF in 33 Provinces using Financial Guidelines (issued in December 2006 juncto 2011), Project Implementation Manual (issued in 2008 juncto 2010), and Procurement and Supply Management guidelines (issued in April 2005 and March 2006 and any related revision), interviews, and flowchart.

The auditors are strongly encouraged to contact the LFA prior to preparing the audit plan to allow for more in-depth information gathering, enabling the LFA to highlight any key weaknesses and areas of concerns upfront. During the course of the audit, the Auditors are recommended to contact the LFA as and when needed to obtain any 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 Policy]

[The Management Letter should state that the auditor acknowledges and agrees that the Management Letter shall be shared with the Global Fund on a confidential basis. The audience of the letter, however, is the PR/SR]

(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 Principal Recipient is able to better prioritize implementation of recommendations emanating from findings. The following system of grading is recommended:

Grade 1 findings are those which are particularly critical 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 regarding operational activities within the Principal Recipient/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 and 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 criterion 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, 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 a 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 Principal Recipient /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 Principal Recipient /Sub-recipient 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/SRs are required to 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 PR should develop an action plan to address any pertinent recommendations emanating from the PR and SR Audits.

Finally, all M/Ls 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.]. See below: