**Appendix #1**

**Terms of Reference for Annual External Audit**

**of USAID Supported Programs**

**I. BACKGROUND**

The Charitable Organization “All-Ukrainian Network of People Living with HIV/AIDS” (hereinafter referred to as “the Network”) was founded in May 2001 as a Ukrainian not-for-profit organization.

The Network was established to enhance the quality of life of people living with HIV/AIDS by means of joint efforts of all concerned in order to offer psychological, social, counseling and legal support and to advocate accessibility of treatment and diagnostics for people living with HIV/AIDS in Ukraine.

The Network sees its main priorities as follows:

* supporting civil society initiatives aimed at reducing HIV morbidity and mortality in populations most vulnerable to the infection;
* developing societal support for PLWH and those affected by HIV;
* reducing stigma and improving services for PLWH vulnerable populations; and
* identifying and sharing best practices of effective community responses to the pandemic.

Number of donors, including USAID, financially supports these strategic areas.

**Project “RESPECT”**: “**Reducing HIV-related Stigma and Discrimination for Most-at-Risk Populations (MARPs) in Health Care Facilities in Ukraine”** is financed by USAID. Project duration is 4 years and 3 months (September, 2013 – December, 2017) according to Modification Agreement #05 from August, 8 2017 and the main goals of it are to reduce HIV-related stigma and discrimination for MARPs, including PLWH and IDUs among health care providers and to improve government procurement processes and procedures, as well as strengthen monitoring and advocacy capacity and awareness of government spending in health sector.

The total amount of financing for this project is USD 3,541,233.00.

The Project is operating in 11 regions with high/middle HIV/AIDS prevalence, namely in Kyiv, L’viv, Cherkasy, Kryvyi Rig, Zaporizhzhya, Kropyvnytsky, Dnipro, Chernihiv, Poltava, Mykolaiv, Kherson.

The Network implements the project on the primary level with active involvement of the following stakeholders: Transparency International Ukraine, CO “Charity Association Network, Dnipro city”, Charitable Organization “Svitlo Nadii”, CO “Vid sertsya do setsya”, CO “Chernihiv Oblast Affiliate of Network of People Living with HIV/AIDS”, CO “Network Zaporizhzhya”, CO “Charity Association Network, Kryvyi Rig City”, Kherson city NGO “Association of the 21st Century”, Mykolaiv Regional Public Youth Movement “Penitentiary Initiative”, Kirovograd Oblast Affiliate of All-Ukrainian Network of People Living with HIV/AIDS (Kropyvnytsky city), CO “100% of life Kyiv Region”, Mykolaiv CO “Network”, Cherkasy Oblast Affiliate of All-Ukrainian Network of People Living with HIV/AIDS, NGO "Ukrainian Association of Family Medicine", Public Organization “Anti-Corruption Center”.

Overall objectives and specific project goals are the following:

Objective 1: Development and introduction of MARPs- and PLWH-friendly policies and practices in pilot health care facilities in two focal regions.

Objective 2: Development, piloting and institutionalization of gender-sensitive training modules for health care providers (HCPs) to prevent and reduce HIV- related S&D towards MARPs and PLWH in the pre- and in-service medical education institutions for doctors and nurses in the focal regions.

Objective 3: Increasing capacity of the Network and their implementing partner NGOs to address HCP S&D towards MARPs and institutionalize efforts to reduce it.

Objective 4: Strengthening monitoring and advocacy capacity of civil society to fight procurement corruption in the health sector.

Objective 5: Increasing public awareness of procurement and government spending in the health sector: increasing the media coverage within the country to reduce corruption risks.

Objective 6: Improving government processes and procedures.

Objective 7: Develop and approve by relevant Order of State Penitentiary Service of Ukraine (SPSU).

Objective 8: Strengthen the capacity of representatives of SPSU Department of Socio-Psychological Work with Prisoners, Department of Healthcare and Medical Provision and NGO case managers for effective implementation of developed Algorithm for Cooperation and case management model.

Objective 9: Develop and implement NGO case management model that will help linking soon-to-be- released HIV-positive prisoners, including PWID, to ART through Regional AIDS Centers / local ART sites and Opioid Substitution Therapy (OST) sites.

Total estimated amount was increased from USD 2,987,783.00 to USD 3,541,233.00, according to signed Modification 04, and current completion date of subject award was extended from September 17, 2017 to December 30, 2017 without increasing the total amount, according to signed Modification 05 to Cooperative Agreement.

Total estimated disbursed amount under the project “RESPECT” for the period January, 2017 – December, 2017 is USD 1,517,606.92 but actual amount will be defined after the closing the period.

**II. TITLE**

The objectives of the audit are to provide an independent verification of the Network’s utilization of funds donated by USAID:

1. The terms and conditions under which USAID provides funding to the Network for project “RESPECT” are defined in the Cooperative Agreement # AID-121-A-13-00006 dated September 19, 2013 with the ending date December 30, 2017.

**III. OBJECTIVES**

A financial audit of the funds provided by USAID must be performed in accordance with U*.S. Government Auditing Standards*, or other approved standards where applicable, and accordingly includes such tests of the accounting records as deemed necessary under the circumstances. The specific objectives of the audit of the USAID funds are to:

1. Express an opinion on whether **the fund accountability statement**[[1]](#footnote-1) for the USAID-funded program presents fairly, in all material respects, revenues received and costs incurred by the Network **for the year ended December 31, 2017** in conformity with the terms of the agreements and generally accepted accounting principles;
2. Evaluate the Network’s internal control related to the USAID-funded program, assess control risk, and identify significant deficiencies including material weaknesses;
3. Perform tests to determine whether the Network complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID-funded program. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified;
4. Determine if the Network has taken adequate corrective action on prior audit report recommendations (if any).

The fund accountability statement should be reconciled to the USAID funds included in the general purpose financial statements by a note to the financial statements or the fund accountability statement. All currency amounts in the fund accountability statement and the report findings, if any, must be stated in U.S. dollars. The auditors should indicate the exchange rate(s) used in the notes to the fund accountability statement.

Annex 1 of this TOR illustrates a typical fund accountability statement.

**IV. AUDITS COPE**

This scope of audit defines what is expected from the auditor, but not in any way restricts the audit procedures or techniques the auditor may wish to use to form an opinion. It is expected that sufficient audit evidence will be gathered to substantiate in all material respects the accuracy of the information contained in supporting schedules attached to the revenues and expenditures’ reports.

The highest professional standards of audit are required. The auditor must have appropriate professional qualifications and suitable experience with International Standards on Auditing (ISAs), including experience in auditing the accounts of entities comparable in size and complexity to the Network. The auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited or those of its implementing/supervising agency or directly related entities; the auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of the entity.

The auditor shall comply with ISQC 1 “Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements”.

As part of the audit testing procedures, particular attention should be paid to the following areas:

1. **Compliance with applicable legislation** - Verify that the transactions comply in all material respects with any applicable legislation. The auditor's report on compliance must set forth as findings all material instances of noncompliance, defined as instances that could have a direct and material effect on the fund accountability statement. Nonmaterial instances of noncompliance should be included in a separate management letter to the recipient and referred to in the report on compliance. The auditor’s report should include all conclusions that a fraud or illegal act either has occurred or is likely to have occurred. In reporting material fraud, illegal acts, or other noncompliance, the auditors should place their findings in proper perspective.

1. **Fund Accountability Statement -** The auditors must examine the fund accountability statement for USAID program including the budgeted amounts by category and major items; the revenues received from USAID for the period covered by the audit; the costs reported by the recipient as incurred during that period; and the commodities directly procured by USAID for the recipient's use. The fund accountability statement must include all USAID assistance funds identified by each specific program or agreement. The revenues received from USAID less the costs incurred, after considering any reconciling items, must reconcile with the balance of cash-on-hand or in bank accounts. The auditors may prepare or assist the recipient in preparing the fund accountability statement from the books and records maintained by the recipient, but the recipient must accept responsibility for the statement's accuracy before the audit commences. The opinion on the fund accountability statement must comply with Statement on Auditing Standard (SAS) No. 62 (AU623). The fund accountability statement must separately identify those revenues and costs applicable to each specific USAID agreement. The audit must evaluate program implementation actions and accomplishments to determine whether specific costs incurred are allowable, allocable, and reasonable under the agreement terms and applicable cost principles, and to identify areas where fraud and illegal acts have occurred or are likely to have occurred as a result of inadequate internal control. The auditors must generally express a single opinion on a fund accountability statement that includes more than one agreement with USAID. Auditors must not express separate opinions on fund accountability statements of each agreement or program unless specifically requested to do so by the USAID mission.
2. **Internal Control -** The auditors must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. In obtaining this understanding, the auditor must understand the design of the internal control related to USAID program and determine whether they have been placed in operation. The internal control must be described in the audit documentation.Auditors must then prepare the report identifying any significant deficiencies or material weaknesses in the design or operation of internal control. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness that is important enough to merit attention by those charged with governance. Any significant deficiencies or material weaknesses must be set forth in the report as "findings". Any other matters related to internal control – such as suggestions for improving operational or administrative efficiency or internal control, or control deficiencies that are not significant deficiencies or material weaknesses – may be reported in a separate management letter to the recipient and referred to in the report on internal control.
3. **Follow-Up on Prior Audit Recommendations -** The auditors must review the status of actions taken on findings and recommendations reported in prior audits of USAID-funded program. The auditors must describe the scope of their work on prior audit recommendations in the summary section of the audit report.

**V. REPORTS**

The recipient should submit to the cognizant USAID mission a portable document format (PDF) copy of the audit report in English and a PDF copy of the report in the recipient country's official language, if considered appropriate. The USAID mission will forward the report to the appropriate RIG for processing. The audit report must specify the correct award number(s) of each award covered by the audit. The report must contain:

1. A title page, table of contents, transmittal letter, and a summary which includes:

* a background section with a general description of the USAID program audited, the period covered, the program objectives, a clear identification of all entities mentioned in the report, a section on the follow-up of prior audit recommendations, whether cost sharing/counterpart contributions were required during the period audited, and whether the recipient has a USAID-authorized provisional indirect cost rate;
* the objectives and scope of the financial audit and a clear explanation of the procedures performed and the scope limitations, if any;
* a brief summary of the audit results on the fund accountability statement, questionable costs, internal control, compliance with agreement terms and applicable laws and regulations, indirect cost rates, status of prior audit recommendations, and, if applicable, the recipient’s general purpose financial statements on an organization-wide basis;
* a brief summary of the results of the review of cost sharing/counterpart contributions; and
* a brief summary of the recipient's management comments regarding its views on the audit and review results and findings.

1. The auditor's report on the fund accountability statement, identifying any material questioned costs not fully supported with adequate records or not eligible under the terms of the agreements.
2. The auditor’s report on internal control must include as a minimum:
   1. the scope of the auditor's work in obtaining an understanding of internal control and in assessing the control risk, and;
   2. any significant deficiencies including the identification of material weaknesses in the recipient's internal control. Significant deficiencies must be described in a separate section. The auditor's report on the recipient's compliance with agreement terms and applicable laws and regulations related to USAID-funded program. Nonmaterial instances of noncompliance should be communicated to the recipient in a separate management letter that should be sent with the audit report All material questioned costs resulting from instances of noncompliance must be included as findings in the report on compliance. Also, the notes to the fund accountability statement that describe both material and immaterial questioned costs must be cross-referenced to any corresponding findings in the report on compliance.

The format and content of the audit reports and what auditors must mention in them should closely follow the illustrative reports on Chapter 7 of GUIDELINES FOR FINANCIAL AUDITS CONTRACTED BY FOREIGN RECIPIENTS issued by OFFICE OF INSPECTOR GENERAL.

**VI. INSPECTION AND ACCEPTANCE OF AUDIT WORK AND REPORTS**

An annual audit must be conducted in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Inspector General, for any recipient fiscal year in which the recipient expends a combined total of $300,000 or more in all USAID awards, either directly or through another USAID contractor or recipient, excluding fixed price contracts and fixed obligation cooperative agreements.

The audit report must be submitted to USAID within 30 days after receipt of the auditor’s report, but no later than nine months after the end of the period audited.

Audit reports must be submitted to the following address:

USAID Regional Mission to Ukraine

Office of Financial Management

4 Igor Sikorsky Street

Kyiv, Ukraine 04112

USAID mission will forward final reports to the RIG for review and release. The cognizant RIG must receive the audit report no later than nine months after the end of the audited period.

The RIG will conduct quality control reviews (QCRs) of the audit documentation for a selected sample of the audits. These reviews will determine whether audit work was performed in accordance with GUIDELINES FOR FINANCIAL AUDITS CONTRACTED BY FOREIGN RECIPIENTS issued by OFFICE OF INSPECTOR GENERAL. The RIG will notify USAID, the recipient, and the independent auditors of the results of these reviews.

**VII. RELATIONSHIPS AND RESPONSIBILITIES**

USAID mission monitors and ensures submission of required recipient-contracted audit reports.

The USAID Regional Inspectors General (RIGs) monitor the quality of such audits. Each USAID Regional Inspector General (RIG) must maintain a list of independent auditors eligible to perform audits of USAID agreements.

USAID ensures that audit agreements between recipients and independent auditors contain a standard statement of work containing all needed requirements. Accordingly, recipients must send all draft audit contracts to the USAID mission for approval prior to finalization. One annual audit must cover all USAID funding to a recipient.

This USAID mission will act as the designated cognizant mission, unless the recipient is otherwise directed by USAID.

**VIII. TERMS OF PERFORMANCE**

All the works in accordance with this ToR should be completed by May 31, 2018 as the latest. The cognizant RIG must receive the audit report no later than August 31, 2018.

Payments to the independent auditor will be made in accordance with schedule to be defined in the contract. The payment schedule will be the next: 50% - advance payment, 40% - second payment after submission of the report, 10% - final payment after RIG approval. The final payment cannot be made until after the RIG approves the report.

Annex 1 - Illustrative Fund Accountability Statement

(NAME OF RECIPIENT)

FUND ACCOUNTABILITY STATEMENT

January 1, 20XX to December 31, 20XX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | QUESTIONED COSTS | | | | |
|  | BUDGET | ACTUAL | INELIGIBLE | UNSUPPORTED | NOTES |
|  |  |  |  |  |  |
| REVENUE |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| (USAID/X) |  |  |  |  |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
| (USAID/Y) |  |  |  |  |  |
| Loan No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| (USAID/X) |  |  |  |  |  |
| Total Revenue | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| COSTS INCURRED |  |  |  |  |  |
|  |  |  |  |  |  |
| Administrative |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |

Notes or supporting schedules detailing revenues, costs incurred, outstanding fund balances, and commodities directly procured by USAID for each individual agreement should be attached.

All questioned costs will be listed here. All material questioned costs resulting from instances of noncompliance with agreement terms and applicable laws and regulations should be included as findings in the report on compliance.

The notes to the fund accountability statement should briefly describe both material and immaterial questioned costs and should be cross-referenced to any corresponding findings in the report on compliance.

Should include both costs incurred and reimbursed (liquidated) by USAID and costs incurred but pending reimbursement (liquidation) by USAID. Questioned amounts for costs pending reimbursement should be identified in the findings and notes as not reimbursed by USAID.

Annex 1- Illustrative Fund Accountability Statement (Continued)

(NAME OF RECIPIENT)

FUND ACCOUNTABILITY STATEMENT

January 1, 20XX to December 31, 20XX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | QUESTIONED COSTS | | | | |
|  | BUDGET | ACTUAL | INELIGIBLE | UNSUPPORTED | NOTES |
|  |  |  |  |  |  |
| Loan No. 1 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Salaries |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
| Loan No. 1 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Transportation |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Equipment |  |  |  |  |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Maintenance |  |  |  |  |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Other Direct |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Total Costs Incurred | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Outstanding Fund Balance |  | $xxx | $xxx | $xxx |  |

Annex 1 - Illustrative Fund Accountability Statement (Continued)

(NAME OF RECIPIENT)

FUND ACCOUNTABILITY STATEMENT

January 1, 20XX to December 31, 20XX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | QUESTIONED COSTS | | | | |
|  | BUDGET | ACTUAL | INELIGIBLE | UNSUPPORTED | NOTES |
|  |  |  |  |  |  |
| Commodities Directly Procured by USAID |  |  |  |  |  |
|  |  |  |  |  |  |
| Vehicles |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Equipment |  |  |  |  |  |
| Grant No. 1 | $xxx | $xxx | $xxx | $xxx |  |
| Grant No. 2 | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Total USAID Procurement | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |
| Total Questioned Costs | $xxx | $xxx | $xxx | $xxx |  |
|  |  |  |  |  |  |

The cost of all commodities whose existence or proper use in accordance with the agreements cannot be verified should be questioned.

1. A “fund accountability statement” is a financial statement that presents the Network’s revenues, costs incurred, cash balance of funds provided to the recipient by USAID, and commodities directly procured by USAID for the recipient's use. [↑](#footnote-ref-1)