

Annex 2: 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 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 PR 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 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 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 noncompliance 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 PR/SR 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/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:

MATTERS ARISING FROM PREVIOUS AUDITS

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