



Report to the GAVI Alliance Board

11-12 June 2013

Subject:	Internal Audit reporting lines proposal and Terms of Reference
Report of:	Simon Lamb, Managing Director of Internal Audit
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Agenda item:	02f
Category:	For Decision
Strategic goal:	Alliance operations

Section A Overview

1 Purpose of the report

- 1.1 The purpose of this paper is to present proposals on clarifying certain aspects of the reporting lines of Internal Audit to management and the Board.

2 Executive Summary – Update

- 2.1 A prime consideration in assessing the appropriateness of Internal Audit's reporting lines is in ensuring that they provide appropriate independence of reporting to the Board, to underpin the integrity of the function, whilst also ensuring there is an effective line of reporting to management, to provide organisational connection and to avoid the risk of isolation.
- 2.2 Whilst the existing lines of reporting to the Board and the CEO are clear and support this objective, certain aspects were potentially ambiguous in terms of how they worked in practice. This related to the responsibilities of Internal Audit in reporting to the CEO and the Board, whilst also reporting to the Audit and Finance Committee which provided oversight of the function.
- 2.3 Papers were prepared to propose clarification on how the reporting lines should work in practice. The proposal includes, for information, best practice guidance on the reporting lines of internal audit functions. Revised Internal Audit Terms of Reference (TOR) are also included with proposed amendments highlighted.
- 2.4 The papers were presented for review and approval at the Audit and Finance Committee and the Governance Committee. At both committees, it was questioned as to whether the Internal Auditor should report at each of the principal meetings of the Board. At the Audit and Finance

Committee, after some discussion on the topic, the Chair agreed that Committee members should debrief their constituencies and Board members as required after standing Committee reports to allow the Board to prioritise its time and to avoid duplication of reporting. He noted that the Internal Auditor had unfettered access to report to the Board as circumstances warranted.

- 2.5 The Internal Auditor also noted that with the oversight of Internal Audit by the Audit and Finance Committee, the Board should be able to satisfy itself on the proper operation of the function through ensuring that: an appropriate person occupied the internal audit post; there was a suitable audit plan based on appropriate priorities; the function was properly resourced to enable execution of the plan; and the Board would be consulted if there were significant changes to the TOR. On a day to day basis, he expected that he would interact with the Audit and Finance Committee and the CEO.

3 Recommendations

- 3.1 Further to recommendations by the Audit and Finance Committee and the Governance Committee, the Board is requested to

Approve the reporting lines of the Internal Auditor, attached as Annex 1 to Doc 02f, and the revised Internal Audit Terms of Reference, attached as Annex 2 to Doc 02f.

4 Risk and Financial Implications – Update

- 4.1 As noted, ensuring the appropriate reporting lines of the Internal Audit function is key in underpinning its independence and integrity of operation as a risk assessment function. The proposed changes serve to clarify and strengthen the function's reporting lines, consistent with best practice.
- 4.2 There are no financial implications.

Internal Audit Reporting: Proposal

Reporting

- A dual reporting line:
 - a) to the Board with at least annual reporting, and discretion on the part of both the Board and the Internal Auditor for ad hoc reporting on request;
 - b) to the CEO for routine, day-to-day oversight.

Internal Audit has free and unrestricted access to the Chair and Vice-Chair of the Board and to the Chair of the Audit and Finance Committee. In addition to providing a direct channel for urgent and/or major findings, this also provides a route by which the Internal Auditor can bring to the Board any concerns regarding any potential compromise of the integrity of the function.

- Board-level, non-executive oversight is achieved in the first instance through the AFC as a committee of the Board which allows a closer oversight of the function than a Board could reasonably be expected to achieve. This also allows a concentration of relevant finance-oriented skills on AFC to facilitate effective oversight. The Chair of the AFC should report to the Board routinely on matters arising at AFC (which typically may be 'null' reporting with material matters noted only on an exceptional basis).
- The Internal Auditor will have regular meetings with the Chair of AFC (on a mutually-agreed schedule) to provide briefing on the function's activities plus ad hoc meetings by request as the Chair and Internal Auditor require.
- The Board should take key decisions based on the advice and recommendation of the AFC and management. These include:
 - Appointment and termination of the Internal Auditor.
 - Approval of Internal Audit's plans and budgets.
 - Approval of Internal Audit Terms of Reference

Appointment and termination

- Management will establish a process for the recruitment of any new Internal Auditor, in agreement with the AFC Chair. Management's recommendation on any new appointment will be discussed with the AFC Chair who will consult with members of AFC as appropriate in finalising a recommendation to the Board Chair. The Chair of the Board will then make a recommendation on appointment to the Board. Any considerations on termination would be handled similarly with consultation amongst the CEO, AFC Chair and Board Chair, with committee and broader management consultation as considered necessary.

Approval of plans and budgets

- The plans and budgets of Internal Audit will be reviewed at AFC to ensure they are consistent with Internal Audit's mission and objectives, and that Internal Audit is sufficiently resourced to enable satisfactory execution. Internal Audit's plans and budgets will be approved by the Board, as part of the GAVI budget approval process and timelines, following recommendation from the AFC.

Items highlighted are either new constructs, or key points of emphasis in terms of how the reporting lines would work in practice.

Context (Quoted references are from the International Standards for the Professional Practice of Internal Auditing)

The objectivity and independence of the Internal Audit function is the cornerstone of its effective operation. *“The internal audit activity must be independent, and internal auditors must be objective in performing their work”*.

Independence enables Internal Audit to conduct its work without undue influence because of organisational and other considerations.

Objectivity is the bias-free state of mind which the auditor brings to his work. This enables the audit to be undertaken and conclusions drawn dispassionately and without vested interest. *“Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest”*.

Within parameters agreed with the Board of Directors, It is essential that the function is able to determine its scope of work, conduct it fully and freely as it determines, and reports its findings transparently.

Organisational reporting

Internal Audit *“must report to a level within the organisation that allows the function to fulfil its responsibilities”*.

“Organisational independence is effectively achieved when [Internal Audit] reports functionally to the Board”.

Internal Audit *“must communicate and interact directly with the board”*.

Best practice (per the Institute of Internal Auditors, the accepted standard-setter and the referenced authority in Internal Audit’s Terms of Reference, approved by the Board) **and common approaches**

- **Direct reporting to the Board is regarded as best practice;** this is frequently achieved through a committee of the board which has responsibilities for overseeing audit- and finance-related matters.
- Sole reporting to the Board is regarded as best practice (but rarely seen); however, for reasons of practicality, **reporting within the organisation is common to facilitate Internal Audit’s engagement with management and to avoid the function being organisationally isolated.**
- **Dual lines of reporting are widely used to demonstrate independence (by Board reporting) and organisational connectivity (by a management line of reporting).** Sometimes primary (“firm” or “full” line) and secondary lines (“dotted”) of reporting are used with the prime reporting line to the Board, and a secondary line to management (this is often described as an “administrative line of reporting” with the intention that management’s role does not include direct intervention in audit reporting that may compromise its independence).
- Management lines of reporting are typically to the most senior levels in the organisation, ideally to the CEO (best practice). Sometimes for reasons of managing a CEO’s span of control, Internal Audit may report to another senior executive.

Items highlighted are key elements influencing the determination of the proposed Internal Audit reporting lines.

Internal Audit Terms of Reference

Introduction:

Internal Audit ("IA") is an independent and objective assurance and consulting activity designed to add value and improve the operations of the GAVI Alliance ("GAVI"). IA assists GAVI in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

The scope of IA's work extends not only to the Secretariat but also to the programs and activities carried out by GAVI's grant recipients and partners.

Professional Standards:

IA staff shall govern themselves by adherence to The Institute of Internal Auditors' Code of Ethics. The Institute's International Standards for the Professional Practice of Internal Auditing shall constitute the operating procedures for the department. The Institute of Internal Auditors' Practice Advisories will be adhered to as applicable. In addition, IA will adhere to GAVI's policies and procedures.

Authority and confidentiality:

Authority is granted for full and unrestricted access to all GAVI records, physical properties, and staff relevant to any area under review. All employees are requested to assist IA in fulfilling its function.

Documents and information obtained by IA will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Independence:

The Director of IA reports to the Board, who appoints and terminates the Director upon recommendation of the Board's Audit and Finance Committee, and the Chief Executive Officer. The Audit and Finance Committee also assesses IA's organisational structure, mandate and operating budget to ensure that these are appropriate and sufficient to meet agreed activities. The Director of IA has free and unrestricted access to the Chair and Vice-Chair of the Board and to the Chair of the Audit and Finance Committee.

All IA activities shall remain free of influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in performing the function.

IA shall have no direct operational responsibility or authority over any of the activities it reviews. Accordingly, it shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be considered management or staff's responsibility.

The Board shall review and approve, as appropriate, the annual audit plan and budget, based upon the advice and recommendation of the Audit and Finance Committee. The Director of IA will report

to the Board at least annually, or more frequently, ad hoc if considered necessary by the Board or the Director of Internal Audit.

Audit Scope:

IA's scope encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management process, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve GAVI's stated goals and objectives. It includes:

- Monitoring and evaluating the effectiveness of GAVI's risk management system.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the adequacy of the systems established to ensure compliance with policies, plans, procedures, laws, and regulations and establishing whether GAVI is in fact in compliance.
- Reviewing the adequacy, implementation and operation of GAVI's Transparency and Accountability Policy and of other anti-corruption, fraud and related misuse policies and procedures.
- Acting as the Compliance Officer for GAVI's Whistleblower Policy and investigating whistleblower complaints and allegations of misconduct or fraud.
- Auditing internal control processes at the Secretariat and country level including income, non-grant expenditure, internal projects, information and communication, grant application and grant awards, funds disbursement, and risk assessment processes.
- Reviewing the means of safeguarding assets and, as appropriate, verifying their existence.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Conducting specific reviews or tasks requested by the Board, the Audit and Finance Committee or the CEO, provided such reviews and tasks do not compromise IA's independence or objectivity.

Audit Planning:

IA shall regularly submit to the CEO and Audit and Finance Committee an up-to-date summary of the audit plan. The budget for the function is prepared and presented annually. The Audit and Finance Committee will advise upon and recommend, as appropriate, the annual audit plan and budget to the Board. The audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology. Any significant deviation from the formally approved plan shall be communicated to the CEO and the Audit and Finance Committee through periodic activity reports.

Reporting:

A written report will be prepared and issued following the conclusion of each audit or review and will be distributed as appropriate. A copy of each report will be forwarded to the CEO and the Chairman of the Audit and Finance Committee.

The audit report ordinarily will contain the auditee's response and corrective action (to be) taken in regard to the specific findings and recommendations, including a timetable for anticipated completion and a justification for any recommendations not addressed.

IA shall monitor the appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic Assessment:

IA shall develop and maintain a quality assurance and improvement program that covers all aspects of its activities. The Director of IA periodically assesses whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable IA to accomplish its objectives. In addition, in conformity with The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing, an external assessment will be conducted at least every five years by a qualified independent reviewer from outside the organisation. The results of these internal and external assessments are communicated to the CEO and with the Audit and Finance Committee.