



## Report to the GAVI Alliance Board

11-12 June 2013

<b>Subject:</b>	<b>Report of the Internal Auditor</b>
<b>Report of:</b>	Simon Lamb, Managing Director of Internal Audit
<b>Authored by:</b>	Simon Lamb
<b>Agenda item:</b>	16
<b>Category:</b>	For Information
<b>Strategic goal:</b>	Affects all strategic goals

### Section A Overview

#### **1 Purpose of the report**

- 1.1 The purpose of this paper is to inform the Board on Internal Audit's activities year-to-date, and those planned for the remainder of the year.

#### **2 Recommendations**

- 2.1 This report is for information only.

#### **3 Executive summary**

- 3.1 This report describes Internal Audit's activities in 2013, past and planned.
- 3.2 There is a significant focus on the further development of the Internal Audit Function. The paper outlines the plans to establish the key audit processes which should be in place, consistent with best practice, and appropriate to support an external Quality Assurance Review of Internal Audit (to be undertaken towards the end of 2014). The introduction of these processes will strengthen the institution of Internal Audit in GAVI, and provide a basis by which the Audit and Finance Committee, on the Board's behalf, can most readily oversee the function.
- 3.3 A summary is included of Internal Audit's activities year-to-date, and those planned to be undertaken for the remainder of the year.
- 3.4 A summary is included of the activities of the Transparency and Accountability Policy Team (TAP) year-to-date, and those planned to be undertaken for the remainder of the year.

3.5 The report provides the current status on Transparency International's review of the possible extension, beyond staff members and the Board, of GAVI's existing Whistleblower policy to encompass third parties.

3.6 Finally, the Internal Auditor reports on the organisational independence of the Internal Audit function, an annual best-practice requirement.

#### **4 Risk implication and mitigation**

4.1 The report of the Internal Auditor relates to matters relevant to the assessment and management of risk in GAVI. There are no adverse risk implications of this report.

#### **5 Financial implications: Business plan and budgets**

5.1 There are no financial implications.

### **Section B Content**

#### **1 Development of the Internal Audit Function**

1.1 The Internal Audit function has been established for three years and has reached a point of maturity where the focus can now be on the further development of the institution of Internal Audit in GAVI. This will include implementing policies and procedures to establish a routine of on-going risk-assessment, and a process of annual audit plan preparation, execution, and follow-through consistent with recognised best practice. This will facilitate the agreement of audit priorities with management and the Board, and will provide a structure by which the Audit and Finance Committee in the first instance, and the Board more generally, is able to oversee the operation of the function, and draw appropriate insight and assurance from the work of Internal Audit.

1.2 The Institute of Internal Auditors' International Standards for the Professional Practice of the Internal Audit (the 'Standards') set out the basis for the proper conduct of internal audit; they are formally adopted in the Terms of Reference for GAVI's Internal Audit function.

1.3 It is a requirement of the standards that every five years an external assessment (Quality Assurance Review, 'QAR') will be conducted by a qualified independent reviewer. Such reviews provide an independent perspective on the operation of the function, using the Standards as the benchmark of good practice, and will also provide recommendations to enhance the operation of the function. Given the external scrutiny that GAVI is subject to, and the reliance that various stakeholders, including specifically the Board, place upon Internal Audit, the QAR is a standard requirement. It will provide overseeing bodies with independent assurance on the proper constitution and operation of the function.

1.4 It is intended that a QAR will be undertaken in late 2014, on or around the fifth anniversary of the establishment of the Internal Audit function and with

the expectation that it is complete before the Pledging Conference planned for late 2014/early 2015 so as to provide assurance to the donor community in particular, if required.

- 1.5 The Standards are applicable to all internal audit departments regardless of size, level of resources, complexity, or objectivity and scope. For GAVI this means that the essential elements necessary to ensure compliance with the Standards will need to be in place, though they should be 'right-sized' appropriately to match the needs of the organisation.
- 1.6 With the requirements of the QAR in mind, and recognising that GAVI would wish to have in place, and be seen to have in place, an effective best-practice audit function, it is intended that the essential components be established through the course of this year. An audit plan for 2014 can then be derived, and a track record of plan execution and risk coverage demonstrated, before the QAR is undertaken.
- 1.7 The essential components of the Internal Audit function include the following:
  - a) An **Internal Audit Charter** (in GAVI, described as the Terms of Reference) which establishes Internal Audit's purpose, authority and responsibility. This is already in place (with select revisions to be proposed at this meeting).
  - b) A **comprehensive database/inventory of auditable activities in GAVI** (the "audit universe") to ensure that all of GAVI's activities are considered for appropriate audit coverage.
  - c) A **risk assessment process** in which each of GAVI's activities is evaluated and risk-assessed by Internal Audit so that audit priorities may be agreed with management and the Board.
  - d) An **audit planning process** in which those activities considered to be highest risk are prioritised for more frequent and more in-depth audit, and may be included on that year's audit plan depending upon how recently they have been subject to independent review. The plan will allow for flexibility to respond to ad hoc requests and emerging situations as needed in the course of the year.
  - e) The establishment of an **audit methodology** to planning, executing and documenting individual audits, and reporting the results of these clearly with recommendations for enhancement to controls and processes as required.
  - f) Process for **follow-through of outstanding audit issues** and recommendations to ensure there has been appropriate completion of any recommended enhancements.

### 2 Internal Audit update

2.1 Year-to-date/in-progress activities; this section sets out the audit work and other relevant activities undertaken in the first four months of the year, since the arrival of the new Internal Auditor.

(a) Introduction and assimilation of new Internal Auditor

- i. Meetings with relevant functional and operational management in Geneva and DC.
- ii. Introduction to and assimilation of the TAP function.
- iii. Presentations to and discussions with the Audit and Finance Committee, and the IFFIM Board.
- iv. Private briefings with the Chairs of the Board, and the Audit and Finance Committee, and regular meetings with the CEO and Deputy CEO.
- v. Attendance at, and participation in, risk management discussions with the Executive Team. Attended the Executive Team's retreat in May.
- vi. Received briefings from the past Internal Auditor and reviewed the past audit activity and structures in place.
- vii. Periodic meetings with GAVI's external auditors, KPMG.
- viii. Collaboration with the Inspector General and the Internal Auditor of the Global Fund.

(b) Participation in, review of, and feedback on, GAVI's review of policies relating to:

- i. The re-design of GAVI's grant application, monitoring and review systems which includes replacing the Independent Review Committee.
- ii. Transparency and Accountability Policy. Review of the existing TAP policy and the assessment of the need to update.
- iii. Procurement. Revision of policy, and drafting of new procedures. An area which embodies significant control considerations relating to the segregation of duties, signing authorities, and achieving an appropriate balance between expediting procurement and controlling GAVI's financial commitments.

(c) Audit of GAVI's risk management process (on-going). Assessment of the processes used to identify, evaluate, manage and report risks.

- (d) Review of risks associated with Supplementary Immunisation Activities ('campaigns'), SIAs (on-going). As requested by management, an assessment of the risks associated with SIAs which are likely to be an increasingly important source of support to countries in responding to the near-term needs of disease outbreaks.
  - (e) Review of controls of credit card usage (on-going). This review looks at controls around card usage by staff members.
  - (f) Support of and participation in TAP reviews relating to: Sierra Leone (reporting of final results); Indonesia (Cash Programme Audit); Malawi (Cash Programme Audit); Nigeria (Monitoring Review).
- 2.2 Remainder of the year activities; this section sets out the audit work and other relevant activities planned for the rest of 2013.
- (a) In future, it is intended that there will be an annual plan submitted to the Audit and Finance Committee initially and then to the Board, derived using the audit process described above, which will set out planned coverage in the following 12 months. At this point however, remaining activities will encompass completion of the work already in-progress, and the following audit activities (based on existing commitments and expectations set out by management and the Board):
    - i. Tracking of the supply chain management initiative and risk assessment as appropriate. This is an area of risk previously reviewed at the Board, and is now one of management's strategic initiatives.
    - ii. Executive expenses (based on a prior commitment to the Board, there will be periodic reviews of executive expenses to assess compliance with expense policy and procedures)
    - iii. Follow-up on prior internal audits. Consistent with establishing best-practice processes, this will comprise a review of prior years' audits, completed since Internal Audit's inception, to ensure issues raised have been followed-through appropriately.
  - (b) It is likely that there will be further involvement in TAP reviews, and execution of ad hoc internal audits, according to need and risk.

### **3 Transparency and Accountability Policy (TAP) team update**

- 3.1 The TAP team undertakes assessments, reviews, audits and investigations to assess recipient country compliance with GAVI's Transparency and Accountability Policy (TAP), approved by the Board. As set out in Internal Audit's Terms of Reference, the scope of Internal Audit's work extends to the programme and activities carried out by GAVI's grant recipients and partners. For this reason, and to provide appropriate oversight of the function, TAP reports to Internal Audit. Therefore, this

report of the Internal Auditor includes a summary of TAP coverage, actual and planned.

### 3.2 Misuse cases

- (a) In the last year there has been one case of misuse which related to HSS grants in Sierra Leone. A report was finalised in April 2013 (“Audit of Health Systems Strengthening (HSS) Support Disbursed in the period 2008-2010”), first provided to the country and then published on GAVI’s website, in keeping with GAVI’s policy on transparency. The report described various sources of misuse principally relating to undocumented expenditures, unjustified disbursements, and overcharged procurement. The final amount of misuse determined by the audit was \$523,303. To provide perspective on this amount, significant numbers of children in Sierra Leone have received protection through GAVI-supported vaccination programmes since inception: Yellow Fever (estimated, over one million children since 2002); Penta (estimated, over one million children since 2006); and Pneumo (estimated, 400,000 children since 2010).
- (b) Consistent with policy, the Government of Sierra Leone has been asked to reimburse GAVI for the misused funds and to introduce enhancements to controls around the management of GAVI’s programmes. A confirmation has been received from the office of the Health Minister indicating that an official commitment to reimburse will be provided in due course. No further cash grants will be disbursed until these commitments have been made and the TAP team has competed at least one follow-up visit to ensure that control weaknesses have been substantially remediated.

### 3.3 TAP programme: activity to-date and for remainder of 2013

- (a) TAP has been in operation since 2009, initially with one permanent staff member and resourced to current levels (six staff plus one support) since August 2012. To date, TAP’s activity has mainly consisted of completing Financial Management Assessments (FMA) and reviewing, through GAVI’s monitoring processes, countries’ Annual Progress Reports and related financial management reports including external audits. An FMA is an assessment of the suitability of the mechanism suggested by a country to manage GAVI cash grants, and an evaluation of the capability of a country to establish and maintain appropriate controls and processes, consistent with the requirements of the TAP policy. Any required enhancements identified in the FMA will be described in the Aide-Memoire signed by the recipient country and GAVI.
- (b) The TAP function has now completed FMAs for 50 of the 55 countries who have received cash grants of a significant size (greater than \$250,000) and/or are applying for a new grant. There are special reasons why it was not considered appropriate to complete FMAs for the remaining countries though they will be covered in due course as



appropriate. This year it is expected that up to eight further FMAs will be completed depending on new grant applications. Going forward the FMA will principally be applied to new grant awards.

- (c) The substantial completion of the FMAs for most countries receiving cash grants represents a significant 'baseline' point for the TAP team. Since 2013, the activities of TAP are increasingly focused on different modes of country assessment, more intense and responsive but also more selective – based on risk assessment.
- i. Monitoring Reviews (MR). The purpose of a MR is to enable TAP to assess timely, through an in-country visit and review of supporting documents, a country's current status with regards to its management of cash programmes and particularly its implementation of enhancements identified through previous TAP work, and internal or external audits. It is anticipated that up to eight MRs will be completed this year. A MR can also be undertaken as a swift response to a concern or an unexpected situation of risk in a particular country, sometimes in a joint mission with the Country Programme team.
  - ii. Cash Programme Audits (CPA). The purpose of a CPA is to undertake a substantive examination of the controls in place in-country to manage GAVI cash programmes, and to examine and validate the appropriate use of GAVI-disbursed funds consistent with the approved proposal and any Aide-Memoire signed with the recipient Government. It is anticipated that at least one CPA will be completed in the course of each HSS grant; it is planned that up to seven CPAs will be completed this year.
  - iii. Investigations. The purpose of an investigation is to undertake a 'forensic' level of examination in cases of possible misuse, to evaluate whether misuse has occurred, and if so, to determine the value of misused funds. The need for any further investigations in 2013 will depend on whether any cases of potential misuse emerge from recipient countries. From inception, TAP has been involved in investigating seven cases of misuse, with commitments to reimburse of \$7.8million agreed with governments.

#### **4 Review of Whistleblower Policy – extension to third parties**

- 4.1 There is an existing whistleblower policy which covers the reporting of suspicions by GAVI staff and Board members. It was left as a point of follow-up from the Board meeting of July 2011 to examine the possibility of establishing a central confidential reporting hotline. This would extend the policy to cover third parties, particularly in countries receiving grants but potentially also including others interacting with GAVI e.g. suppliers and other contacts.
- 4.2 Transparency International (TI) has been engaged on a small consulting assignment to review this, addressing two aspects:

- (a) Is there a need for an external whistleblowing facility?
  - (b) If so, what might the form of this take, recognising that there will be a trade-off between the cost of a facility and the extent of service that it is desired to provide?
- 4.3 TI has provided an interim draft report which has been reviewed by Internal Audit (as sponsor of the review); preliminary feedback has been provided to TI. The interim draft report is being revised before TI undertakes further consultations. It is expected that in due course, after consideration by management, the results and management recommendations will be presented to the Board later in the year.

### **5 Organisational Independence of Internal Audit**

- 5.1 Standards require that the Internal Auditor must confirm to the Board, at least annually, the organisational independence of the internal audit activity. Based on the review of, and proposals for the refinement of, Internal Audit's reporting lines to GAVI management and the Board (presented at this meeting for approval), the Internal Auditor confirms there is appropriate organisational independence to ensure the proper conduct of the function.

### **Section C Implications**

#### **1 Impact on countries**

- 1.1 This report includes a summary of the TAP team's work in performing country assessments. TAP country reports are provided to GAVI management to facilitate their oversight of country cash programmes and will typically include recommendations for implementation by countries to improve their management and control of GAVI programmes.

#### **2 Impact on GAVI stakeholders**

- 2.1 This report is intended to provide insight and assurance on the proper operation of GAVI's Internal Audit function to relevant stakeholders.

#### **3 Impact on Secretariat**

- 3.1 This report includes a summary of Internal Audit's work, actual and planned. Internal Audit reports will typically include recommendations to improve management and control in the Secretariat and, dependent on their implementation, are intended to have positive impact on the Secretariat though with possible cost implications. These would always be considered on a case-by-case basis in finalising audit recommendations, in consultation with management.

#### **4 Legal and governance implications**

- 4.1 There are no legal and governance implications.



### **5 Consultation**

- 5.1 GAVI management has been briefed and consulted in the course of regular meetings on the matters presented in this report. This process of regular posting and consultation will continue as a routine. There are no actions or recommendations noted in the report and no further consultation is considered necessary on these items at this point.
- 5.2 The review of the possible extension of the whistleblower policy will entail further consultation within GAVI and with relevant partners and stakeholders as appropriate, before a decision is made by management and presented to the Board.

### **6 Gender implications**

- 6.1 There are no gender implications.