

<b>SUBJECT:</b>	<b>INTERNAL AUDITOR'S REPORT</b>
<b>Report of:</b>	Simon Lamb, Managing Director, Audit and Investigations
<b>Authored by:</b>	Simon Lamb
<b>Agenda item:</b>	16
<b>Category:</b>	For Information
<b>Strategic goal:</b>	Alliance operations

## **Section A: Overview**

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

- 1.1 This report is to provide the Board with updates on audit activity generally, and specifically on the development of the audit activity in line with the Board's approval in December 2014 for the reorganisation and expansion of the audit function. It covers:
- (a) The reorganisation of the function and status on related recruitment.
  - (b) Developments with regard to each of the key activities: Internal Audit; Programme Audit; Whistleblower Reporting and Investigations.
  - (c) The results of the recently completed External Quality Assessment of the Internal Audit function.

### **2. Recommendations**

- 2.1 None.

### **3. Executive summary**

- 3.1 I report on progress in executing the 2014 audit plans for Internal Audit and Programme Audit. Both plans were constrained in their execution because of the departure of key staff in 2014, and the need to reprioritise available capacity. The 2015 audit plans for Internal Audit and Programme Audit, approved by the AFC, are provided as annexes for information.
- 3.2 The schedule on misuse reimbursements is annexed. Approximately US\$ 1.5 million has been received in 2015 on past cases of misuse. The overall reimbursement rate on past cases of misuse is 71%.

- 3.3 I report on the operation of the Whistleblower Reporting facility which was set up last year, its current status, and plans for its further development.
- 3.4 The External Quality Assessment of the Internal Audit function was recently completed.
- (a) Overall, the findings are consistent with those anticipated and discussed with the AFC in February 2015. The EQA concluded with an overall rating of 'partially conforms', which is in line with the early stage of development of the function, and given the limited resources previously available.
- (b) The EQA recommendations are consistent with the intended development path, approved by the Board in December 2014, providing additional detail on specific aspects of implementation. An implementation plan is being developed incorporating the EQA recommendations on Internal Audit as appropriate; the scope of this plan will include all of the Audit and Investigations function's activities, not just the Internal Audit activities covered in the EQA. The implementation plan will be presented to the AFC for review and approval.

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

- 4.1 There are no risk implications arising from this paper.

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

- 5.1 There no financial implications arising from this paper beyond the business plan and budgets previously approved.

### **Section B: Content**

#### **6. Reorganisation of the audit function**

- 6.1 Following the Board's approval in December 2014 for its reconstitution, the audit function was formally reorganised on 1st February 2015. It now constitutes the Audit and Investigations (A&I) function with four sub-functions: Internal Audit (covering the audit of Gavi's internal processes); Programme Audit (covering the audit of programmes in-country); Investigations (covering the examination of situations of possible error or misuse, both internal and external to Gavi) and Counter-Fraud (covering the assessment of the fraud-resilience of Gavi's processes and recommendations to improve them); and Whistleblower Reporting.
- 6.2 The organisation structure and recruitment status of the new A&I function is included at Annex A. Significant effort has been applied to the recruitment of additional staff since November. Of the 11 new positions created, 2 have been filled and staff have started, 7 further offers have been made and accepted, 1 final candidate is at the last stage of

interview, and 1 position has been readvertised (with a further 50 applications received).

- 6.3 The A&I function's Terms of Reference are an important element in ensuring the proper constitution of the function. These will be redrafted in the light of the reorganisation and the introduction of new activities, and will be presented to the AFC for review later in the year, before submission to the Board for approval.

## 7. Internal Audit

- 7.1 As reported to the AFC, the execution of the Internal Audit was significantly impacted by the departure of the Director of Programme Fiduciary Oversight in mid-2014 and other staff movements. As a result, during the second-half of 2014, significant Internal Audit resources were spent on programme audit-related oversight and on recruiting a new Director and other staff, and only two of the seven planned internal audits have been undertaken. As an illustration of the impact on execution, in preparing the 2014 plan, up to 40% of available time had been allocated for the execution of internal audits (based on experience in 2103); given the reprioritisation described, the proportion of time so-spent was only 5%.

- 7.2 I have undertaken a risk assessment of Gavi's internal processes and activities, and the external environment in which it operates. This has been informed by interviewing members of the Executive Team, reviewing the most recently-available Risk Register, and consulting with the CEO and DCEO on priorities as they see them.

(a) With respect to the risk of internal processes, there is no significant change from the prior year.

(b) With respect to the external environment, because of recent incidents relating to vaccine stock management in-country, this has been elevated in the risk assessment and incorporated in the Internal Audit plan for 2015.

- 7.3 The plan incorporates items from the 2014 plan which were not undertaken because of the resource constraints because these remain valid priorities. There was discussion at the Board meeting in December 2014 of the desire to ensure that the work of audit – both Internal Audit and Programme Audit - incorporates a broader assessment of the programmatic aspects of Gavi's activities, and items have been included in the plan responsive to this request. The Internal Audit 2015 plan is shown at Annex B, sequenced according to the prioritisation agreed with management.

- 7.4 It had been the intention, as discussed previously with the AFC, to undertake the risk assessment and prepare the 2015 plan at the end of 2014. However for the reasons described above, this was not possible because of competing non-Internal Audit related priorities. However, with

the additional staff anticipated to start imminently, annual planning will be undertaken in a more appropriate timeframe in the future.

## **8. Programme Audit**

- 8.1 Annex C shows the 2014 Programme Audit plan execution and 2015 plan. Five programme audits were undertaken in 2015. However, as a result of resource constraints, four other audits (Yemen, Bangladesh, Pakistan and Vietnam) were carried over into the 2015 audit plan (though the audit in Yemen seems unlikely to occur now because of security considerations). It is planned to outsource these, given the resource constraints in the first half of 2015 pending recruitment. External audit firms have been identified, preliminary planning has been completed, and we are in the process of finalizing Terms of Reference (ToR) and contracts with the firms.
- 8.2 The development of the 2015 plan was undertaken in consultation with Country Programmes management to help identify any particular risks and red flags within their portfolios. The Programme Audit team also compiled a risk assessment map for the programme audit risk universe, to validate and complement the Country Programme's suggestions.
- 8.3 It was decided to outsource the extended audit of Nigeria, and a Ugandan audit firm with which Gavi has prior experience has been identified following a tender process. Preliminary planning has been completed, and we have finalised ToRs and contracts with the firm concerned. The audit will start in June.
- 8.4 Programme Audit typically meets with the Global Fund monthly to share information and plans and to identify any efficiencies which can be exploited particularly as regards any areas of overlap where the pooling of resources and intelligence can be achieved.
- 8.5 Annex D shows the updated schedule of country reimbursements against past cases of misuse. I will update the Board on the status with regard to recent changes, and the position on future expected reimbursements.

## **9. Whistleblower Reporting and Investigations**

- 9.1 The whistleblower reporting facility was established in November 2014. To date, no reports have been received through the facility. This was anticipated as a possible start-up experience. From time-to-time reports are still received through other channels. The whistleblowing facility's language coverage is being extended from English, to include five other languages (French, Spanish, Portuguese, Russian, and Arabic), to facilitate engagement/participation and access across the Gavi-eligible world.
- 9.2 Once these languages are added to the platform, I will work with the Secretariat, principally Country Programmes management, to determine the best way of promoting this facility without creating any adverse

reaction, and to discourage, as best as possible, mischievous or otherwise mal-intentioned reporting.

## **10. Results of the External Quality Assessment (EQA) of the Internal Audit function**

10.1 The EQA of the Internal Audit function (the EQA scope covered only the Internal Audit activities not Programme Audit) was recently undertaken by the Institute of Internal Auditors (IIA), Switzerland. The IIA's Standards for the Professional Practice of Internal Auditing (the 'Standards') formed the basis of the assessment. The assessor's report is attached as Annex E and includes my responses to the review and the way forward.

10.2 The EQA's key conclusions were that:

(a) The function is at a very early stage in its maturity.

(b) Given the function comprised only one person hitherto, the limited resourcing has been the most relevant constraint in the operation of Internal Audit to-date. The IIA notes that "Limited resources impact the small internal audit activity's ability to conform to many of the IIA Standards". The resourcing situation was exacerbated by the departure of the Director of Programme Fiduciary Oversight in mid-2014, and significant time has been spent on duties of a non-internal audit nature.

(c) Overall, the function 'partially conforms' to the Standards.

10.3 There were 44 individual assessments undertaken in the EQA. Two-thirds of these, 28, were rated as 'generally conforms' which is indicative of the progress that has been made over the last two years since the preliminary development plan was presented to the Board. Only one category was rated as 'does not conform', the operation of a Quality Assurance and Improvement Programme (QAIP). This, being an internal review and assessment process, is typically one of the last activities to be set-up when establishing/expanding an internal audit function. QAIP is also limited in its application and scope when Internal Audit is operating as a one-person function. Certain QAIP elements have been established in the audit function but they are not yet sufficiently mature to merit a positive rating.

10.4 Of significance is that three key, broad IIA Standards – Purpose, Authority and Responsibility; Independence and Objectivity; and Proficiency and Due Professional Care – rate as 'generally complies' (with one sub-category exception, as noted below). These Standards are the key building blocks on which the operational aspects of the function are based and their satisfactory rating indicates that suitable foundations on which to build the function are in place. In general, areas in which a 'partially conforms' rating was awarded were those in which the function's resource constraint had the most impact: the execution of sufficient work, so as to demonstrate a track record of compliance with the standards; and preparation of appropriate documentation. These two areas will be

addressed as new audit staff are brought in, as procedures are increasingly formalised and applied, and as the function matures.

- 10.5 The assessor observed that certain activities undertaken might compromise the independence and objectivity of the audit function, specifically: the receipt of whistleblower communications and the determination of how these communications should be managed; and the conduct of counter-fraud activity. He considered that these tasks might be regarded as being decision-making responsibilities of management.
- 10.6 However, after discussing with the AFC, it was considered appropriate for these activities to continue within the A&I function for the following reasons:
- (a) The operation of the whistleblower reporting process within the audit function is a common set-up in many other international organisations (notably, the Global Fund). The reporting function is also undertaken in a joint collaboration with the Director of Legal. The activity has long been established in the Internal Audit function and is specifically referred to in the Internal Audit Terms of Reference, approved by the Board. It is important to note that the EQA was not concerned that the follow-up of whistleblower reports was undertaken by A&I Investigations, as this responsibility by A&I was considered acceptable and in compliance with the IIA Standards.
  - (b) The operation of the counter-fraud activities are advisory in nature (consistent with the advisory role of the audit function as a whole). This new activity will involve working with relevant management to identify improvements in controls and processes so as to enhance Gavi's fraud-resilience, within and outside the organisation. Decisions to implement any enhancements identified will reside with management, as will responsibility for execution. Any future internal audits of enhanced processes will be undertaken by staff independent of the counter-fraud activity, consistent with professional best-practice. It should be noted that counter-fraud and investigations activities have been specifically combined within the same role – given the close/inter-relatedness of these activities - and in practice, would now be difficult to separate.
- 10.7 The AFC approved my proposal that the whistleblower and counter-fraud activities should be performed within the A&I function and be explicitly included within the revised Terms of Reference for A&I. This will be redrafted and presented to the AFC for review later in the year, prior to submission to the Board for approval. The assessor has confirmed that this approach would be an acceptable practice, sufficient to achieve a 'generally conforms' rating in the future.
- 10.8 Beyond these specific responses, a plan is being developed responsive to the recommendations made in the EQA. Consistent with the EQA recommendations, an overall function-wide plan will also be drafted to include the new functions of Programme Audit, Investigations and



Counter-fraud, and Whistleblower Reporting. Within the next three years, as soon as is reasonably possible, a further follow-up EQA will be undertaken to review the entire A&I function. By then, it is expected that the A&I function's track record will be sufficient to achieve an overall 'generally conforms' rating. This two-stage process by which an initial EQA is undertaken to identify improvements necessary, followed by a second EQA to validate the implementation of those recommendations, is typical in the start-up and establishment of new audit activities.

### **Section C: Implications**

#### **11. Impact on countries**

11.1 None, beyond the conduct of Programme Audits as described in the Programme Audit 2015 plan.

#### **12. Impact on Gavi stakeholders**

12.1 None.

#### **13. Impact on Secretariat**

13.1 None, beyond the conduct of Internal Audits as described in the Internal Audit 2015 plan.

#### **14. Legal and governance implications**

14.1 None, beyond the recommendations relating to the conduct of certain activities within Audit and Investigations which are to be incorporated into the function's Terms of Reference for Board approval later in the year.

#### **15. Consultation**

15.1 The Executive Team, and CEO and DCEO were consulted as appropriate on the conduct of the risk assessments and the compilation of the 2015 audit plans.

15.2 Extensive consultation has also taken place over the last year and on-going with the Global Fund to mutually leverage knowledge, insights, and capacity with respect to Programme Audit, Whistleblower Reporting, and risk management.

#### **16. Gender implications**

16.1 None

**Section D: Annexes**

Annex A: Organisation, and Recruitment Status

Annex B: 2015 Internal Audit Plan

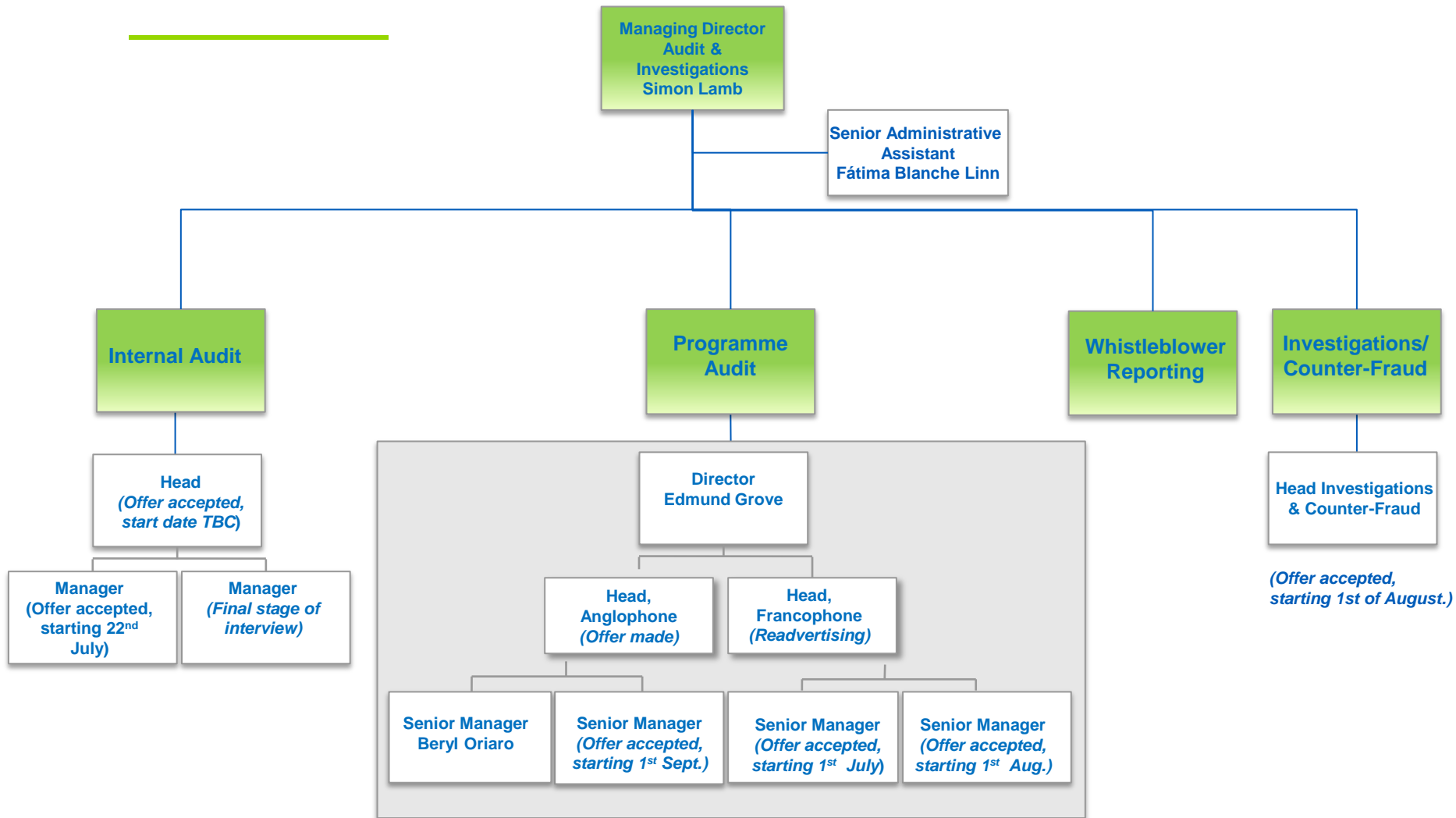
Annex C: Programme Audit: 2014 Plan and Execution

Annex D: Country Reimbursement, 30 April 2015

Annex E: External Quality Assessment of Internal Audit



# Annex A Organisation, and Recruitment Status

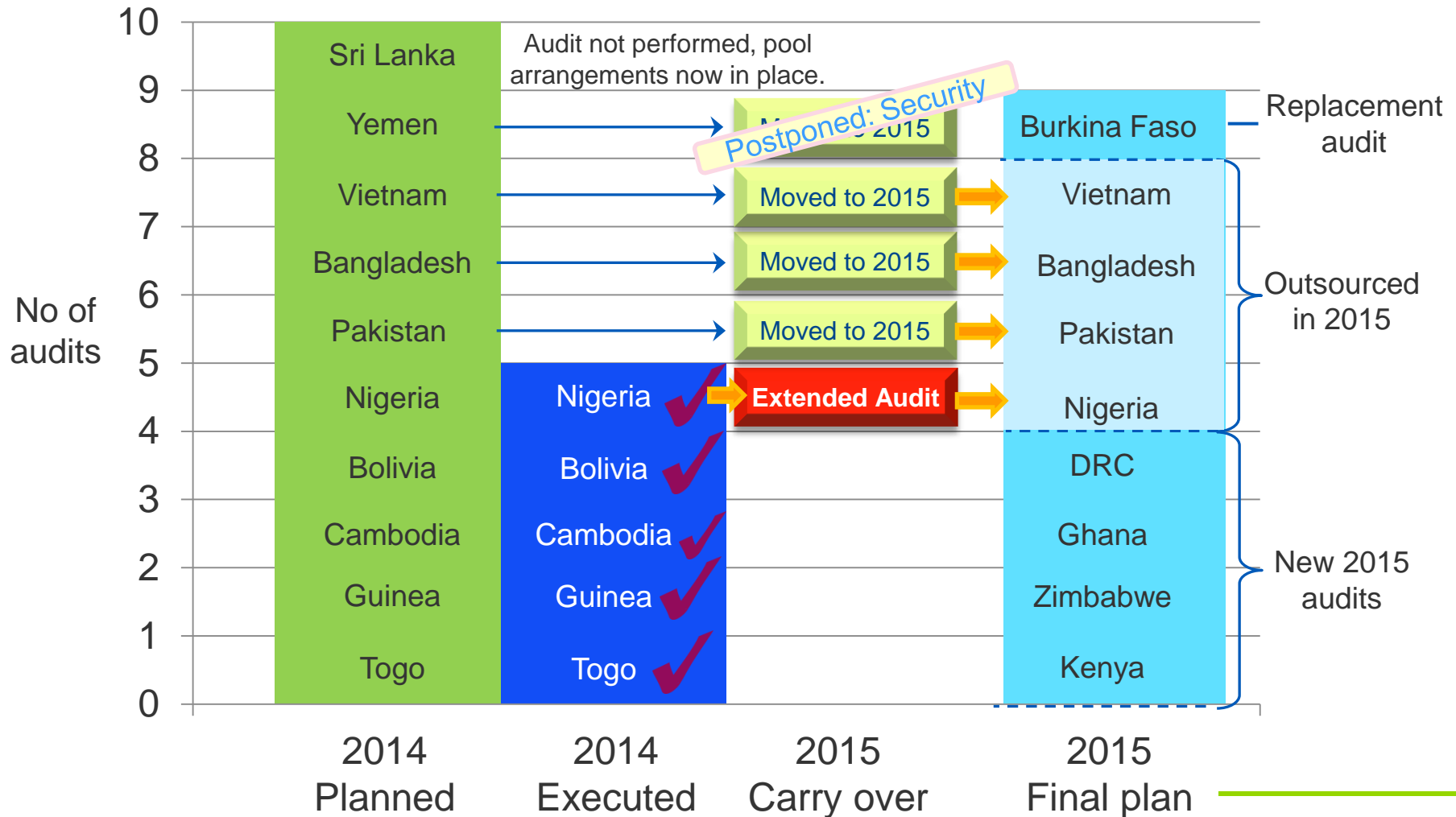


Status as at 25<sup>th</sup> May 2015.

# Annex B 2015 Internal Audit Plan

PROCESS FOR REVIEW	OUTLINE COVERAGE	RATIONALE
Grant Oversight	Review of operational guidelines around cash grants and their application	Cash grants represent a significant risk for Gavi; the audit will examine the oversight mechanisms.
Programme Oversight (Vaccines)	Examination of Gavi's oversight of vaccine management in-country	75-85% of Gavi funding applied to vaccine programmes. Recent cases have arisen concerning vaccine management in-country.
Treasury	Release of cash payments	} Risk associated with operational failure on cash use internal to Gavi
Investment management operational processes	Movement of cash associated with investment transactions	
Credit card management : Accounting	Management of staff credit cards	
Resource mobilisation	Due diligence on new non-sovereign donors	Risk on diversifying away from traditional, sovereign donors
Ear-marking of donor funds : Accounting	Examination of processes by which donor preferences for fund usage are executed.	Risk of donor monies not being applied as intended. Relevant to examine in the post-pledging period.

# Annex C Programme Audit: 2014 Plan and Execution



# Country Reimbursement 30 April 2015

COUNTRY REIMBURSEMENT SCHEDULE, CUMULATIVE AS AT 30 April 2015				
COUNTRY	AGREED REIMBURSEMENT (US\$ millions)	AMOUNT REPAID (US\$ millions)	AMOUNT OUTSTANDING (US\$ millions)	NARRATIVE ON EXPECTED REPAYMENT
Zambia	0.2	0.2	0	
Madagascar	0.3	0.3	0	
Cote D'Ivoire	0.5	0.5	0	
Mali	0.5	0.5	0	
Sierra Leone	0.5	0.5	0	
Uganda	0.8	0.8	0	
DRC	0.1	0	0.1	The fiduciary agent in DRC has agreed to reimburse; the mechanism by which this can be done is being determined
Cameroon	2.95	2.9	0.05	\$1m recently received from Cameroon. The reimbursement request was denominated in local currency (to facilitate governmental budgeting of the reimbursable amount) and this has been substantially repaid; a final \$50k is being followed up with MoH. Exchange rate fluctuations have meant the \$ value equivalent is less than originally anticipated at the time of agreement on misuse; Gavi is developing an operating guideline to ensure that there is clarity on the reimbursement request regarding currency fluctuations in the future.
Malawi	0.55	0.45	0.1	Relates to an audit undertaken in 2013. Not feasible to conclude until late 2014. \$200k understood to have been paid into discrete donor pool account, to be verified. \$250k recently received. Follow-up on final \$100k reimbursement in progress.
Niger	2.1	1.45	0.65	Previous budget allocation in country for final reimbursement was reallocated in error. Commitment for final tranche has been made by Minister of Health; item to be rebudgeted in June for subsequent payment.
Nigeria	2.2	0	2.2	Repayment agreed in principle - seeking confirmation of commitment for specific amount. In dialogue with MoF on reimbursement.
	10.7	7.6	3.1	
<b>Amounts repaid as a proportion of amounts agreed for reimbursement: % 71</b>				



# **External Quality Assessment of Gavi Internal Audit**

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# Executive Summary

It is too early for Gavi Internal Audit (IA) to fully benefit from an External Quality Assessment (EQA). Consequently this report should be read in the context of where IA currently is on the maturity curve. The review period for this EQA was to the end of 2014 with additional recognition for progress in Q1 2015.

Despite being five years old, IA is still largely in startup mode, the main reasons being:

- a. Up until the end of 2014, IA consisted of only one person, the Managing Director, Internal Audit (MDIA). He also had oversight responsibility for the former Programme Fiduciary Oversight team (PFO), part of which has now been restructured into the Programme Audit unit reporting to the MDIA. IA teams of two or fewer auditors may find it difficult to generally conform with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing, the basis of this assessment.
- b. The activities of the PFO were seen to be of greater risk and importance to Gavi and therefore consumed more of the MDIA's time, who explained that he was asked by the CEO to directly take on many of the oversight responsibilities of the Director of PFO in the second half of 2014 after the Director announced his departure in May 2014.
- c. As a senior member of the Gavi organisation, IA managerial responsibilities, in particular the facilitation of the development of governance policies and structures impacting on risk management and IA, also consumed a large amount of the MDIA's energy and focus in the second half of 2014.

At the request of Gavi, the scope of this review was limited to IA only, hence excluding the activities of the former PFO team which, among other responsibilities, undertook Financial Management Assessments (FMAs) and monitored and reviewed the activities of fund recipients.



# Overall Rating: **Partially Conforms**

Gavi Internal Audit **Partially Conforms** to the IIA's Definition of Internal Auditing, the IIA's Code of Ethics and the IIA's International Standards for the Professional Practice of Internal Auditing.

The IIA uses a scale of three ratings “Generally Conforms”, “Partially Conforms” and “Does Not Conform.”

Partially Conforms means there are significant opportunities for improvement in effectively applying the Standards or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

IIA Switzerland is an affiliate of The Institute of Internal Auditors. IIA Switzerland represents the profession in Switzerland and is the reference organization for Internal Audit expertise.

# Scorecard

## Overall Rating



**PC** Partially Conforms

- GC** Generally conforms
- PC** Partially conforms
- NC** Does not conform
- NA** Not applicable / Not assessed

Attribute Standards	GC	PC	NC	NA	Reference
<b>1000 - Purpose, Authority, and Responsibility</b>	GC				O9 & S5: TOR revisions
1010 - Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	GC				S5: TOR revisions
<b>1100 - Independence and Objectivity</b>	GC				
1110 - Organizational Independence	GC				S5: TOR revisions
1111 - Direct Interaction with the Board	GC				
1120 - Individual Objectivity	GC				
1130 - Impairment to Independence or Objectivity		PC			O4: Whistle-blower/ Fraud
<b>1200 - Proficiency and Due Professional Care</b>	GC				
1210 - Proficiency	GC				
1220 - Due Professional Care	GC				
1230 - Continuing Professional Development	GC				
<b>1300 - Quality Assurance and Improvement Program</b>		PC			O5 & S8: Ext/Self Ass & Rptg
1310 - Requirements of the Quality Assurance and Improvement Program		PC			O5 & S8: Ext/Self Ass & Rptg
1311 - Internal Assessments	GC				
1312 - External Assessments		PC			O5 & S8: Ext/Self Ass & Rptg
1320 - Reporting on the Quality Assurance and Improvement Program			NC		O5 & S8: Ext/Self Ass & Rptg
1321 - Use of "Conforms with the IPPF"				NA	
1322 - Disclosure of Nonconformance				NA	

Performance Standards	GC	PC	NC	NA	
<b>2000 - Managing the Internal Audit Activity</b>		PC			O1 & O2: Execution & Appetite
2010 - Execution of the Annual Audit Plan		PC			O1 & S7: Risk based plan/ Cnsltg.
2020 - Communication and Approval	GC				
2030 - Resource Management		PC			O2: Risk appetite/Audit coverage
2040 - Policies and Procedures	GC				S6: Audit Manual
2050 - Coordination	GC				S2: Assurance Mapping
2060 - Reporting to Senior Management and the Board	GC				S3: ET Meetings
2070 - External Service Provider				NA	
<b>2100 - Nature of Work</b>	GC				
2110 - Governance	GC				
2120 - Risk Management	GC				
2130 - Control		PC			O1: Execution of the Audit Plan
<b>2200 - Engagement Planning</b>		PC			O6: Engagement planning
2201 - Planning Considerations		PC			O6: Engagement planning
2210 - Engagement Objectives		PC			O6: Engagement planning
2220 - Engagement Scope		PC			O6: Engagement planning
2230 - Engagement Resource Allocation	GC				
2240 - Engagement Work Program		PC			O6: Engagement planning
<b>2300 - Performing the Engagement</b>	GC				
2310 - Identifying Information	GC				
2320 - Analysis and Evaluation	GC				
2330 - Documenting Information		PC			O7 & O8: Documentn & Retn.
2340 - Engagement Supervision				NA	
<b>2400 - Communicating Results</b>	GC				
2410 - Criteria for Communicating	GC				S4: Report Rating & Achievemts
2420 - Quality of Communications	GC				S1: Public Release & Timeliness
2421 - Errors and Omissions				NA	
2430 - Use of "Conducted in Conformance with the IPPF"				NA	
2431 - Engagement Disclosure of Nonconformance				NA	
2440 - Disseminating Results	GC				S1: Public Release & Timeliness
2450 - Overall Opinions	GC				S4: Report Rating & Achievemts
<b>2500 - Monitoring Progress</b>		PC			O3: Monitoring action plans
2600 - Resolution of Senior Management's Acceptance of Risks				NA	
<b>Code of Ethics</b>	GC				

## Key Accomplishments, Observations & Focus Areas

1. The MDIA has built good relationships within the Executive Team (ET), including the CEO and Deputy CEO, as well as the trust and respect of the Chair of the Audit and Finance Committee (AFC) and other Board members.
2. The MDIA is seen by the ET to be transparent, factual and constructive, whilst able to strike an appropriate balance between being independent and being a valued team member.
3. Given competing priorities in the former PFO team, managerial responsibilities and limited resources have left little time and focus for the IA agenda. Consequently IA is still in a relatively early phase of development.
4. Appropriate IA priorities should include working with the newly-formed Risk function within Policy and Performance to institutionalise a seamless organization - wide risk assessment process that enables an annual Q4 audit plan proposal. This should include a further strengthening of the consistency and formal communication of the linkages between the Gavi risk management framework, the IA risk assessment and the annual audit plan proposal.
5. The MDIA is aware of, and in agreement with, this view of where IA is on the maturity curve and had already started to implement organisational changes ahead of the start of this EQA.

## MDIA Comments

I agree with the overall conclusions presented by the EQA:

- The level of resourcing has been a key consideration in building the IA activity. As the IIA itself notes: “Limited resources impact the small internal audit activity’s ability to conform to many of the IIA Standards.”
- As previously discussed with the AFC, the IA function is in its early stages of maturity, and ‘partially conforms’ is a reasonable assessment of its current state of development.

The assessor has ascribed only one ‘does not conform’ rating; two-thirds of ratings are regarded as ‘generally conforms’. This positive profile is generally a consequence of the initiatives implemented over the last two years, as reported to the AFC and Board previously.

The forward trajectory of the department as outlined in the paper on Strengthening Risk Management and Fiduciary Oversight, approved by AFC and the Board, describes the development blueprint for the Audit and Investigations function, incorporating the IA activity. The implementation of the recommendations set out in the EQA is very consistent with this development path, and one to which I am committed.

Most of the matters raised in the EQA are of an operational nature, particularly those relating to the need for more complete documentation, and these issues will be readily remediated as the function matures and takes on additional staff.

However, there is one structural issue raised. This relates to the identification of certain activities within the reconstituted Audit and Investigations function which the assessor believes may compromise the independence and objectivity of the function:

- the determination of the appropriate handling of whistleblower reports received (an activity which is specifically incorporated in the IA Terms of Reference, as approved by the Board);
- the counter-fraud activities associated with the new investigations function (approved by the Board in December 2014).

If the AFC and Board continue to be comfortable with the positioning of these activities within the Audit and Investigations function, then the IA Terms of Reference can be simply amended accordingly. Provision will also need to be made for these activities to be subject to independent audit from time-to-time.

## Feedback from Key Stakeholders - Strengths

1. The MDIA has earned the trust and respect of the Board which is of great importance for donor members and the donor community in general.
2. The MDIA is a good communicator with the ability to engage at all levels.
3. The MDIA is an empathetic and responsive team player whilst keeping an appropriate arm's length distance from management responsibilities.
4. The MDIA brings a constructive mindset and credibility to the role. Not adversarial.
5. Has access to the most senior people in the organisation.
6. Drives for continuous improvement.
7. Good work ethic.
8. Transparent.
9. Factual.

## Feedback from Key Stakeholders – Opportunities

1. IA needs more resources.
2. Focus on country oversight (former PFO, now Programme Audit) has diluted focus on IA. Priorities are appropriate however IA has been underserved. IA merits its own full-time attention as well as appropriate attention from the MDIA.
3. Risk assessment to become more robust and embedded, more routine.
4. Risk management at Gavi is at an early stage in its development. The MDIA should support its development and leverage the output for more strategic focus.
5. Focus could be more strategic, especially given the limited resources, rather than getting into the weeds.
6. Could give more attention to reputational risks.
7. Audit and Finance Committee composition and engagement perhaps not optimal.

# Opportunities to further improve conformity with the standards

The following opportunities are presented in order of importance rather than the thematic sequence of the standards.



# Summary of Opportunities to improve conformance



## 1. Audit Plan Execution

Further strengthen consistency and formal communication of the linkages between the Gavi risk management methodology, the IA risk assessment and the annual audit plan proposal as part of the audit plan approval process with the ET and the AFC and develop an audit plan for 2015 as soon as possible.

Institutionalise/ calendarise a seamless organization - wide risk assessment process that supports an annual Q4 audit plan proposal. Likewise calendarise regular updates of progress against the plan to the ET and the AFC throughout the year, working through the AFC Chair to ensure adequate interaction time with the AFC members.

## 2. Risk Appetite and Audit Coverage and Resource Planning

The risk appetite exercise should be formally extended to the audit universe and approved by management and the AFC to validate the audit coverage assumptions made by the MDIA.

## 3. Monitoring and Reporting Action Plan Implementation Progress

Action plan implementation progress should be formally communicated to the AFC at each AFC.

## 4. Objectivity - Investigations/ Counter-Fraud and Whistleblowing Reporting

Clarify the responsibilities of the MDIA with respect to the activities relating to Investigations/ Counter-Fraud and to Whistleblowing Reporting before any audits are performed of these areas.

## 5. Quality Assurance & Improvement Program (QA&IP) – External Quality Assessments (EQA's) & Reporting

Schedule an EQA for the activities of the Programme Audit unit as soon as practical. Report all QA&IP progress at least once every year.

## 6. Engagement Planning. Formalise engagement planning.

## 7. Document Retention Policy

Develop appropriate document retention policies for the Audit and Investigations Team after consultation with the Chief Legal Counsel.

## 8. Documentation. Develop and implement minimum work paper and work file documentation standards and policies.

## 9. TOR – Consulting Services

Include the nature of consulting services in the internal audit TOR.

# 1. Audit Plan Execution *(Standards 2010 & 2010.A1 and 2130 & 2130.A1 and 2060)*

The annual audit plan must be based on a documented IA risk assessment undertaken at least annually, taking into account the organisation's risk management framework and appropriate resources to achieve the approved plan.

- a. The planning exercise for 2014 resulted in 7 audits. One of these audits has been completed (travel related expenses) and one was in progress at the time of this EQA (procurement). In addition to the audits, 6 investigations have been commenced since the start of 2013, two of which are currently in progress. Holistic updates of progress against the total plan have to date not been given to, or requested by the ET or the AFC.
- b. For 2015, the risk assessment and annual audit plan had not yet been prepared at the time of this EQA.
- c. Going forward, and based on the first risk based audit plan in 2014, there is an opportunity to better communicate, articulate and justify the linkages (inclusions and exclusions) between the IA plan proposal, the IA risk assessment and the output of the Gavi risk management system, as well as strengthen the consistency and alignment between the IA risk assessment process and methodology and the Gavi risk management framework and methodology.
- d. In dealing with the above matters the MDIA flagged the challenge of securing sufficient time with the AFC. In 2004 the MDIA had 65 minutes presentation time with the AFC (5m in February , 25m in April when the 2014 plan was presented, 15m in July and 20m in November). In 2013 the MDIA had 60 minutes presentation time over 3 AFC meetings.

## **Recommendations**

- a. Work with the newly-formed Risk function within the Policy and Performance team to further strengthen the approach and consistency between the Gavi risk management framework and methodology and the IA risk assessment approach and methodology.
- b. Formally document and communicate the linkages (consistencies/ inconsistencies and inclusions/ exclusions) between the Gavi risk assessment and the IA risk assessment, and likewise between the IA risk assessment and the audit plan proposal, as part of the annual audit plan approval process with the ET and the AFC.
- c. Institutionalise a seamless Gavi system-wide risk assessment process that enables an IA risk assessment update in Q4 to be used as the basis for the proposed annual audit plan, to be submitted for approval before the end of Q4.
- d. Regular updates of progress against the plan should be communicated to the ET and the AFC throughout the year. Consider updating the ET on a quarterly basis and the AFC at each meeting.
- e. A risk based audit plan proposal should be developed for 2015 as soon as possible.
- f. The MDIA should work with the Chair of the AFC to identify ways of gaining a greater share of the AFC's attention, either formally in AFC meetings or off-line outside of scheduled meetings, either collectively as a committee or one-on-one with individual members.

## 2. Risk Appetite, Audit Coverage and Resource Planning *(Standard 2030 and 2010)*

The MDIA must ensure resources are appropriate to achieve the risk based IA plan using risk appetite levels set by management.

A new Audit and Investigations Team structure and size was recently approved by management and the AFC, with effect from February 2015, based on audit coverage assumptions made by the MDIA.

Those assumptions should now be validated by management and the AFC by applying a risk appetite/ risk prioritisation analysis to the audit universe developed by the MDIA such that the final approved coverage targets reflect the risk appetite of the organisation i.e. are owned by management and the AFC.

Refer also Opportunity 4 (Objectivity, Fraud & Whistleblower Responsibilities) and Suggestion 2 (Coordination with other Assurance Providers).

### **Recommendations**

- a. The MDIA should facilitate a risk appetite exercise with management to develop a formal “management owned” audit coverage proposal, based on “management’s risk appetite”, for AFC review and approval. The proposal and approval should be based on a management/ AFC endorsed audit universe and ranking/ prioritisation of that universe.
- b. Once approved, the MDIA should validate/refine as appropriate the resource requirements for the new Audit and Investigations Team, both in terms of the required quantity of resources and the required quality of resources/ skills, both internal and external.

### 3. Monitoring & Reporting Action Plan Implementation Progress *(Standard 2500.A1)*

The MDIA must establish a follow-up process to ensure management actions have been effectively implemented or that management has accepted the risk of not taking action.

A monitoring tool has been created and implemented. However, a review of progress for the 2013 Risk Management audit noted that 3 out of 6 actions were still open at the time of this EQA. The original due dates (early to mid 2014) were subsequently extended to mid/ end-of-2015.

Formal communication of the implementation progress has not been made to the AFC.

#### **Recommendations**

- a. Action plan implementation progress should be formally communicated to the AFC at each AFC meeting.
- b. Revise the audit manual to reflect the updated monitoring procedures. Refer also Suggestion 6 (Audit Manual).

## 4. Objectivity – Investigations/Fraud & Whistleblowing *(Standard 1130.A2)*

Assurance engagements for functions over which the MDIA has responsibility must be overseen by a party outside the internal audit activity. Refer also TOR, Independence section paragraph 3.

Clarify the responsibilities of the MDIA with respect to the activities relating to Investigations/ Counter-Fraud and to Whistleblowing Reporting before any audits are performed of these areas.

If the role of IA is purely a support role, to conduct specific audits/ investigations as and when requested by the respective heads of those activities, then appropriate revisions should be made to governance structures, organisation charts and job descriptions. Also the TOR should be revised to clearly reflect this.

If any managerial/ policy setting/ decision making responsibilities are to be conferred on the MDIA, these areas should be audited by someone outside of the MDIA's organisation.

Refer also Opportunity 2 (Risk Appetite and Audit Coverage) and Suggestions 2 (Coordination with other Assurance Providers) and 5.2a (TOR – Scope provisions).

### **Recommendations**

- a. Formally clarify and document the exact nature of the MDIA's responsibilities with respect to the functions of Investigations/ Counter-Fraud and Whistleblowing Reporting.
- b. To the extent that the MDIA is to have any managerial responsibilities in these areas, make the appropriate external arrangements for future internal audits.

## 5. Quality Assurance – External Assessments & Reporting *(Standard 1312 & 1320)*

External quality assessments (EQAs) must be conducted at least once every 5 years.

The scope of this EQA covers only the activities of IA. The main activities under the responsibility of the MDIA and in the terms of the IA TOR, are within the former Programme Fiduciary Oversight unit, and the newly restructured Programme Audit unit, which have not been externally assessed. Refer also Executive Summary.

Additionally, the results of the Quality Assurance and Improvement Program (QA&IP), which include the results of the feedback survey conducted for the completed Travel Related Expenses audit, and the results of the self assessment of conformance to the standards performed by the MDIA in March 2015, are yet to be reported to management or the AFC.

Refer also Suggestion 8 (Quality Assurance – Self Assessments).

### **Recommendations**

- a. Schedule an EQA for Programme Audit as soon as practical. Furthermore, consider scheduling future EQAs to cover all Audit and Investigations team activities in one go.
- b. Report all QA&IP progress to the ET and the AFC at least once every year.

## 6. Engagement Planning *(Standards 2200, 2210, 2220, 2230 and 2240)*

Auditors must develop a documented plan for each engagement. The engagement plan should contain the following:

- a. Engagement objectives derived from a formal preliminary risk assessment
- b. Engagement scope which formally considers relevant systems, records, personnel and locations
- c. Engagement resource allocations (broken down by various activities) and,
- d. An engagement work program detailing the audit procedures to be performed, completed and approved prior to implementation.

Whilst objectives and scope statements have been prepared for the audits performed, and testing has been documented, the planning for the engagements reviewed lacked the formal documentation required by the standards.

Planning formalisation to date can be considered satisfactory given that the MDIA was the sole auditor for the period under review. However, as the department grows and new hires come on board, greater consideration should be given to documenting more detailed engagement plans.

### **Recommendations**

- a. Develop and implement more detailed and documented engagement planning procedures consistent with the standards.
- b. Revise the audit manual to reflect the updated engagement planning procedures. Refer also Suggestion 6 (Audit Manual).



## 7. Document Retention Policy *(Standard 2330.A2)*

The MDIA must develop retention requirements for engagement records consistent with the organisation's guidelines and any other pertinent requirements.

To date the MDIA has retained all engagement files including those of his predecessor.

### **Recommendations**

- a. Develop appropriate file retention policies after consultation with the Director of Legal. The policies should be consistent with Gavi's accountabilities to donors and standards of transparency and should take account of the medium in which each record is stored.
- b. Revise the audit manual to include the Audit and Investigations Team document retention policy. Refer also Suggestion 6 (Audit Manual).

## 8. Work Paper and Work File Documentation *(Standard 2330)*

The auditor must document relevant information to support conclusions and results.

Whilst testing has been documented and retained in audit files, the files were not stand-alone.

Documentation to date can be considered satisfactory given that the MDIA was the sole auditor for the period under review. However, as the department grows and new hires come on board, greater consideration should be given to audit file documentation standards.

### **Recommendations**

- a. Develop and implement engagement documentation procedures and minimum standards including:
  - i. risk control matrices,
  - ii. testing summaries including testing objectives, procedures, samples, results and conclusions, and
  - iii. indexing and cross referencing standards, including the evolution of draft findings from start to conclusion, whether reported or dropped and the reasons why.
  
- b. Revise the audit manual to reflect the updated engagement documentation procedures. Refer also Suggestion 6 (Audit Manual).

## 9. TOR – Consulting Services *(Standard 1000.C1)*

The TOR must define the nature of consulting services.

Refer also Suggestion 5 (TOR – Provisions).

### **Recommendation**

Include the nature of consulting services in the TOR.

# Additional Suggestions and Best Practices

The following suggestions go beyond conformity with the standards and are related to achieving the objectives of the standards.

Additionally, the following suggestions are presented in order of importance rather than the thematic sequence of the standards.

## 1. Communicating Results – Public Release & Timeliness *(Standard 2440 and 2420)*

It is Gavi's policy to be transparent and release internal audit reports to the public on the Gavi website.

Consideration should be given to developing documented procedures for achieving formal clearance before publishing reports on the internet.

Additionally, given Gavi's policy for transparency, delays may occur in the issuance of the final report.

For audit trail purposes, consideration should be given to formal interim reporting to facilitate independent assessment of the time taken to communicate the audit findings to the managers who can ensure prompt implementation of the recommendations.

Refer also Suggestion 6 (Audit Manual).

## 2. Coordination with Assurance Providers – Assurance Mapping *(Standard 2050)*

Coordination processes and practices have been established between IA and other providers of assurance, both internal and external, such as the legal unit and the external auditors.

Consideration should be given to developing a formal assurance map, clearly defining assurance responsibilities between all providers of assurance services, internal and external, to ensure there are no gaps or duplication in services.

Refer also Opportunities 2 (Risk Appetite and Audit Coverage) and 4 (Objectivity, Fraud & Whistleblower Responsibilities) .

### 3. Reporting to Management – Executive Team (ET) Meetings *(Standard 2060)*

The MDIA does not currently attend ET meetings.

Whilst the MDIA should not be included as a decision making member of the ET, his attendance at such meetings as an ‘observer’ could help him to perform his responsibilities.

ET meetings could provide him with a venue to deliver updates to the ET on the MDIA’s agenda. Attendance at ET meetings could also allow him to hear discussions that may give him a richer appreciation and sensitivity to matters that may influence his priorities and approach to certain issues.

Attendance of ET meetings could be limited to ET agenda items of relevance to the MDIA’s responsibilities.

## 4. Communicating Results – Report Rating and Achievements

*(Standard 2410.A1 & 2410.A2)*

Audit reports contain a summary of the audit results. The summary includes concluding information as well as information about satisfactory performance.

Consideration should also be given to including an overall rating to provide senior report recipients with a quick and easy to understand opinion as well as an absolute score to assess performance relative to other audit engagements.

Additionally, consideration could also be given to creating a specific/ short section in the summary (perhaps under a formal heading) to acknowledge achievements and satisfactory performance. The standards encourage such acknowledgement.



## 5. TOR – General TOR Provisions *(Standard 1000, 1010, 1110, 1130.A2 and 2050)*

Consider the following revisions to the TOR:

### 1. Independence:

- a. Clarify further the reporting lines of the MDIA and the functional responsibilities of the AFC, as per the 7 suggestions at standard 1110.
- b. Clarify who has the authority to approve the audit TOR. Consider also dated signatures on the TOR document.
- c. Add the requirement for the formal annual independence confirmation to the AFC.

### 2. Scope:

- a. Clarify which activities the TOR relates to i.e. investigations and counter-fraud, whistleblower reporting, and potentially consider a name change e.g. Audit and Investigations Team TOR. Refer also Opportunity 4 (Objectivity, Fraud & Whistleblower Responsibilities).
- b. Consider moving the 2<sup>nd</sup> paragraph in the Introduction to the TOR to the Scope section of the TOR.
- c. Clarify activities/ responsibilities with respect to the external auditors.

3. Code of Ethics: Consider making a reference in the TOR to where the full Code of Ethics can be found (i.e. the Audit Manual) or alternatively attaching the full Code as an appendix to the TOR.

4. Mandatory nature: Consider recognising the mandatory nature of the IIA's Definition of Internal Audit, the Code of Ethics and the Standards by incorporating the word 'mandatory' in the TOR as per IIA model.

5. Refer also Opportunity 9 (TOR – Consulting Services).

## 6. Internal Audit Policies and Procedures – Audit Manual *(Standard 2040)*

An audit manual has been created with sufficient detail to meet the historical needs of the IA unit (when the MDIA was the sole auditor). Going forward, as the new Audit and Investigations team is recruited, consideration should be given to developing a more detailed set of IA policies and procedures.

Refer also

### Opportunities

- 3b (Monitoring and Reporting Action Plan Implementation Progress)
- 6b (Engagement Planning)
- 7b (Document Retention Policy)
- 8b (Documentation) and

Suggestion 1 (Communicating Results – Timeliness)

## 7. Annual Engagement Planning – Consulting *(Standard 2010.C1)*

Since joining Gavi in 2013, the MDIA has made many contributions to the development of Gavi governance policies and structures. These contributions have been made in a consulting capacity, ad-hoc from day to day, not as part of a formal consulting engagement.

Going forward, as Gavi enters a new phase of maturity and the Audit and Investigations team grows, consideration should be given to performing formal consulting engagements based on the potential to improve the management of risks and operations. Accepted engagements should be included in the annual IA plan.

## 8. Quality Assurance – Self Assessments *(Standard 1311)*

A self assessment of conformance to the standards was made in March 2015 without a score or conclusion of overall conformance. Consider grading future self assessments for ease of communication to, and understanding of the results by senior management and the AFC, and to facilitate target setting for future improvement initiatives.

Refer also Opportunity 5 (QA&IP – External Assessments and Reporting Results).

## Appendix 3



# Definition of Internal Auditing, Objectives and Scope

# Definition of Internal Auditing, Objectives and Scope



## **Definition**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **Objectives**

The principal objective of this External Quality Assessment was to assess conformity with the IIA's Standards for the Professional Practice of Internal Auditing. Other objectives included evaluating the IA's effectiveness in carrying out its mission (as set forth in the TOR and Audit Manual) and to identify opportunities to enhance IA's management and work processes, as well as to enhance IA's ability to help Gavi to accomplish its objectives .

## **Scope**

The scope focused on the internal audit activities of the Gavi Internal Audit unit over the period from 2013 through to the end of 2014 (with additional recognition for progress in Q1 2015). The scope did not include the activities of the former Programme Fiduciary Oversight unit (PFO), now restructured into the Programme Audit unit.

## **Auditor**

Joe Ioculano, Lead Quality Assessor, IIA Switzerland.

