



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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Attachment 2

SECRETARIAT FOLLOW-UP ON INSPECTOR GENERAL FINDINGS AND RECOMMENDATIONS

Attachment 2: Protocol between the Office of the Inspector General and the Global Fund Secretariat for managing the audit process

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Purpose

1. This protocol has been developed to provide clarity and shared understanding of the processes and procedures to help ensure effective working relationships between the Office of the Inspector General (OIG) (referred to as the auditor), the Secretariat of the Global Fund and relevant actors at country level (such as a Principal Recipient or Country Coordinating Mechanism or LFA).
2. This protocol applies in the case of *audits* by the OIG. Audits include audits, reviews and other assurance work at the Secretariat or grant portfolio level. Audits should be distinguished from investigations which are governed by the *Protocol for the Coordination of Allegations and Investigations*.
3. This protocol also sets out the responsibilities and reporting lines involved drawing on the *OIG Charter and Terms of Reference* and those prescribed by the *Professional Standards* of the Institute for Internal Auditors (IIA).

Background

4. The mission of the OIG is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations. Through its audits, the OIG provides assurance on the effectiveness of such controls and identifies actions that will enable the Global Fund to achieve better results.
5. In terms of the OIG Charter and Terms of Reference, approved by the Board, staff from OIG have right of access to all facilities, property, personnel and records of the Secretariat and of any other entity relating to grants funded by the Global Fund, whether maintained by PRs, Sub-recipients, or LFAs. In the event there is a limitation placed on this right of access to facilities, property, personnel and records, the limitation will be reported on in the relevant audit report.
6. The Secretariat is responsible for the management of the day-to-day operations of the Global Fund. The Secretariat's goal is to ensure effective and efficient management of the Global Fund's operations and grant portfolio through sound decision-making to achieve the Global Fund's mission in the fight against the three diseases.

Audit plans

7. Audits cover all aspects of the Global Fund's activities including those carried out by its program recipients, partners and suppliers. They cover all systems, processes, operations, functions and activities involving the Global Fund.

8. The OIG prepares an annual plan that covers the audits scheduled during the year, a statement of the scope of the audits and the approximate timing of the audits. The OIG consults the Secretariat on the draft audit plan. The plan is developed based on the following basic principles:

- (a) Audit resources are limited, thus prohibiting 100% audit coverage each year. This limiting factor makes it essential to utilize risk assessments to help OIG prioritize audits.
- (b) The plan is viewed as a flexible and dynamic tool that can be amended throughout the year to reflect changing GF risks and priorities.
- (c) The plan gives consideration to work performed by other auditors e.g. the audit work that will be undertaken by UNDP.
- (d) The plan is developed with the understanding that there are inherent risks and limitations associated with any method or system of prioritizing audits. As a result, the risk factors and scoring process will be periodically evaluated and modified to ensure that the highest priority audits are undertaken.

Types of audits

9. The different types of audits that may be undertaken include:

- (a) Planned/routine and ad hoc/focused audits:
 - (i) Planned/routine audits are indicated in the annual OIG plan and are selected based on a risk assessment prepared or updated at least annually. Typically about 70% of audit time will be spent on these assignments.
 - (ii) Specific ad hoc/focused audits are usually not indicated in the annual OIG plan but occur at the directive of the Board or are selected for a specific purpose e.g. as a result of a process underway in the Secretariat on which the OIG has to provide assurance. These may take up about 30% of audit time. These ad hoc audits are budgeted for in the annual audit process.
- (b) Secretariat and country level audits: Secretariat audits involve the audit of processes and systems at Secretariat level, and country audits are undertaken and cover the use of Global Fund resources at a country level.
- (c) Audit of functional areas where risk factors have been identified either at Secretariat or country level. These include and are not limited to:
 - Financial audits which involve a review of the auditee's records and reports in order to check that financial transactions are properly recorded and reported;
 - Procurement audits which involve verifying that procurements have been undertaken in accordance with established procedures;
 - Operational/process audits which involve a review of the auditee's operating processes, procedures and associated internal controls;
 - Compliance Audits which involves verification of whether or not the auditee is in compliance with established contractual requirements, policies, procedures, laws, regulations;
 - Information system audits which analyze the effectiveness, efficiency, confidentiality, integrity, availability, compliance, and reliability of data and programs on computer and communication systems.

- Multiple objective audits which comprise of one or more of the aforementioned audit categories and is often referred to as a country or unit audits; and
- Follow-up Engagements where the auditor reviews administration's action plans implemented based on a previous audit.

10. If during the course of an audit, the OIG determines that the nature of the audit has changed to an investigation, the OIG will immediately inform the Secretariat and the *Protocol for the Coordination of Allegations and Investigations* will apply from that time.

Selection of entities/processes to audit

11. The most important basis for selecting an entity/process for an audit is the application of a risk assessment model. The purpose of risk assessment is to allocate limited available resources to areas of the Global Fund's activities that are most critical to the success of the organization in reaching its goals. Overall the OIG's efficiency and effectiveness is increased when the audit effort is matched to risk in the various auditable entities/processes of the organization. Thus, a well-developed risk assessment model will provide an efficient and systematic procedure to:

- (a) Determine the auditable areas of an entity;
- (b) Measure the risk of each entity and identify activities exposed to high risk;
- (c) Rank the entities by risk;
- (d) Determine the time necessary to complete audits;
- (e) Distribute available resources in the most efficient manner; and
- (f) Develop annual and long-term audit plans.

12. Areas with the greatest risk exposure become priority audits. Several risk factors are considered during the assessment, including the:

- (a) Quality of internal controls;
- (b) Financial materiality;
- (c) External sensitivity;
- (d) Complexity of operations; and
- (e) Length of time since the last audit.

13. Other factors leading to a decision to select an entity/process for an audit include:

- (a) Emerging compliance issues;
- (b) Core business processes;
- (c) Major changes to structures, systems or processes;
- (d) Alleged irregular conduct has occurred; and
- (e) Request from the Board or the Secretariat.

14. The Risk Assessment Model developed by Country Programs will be used as a basis for identifying countries that should be the subject of an audit. The model will be updated at least semi annually. However, a country could also be identified for audit through other means. The parameters and resultant variables used in assessing risk cover:

- (a) Governance of the country;
- (b) Whether the country is in a crisis;
- (c) Past performance of the grants;
- (d) Capacity/ infrastructure of PRs;

- (e) Size of grants;
- (f) Prior/current investment; and
- (g) Additional Safeguard Policy.

Roles and responsibilities

15. The OIG's responsibilities include:

Audit Planning

- (a) Notification of the scheduled audit to the auditee;
- (b) Preparation of an audit plan;
- (c) Holding the audit planning meeting;

Execution of the audit

- (d) Carrying out assigned responsibilities in accordance with the audit plan in an effective, efficient and professional manner and in particular minimizing disruption to the auditee's work;
- (e) In line with a 'no surprises' approach, maintaining clear and continuing communications with the auditee throughout the audit. For country-level audits, this involves:
 - (i) Providing regular feedback to relevant Secretariat staff throughout the process;
 - (ii) Presenting the OIG's preliminary findings and recommendations to the Secretariat at least one working day before sharing such findings with the auditee during the audit exit meeting;

Reporting and follow up

- (f) Documenting evidence to support findings and coming up with recommendations for corrective action;
- (g) Debriefing the auditee of audit findings;
- (h) Sharing a draft report with the auditee prior to finalization;
- (i) Issuing the final report that incorporates management responses; and
- (j) Follow up of findings of the audit report to determine if problems identified are resolved.

16. The responsibilities of the auditee i.e. whether at Secretariat or grant portfolio level include:

Planning

- (a) Identifying an official to act as a liaison point for the audit;
- (b) Sharing with the OIG audit team any concerns or issues that it considers should be pursued as part of the audit;
- (c) Providing facilities necessary for the performance of the audit;
- (d) Ensuring that all officials affected by the audit are sufficiently briefed concerning the purpose, nature, and timetable of the audit as early as possible and are available for consultation during the period of the audit;
- (e) Attending entrance meetings with the auditors;

- (f) Sending a letter of representation to the Inspector General that confirms oral representations made to the audit team, minimizes misunderstandings between the auditor and auditee and provides corroborative evidence (see sample representation letter of representation for audits at Annex 1);

Execution of the audit

- (g) Providing all relevant documents, records and reports required for the purpose of the audit;
- (h) Attending update meetings with the auditors; and
- (i) Providing timely, consolidated, and coordinated comments and feedback concerning key aspects of the audit at appropriate stages during the audit. This relates to audit plans; confirmation and validation of facts; and the observations, conclusions, and recommendations in draft audit reports;

Reporting and follow up

- (j) Attending the debriefing meeting with the auditors;
- (k) Responding to the audit report's findings and recommendations in writing in a timely manner (the timing will be agreed between the auditor and the auditee on a case by case basis) by providing :
 - (i) corrections of any factual errors,
 - (ii) a general high-level response, and
 - (iii) an action plan for implementing those recommendations the Secretariat accepts and (iv) a justification for those recommendations which the Secretariat does not believe are appropriate or necessary;
- (l) Implementing the action plan; and
- (m) Cooperating with the OIG in the OIG's follow-up review of action taken in response to the audit report and providing periodic reports on the progress made in implementing them.

17. When an in-country actor is being audited, the Fund Portfolio Manager (FPM) of the concerned country will act as Secretariat liaison point. Grant management during audits continues as usual. The responsibilities of the Secretariat in these situations include:

- (a) Sharing with the OIG audit team any concerns or issues that the Secretariat considers should be pursued as part of the audit;
- (b) Providing timely, consolidated, and coordinated comments and feedback concerning key aspects of the audit at the planning, execution and reporting stages during the audit.
- (c) Providing a letter of representation to the Inspector General;
- (d) The participation of the FPM and/or Regional Team Leader in the Exit Meetings at the country level;
- (e) Providing support to the *process* but not *content* of response from the auditee. This would involve encouraging the auditee to provide a full and considered response and an action plan with clearly defined actions, responsibilities and timelines;
- (f) Providing the Secretariat's response to the audit findings and recommendations in writing that relate to the country in a timely manner;

- (g) Providing the Secretariat’s response to the audit findings and recommendations that relate to it and not the auditee;
- (h) Monitoring implementation by the auditee of the auditee action plan;
- (i) Implementing the Secretariat action plan (if any); and
- (j) Cooperating with the OIG in the OIG’s follow-up review of action taken in response to the audit report.

18. The responsibilities of the Country Team will be to work closely and support the Fund Portfolio Manager in providing timely, consolidated, and coordinated comments and feedback concerning key aspects of the audit at planning, execution and reporting stages during the audit.

Audit process steps

19. The process followed for all audits is detailed below:

Procedure	Description
Planning	
Audit notification	<p>An audit notification letter is sent to the auditee advising them about:</p> <ul style="list-style-type: none"> • The type and purpose of the audit; • Proposed timeframe; • Scope of the audit; and • Preliminary list of information that will be required for the audit. <p>This letter will be sent at least four weeks before the audit is scheduled. If the auditee is a country actor, the OIG will coordinate the timing and issuance of this letter with the Secretariat and will copy the Secretariat on the notification letter. The OIG and Secretariat will discuss which Secretariat staff need to be consulted. The OIG will notify the Legal Counsel of all audits.</p>
Audit planning	<p>This will cover:</p> <ul style="list-style-type: none"> • Undertaking an initial review of the auditee’s control environment to determine the areas of highest risk and designing tests to be performed in the fieldwork section; • Identifying the audit objective, scope and deliverables; • Gaining an adequate understanding of the audit engagement especially what risks the audit will address; • Identifying suitable resources required to undertake the audit; • Preparing the audit plan which covers the objective and scope of the audit, the risks the audit will address, major audit activities envisaged, timelines, audit team members, confidentiality requirements etc; • Gathering relevant information about the auditee in order to obtain a general overview of operations. This will involve talking to key personnel and reviewing reports, files, and other sources of information; • Preparing the audit program that outlines the audit criteria and the fieldwork necessary to achieve the audit objectives and deliverables at the end of the audit. This will be shared with the auditee. <p>If the auditee is a country actor, the OIG will meet with the Secretariat prior to the Entrance meeting and will discuss the audit plan with the Secretariat.</p>

Procedure	Description
Entrance meeting	<p>A meeting will be convened between the audit team and relevant officials of the auditee in order to:</p> <ul style="list-style-type: none"> • Introduce the audit team; • Confirm the agreed scope, audit plan and timetable for activities; • Obtain more specific information regarding the operations of the auditee; • Provide the auditee with a summary of the proposed methods and procedures that will be used to conduct an audit; • Confirm that the information, resources and facilities needed by the auditor are available; • Establish lines of communication between the audit team and the auditee; • Confirm the time and date for the closing meeting and any interim meetings if deemed necessary; and • Promote the involvement of the auditee in the audit and the importance of cooperation in meeting the audit objectives.
Execution of the audit	
Performance of the audit	<p>During this phase the audit team will:</p> <ul style="list-style-type: none"> • Review and identify relevant information, records and standard operating procedures, (ii) interview personnel directly performing the functions/entities being audited, as well as other knowledgeable or affected personnel or (iii) undertake field/on site visits to inform the audit and to verify information; • Record the procedures followed and the findings; • Discuss any significant findings with the auditee in order to get the latter's insight on the findings and devise the best way to resolve them. (this ensures that there are no surprises at the end of the audit); • Identify problems, document the causes of the problem(s) and develop recommendations, which, if adopted, will improve services, promote efficiency and value for money or ensure compliance with laws and regulations; and • Obtain management representation that confirms oral representations given to the auditor. <p>If the auditee is a country actor, the OIG will discuss all key findings with the Secretariat as they arise.</p>
Reporting	
Preliminary findings	<p>At the conclusion of fieldwork, the audit team will develop a summary of the preliminary findings of the audit;</p> <p>For country-level audits, the auditor will provide the Secretariat with preliminary findings (including the key findings/conclusions and recommendations) one full working day before the auditor debriefs country-level officials. The Secretariat will have the opportunity to provide the auditor with comments on the power point presentation.</p>
Exit meeting	<p>The findings and supporting facts will be discussed in detail with auditee's representatives at the conclusion of the fieldwork.</p>

Procedure	Description
	<p>For country-level audits, the auditor will provide notice of the timing of the Exit Meeting so that the FPM and/or Regional Team Leader may attend.</p> <p>Any information that the auditee has that clarifies the audit team's understanding or corrects a factual error will be considered by the audit team. Any changes to the audit findings will be made in the draft report.</p>
Draft report	<p>A formal report detailing the results of the audit will be presented to the auditee for comment. This report will be prepared within six weeks of completion of audit work and include the following:</p> <ul style="list-style-type: none"> • Executive summary; • Background, objectives, scope and any limitations, if any, to scope of the audit; • Summary of the work done in the audit; relevant dates covering the period of the audit; findings and supporting evidence; and • Audit findings, conclusions and recommendations. <p>For country-level audits, prior to sharing the final draft report with the country, the auditor will provide this report to the Secretariat with adequate time to provide feedback. The auditor will review any comments provided by the Secretariat, integrating them as appropriate into the report. The auditor will then send the report to the country.</p> <p>The auditee will be requested to respond to the reports findings and recommendations in writing. At this point, the auditee may also specify any elements of the report they believe to be confidential and not for public release. This will be considered in line with the OIG policy (detailed below).</p>
Responding to the draft audit report	<p>The timing for obtaining responses to the audit report will be agreed between the auditor and the auditee on a case-by-case basis.</p> <p>The auditee will provide feedback to the auditor in three separate sections:</p> <ul style="list-style-type: none"> • Factual corrections which, if undisputed, will be integrated by the auditor in the final report; • A response to the audit report and recommendations, which will be annexed by the auditor to the audit report (and not used to modify the audit report); • Justification for those recommendations which the auditee does not believe are appropriate or necessary; • A proposed Action Plan based on the recommendations in the audit report. <p>For country-level audits the process will normally be as follows:</p> <ul style="list-style-type: none"> • The Secretariat will have 10 working days to provide an initial response on the draft report, proposing any factual corrections and commenting on any contextual issues. • The draft audit report, with any amendments based on the Secretariat's input, will then be sent to the country for a response and will be given 3

Procedure	Description
	<p>weeks to reply;</p> <ul style="list-style-type: none"> • The Fund Portfolio Manager (FPM) will provide support to the <u>process</u> of response by the country (ensuring that the country understands its duty to reply and to invest effort in providing a quality reply) but not the <u>content</u> of the reply; • <p>Once the country has responded, the Secretariat will provide a separate response, including:</p> <ul style="list-style-type: none"> • Any further factual corrections, as required; • Contextual issues alongside the feedback from country partners; • The Secretariat's comments on the responses provided by the country partners and the LFA; • A high-level Management Response, which addresses the key overarching, strategic issues. The Management Response may agree or disagree with the recommendations in the audit report. This will be annexed to the audit report (and not used to modify the audit report); • An Action Plan based on the proposed Action Plan prepared by the country, and taking into consideration the country responses. If there are any actions the Secretariat itself needs to take, then these will also need to be included.
Final Report	<p>Upon receipt of the auditee's response (and, for country-level audits, the Secretariat's response), the audit team will prepare a final audit report. The auditee's response (and, for country-level audits, the Secretariat's response), including the action plan, will be included as separate annexes to the final report.</p> <p>The contents of the audit report will be posted on the OIG's public internet site within 3 working days after it is made available to the Board, except where the Inspector General proposes to restrict full public disclosure for a specific report in accordance with the Disclosure Policy for Final OIG reports.</p> <p>OIG will ask the auditee (and, for country-level audits, the TL/FPM) to comment objectively on how the audit was conducted. This feedback will be provided to the Secretariat and to the FAC and helps to inform improvements to the audit process.</p>
Follow up	
Follow up of audit report	<p>The auditee will implement the action plan addressing the audit report's recommendations.</p> <p>For country-level audits, the Secretariat will monitor the implementation by the auditee of the action plan and, for those recommendations that were for Secretariat implementation, will implement the actions assigned to the Secretariat.</p> <p>The OIG will provide a tracking sheet that the Fund Portfolio Manager can update, showing implementation progress.</p>

Procedure	Description
	<p>The auditor will also need to validate the actions taken in response to the recommendations in the audit report to confirm that the problems identified have been resolved. This validation is likely to involve calling for supporting documentation.</p> <p>In following up on audit reports, and in line with the 'No Surprises' approach, the Secretariat will keep the auditor informed of progress and the auditor will keep the Secretariat informed of any follow-up it plans to undertake.</p>

Length of the audit

20. The duration of audits will vary. The amount of time required will depend on the audit scope, the ease in obtaining the required information, the number of auditors assigned to the audit and the quality of the auditee's records. A positive working relationship between the auditee and the auditors is an important factor in the accuracy of information gathered and the timely completion of the audit.

Undertaking audit work proficiently

21. In order to ensure that the work of OIG is undertaken proficiently and with due professional care:

- (a) suitably qualified staff are placed on audits;
- (b) auditors will conduct the audits in compliance with the professional Code of Ethics as prescribed by the Institute for Internal Auditors and the International Organization of Supreme Audit Institutions (INTOSAI);
- (c) audits will be performed by personnel who are neither directly nor indirectly responsible for the activities that will be audited; and
- (d) staff will be prudent in the use of information and protect such information which is under the control of the auditee. No auditors will use/release information in respect of an audit without the permission of the IG and the auditee.

Communications

22. The success of the audit process is underpinned by a solid working relationship based on clear and continuing communication between the auditor and the auditee. The auditee will be given an opportunity to participate in the audit process at each stage of the process.

23. For country-level audits, the OIG and the Secretariat shall coordinate closely. The aim of the close coordination is to ensure that the auditor is well-informed and has the full contextual background in relation to the program being audited and that the Secretariat is kept informed of the audit as it progresses. This is intended to help avoid any confusion at the country-level.

24. The final report arising from a country audit is addressed to the Secretariat. The table below gives a summary of the communication throughout the audit process:

Stage in audit process	Type of communication	Audit of Secretariat functions	Audit of Country Programs
Planning	Notification letter	OIG Focal Point in the EMT Director of relevant Cluster Director of relevant Unit Legal Counsel	OIG Focal Point in the EMT Director of relevant Cluster Director of relevant Unit FPM PR/CCM Chair Legal Counsel
	OIG/Secretariat Pre-meeting		Regional Team Leader Relevant manager e.g. FPM
	Entrance meeting	Director of relevant Unit Head of relevant team Relevant manager	PR/ CCM Chair
	Representation letter	Head of relevant Cluster	Head of relevant Cluster PR
Execution	Update meetings	Head of relevant team Relevant manager	Relevant manager e.g. FPM PR/ CCM Chair
Reporting	Exit meeting	Director of relevant Cluster Head of relevant Unit Regional Team Leader Relevant manager	Regional Team Leader Relevant manager e.g. FPM PR/ CCM Chair
	Draft report	Director of relevant Cluster Head of relevant unit/team Legal Counsel Relevant manager	Head of unit/team Relevant manager e.g. FPM Legal Counsel PR/ CCM Chair
	Final report	Board OIG Focal Point in the EMT Director of relevant Cluster Unit Director Legal Counsel	Board OIG Focal Point in the EMT Director of relevant Cluster Unit Director Legal Counsel

Update of the protocols

25. These protocols shall be reviewed and updated as and when necessary. Changes to the protocol will be mutually agreed between the Secretariat and OIG.

Annex 1

Sample management letter of representation for audits

(Letterhead of the Auditee)

(Date before the start of Audit Field Work)

The Inspector General
The Office of the Inspector General
The Global Fund to Fight HIV, TB and Malaria

Subject: Letter of Representation to the Auditors

In connection with your audit of the Global Fund grants to the (Name of Principal Recipient), we confirm, to the best of our knowledge and belief, and having made the appropriate enquiries, the following representations.

1. For the Global Fund programs managed by the (name of the PR), we are responsible for
 - establishing an effective internal control environment that is compliant with Global Fund grant agreements;
 - identifying and mitigating risks that Global Fund grants are exposed;
 - designing and implementing programs and controls to prevent and detect fraud, mismanagement and unethical conduct; and
 - promoting ethical conduct by all those engaged with Global Fund programs.
2. We will make available to you all the financial and management information associated with the Global Fund programs under audit.
3. We have informed OIG of any fraud, mismanagement and unethical conduct or suspected fraud, mismanagement and unethical conduct affecting the entity except as indicated below.
4. We have no knowledge of any fraud or suspected fraud affecting the entity involving management, staff or others except as indicated below and communicated to OIG.
5. We have no knowledge of any allegations of fraud or suspected fraud mismanagement and unethical conduct affecting the entity received in communication from employees, counterparts, vendors or others except as indicated below and communicated to OIG.
6. There are no material instances where financial or programmatic information has not been properly and accurately recorded and reported except as indicated below.

7. Except as indicated below, for the Global Fund programs managed by (Name of PR) , there have been no;
 - Instances of non compliance with the Global Fund grant agreements.
 - Instances of non-compliance with Global Fund rules, regulations or procedures.
 - Violations or possible violations of grant agreements and host country laws or regulations.

8. Should any events occur subsequent to the audit field work and prior to issuance of the final audit report that would affect the above representations, I / we will promptly advise OIG.

(Name of official having the responsibility for the audit)