
Financial Risk and Assurance

GF – LFA Training Workshop
JANUARY 2020
Geneva, Switzerland

 **The Global Fund**



Agenda

Presentation of Facilitators and Objectives

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Introduction and Framework

Alignment of LFA services to Corporate Strategy

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LFA Services

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Objective of this Session

- Provide an overview of the Financial Risk Assurance framework
- Discuss the Global Fund Expectation in relation to LFA services
- Create a **forum for feedback** on improving GF/LFA collaboration and delivering on the Global Fund Strategy



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Introduction

The environment

- The Global Fund operates in an environment characterized by a broad range of risks that can limit program impact if left unmitigated.
- Some of these risks are grant-specific while others are more pervasive and relate to broad constraints at the country level.
- There are significant implementation bottlenecks created by capacity constraints in infrastructure, structures, people, processes and systems.
- Many of the countries in which the Global Fund operates are ranked very low in the Transparency International's Corruption Perceptions Index.
- Risk is basically an everyday part of the Global Fund's activity.

The Secretariat relies on assurance providers, of which the LFA is key, to identify risks and ensure that they are effectively mitigated so that program objectives are achieved.

Introduction (Cont'd)

The business model:

- The Global Fund business model does not involve in country presence.
- The model depends on internal and external assurance providers to give assurance that risks inherent in the grant programs are effectively managed.

Assurance mechanisms provide crucial validation of grant data used by the Global Fund to make key business decisions.

The key takeaway

The importance of the LFA in the risk and assurance framework cannot be overemphasized. The LFA are the eyes and ears of the Global Fund.

Risk Management Structure



Risk Structure

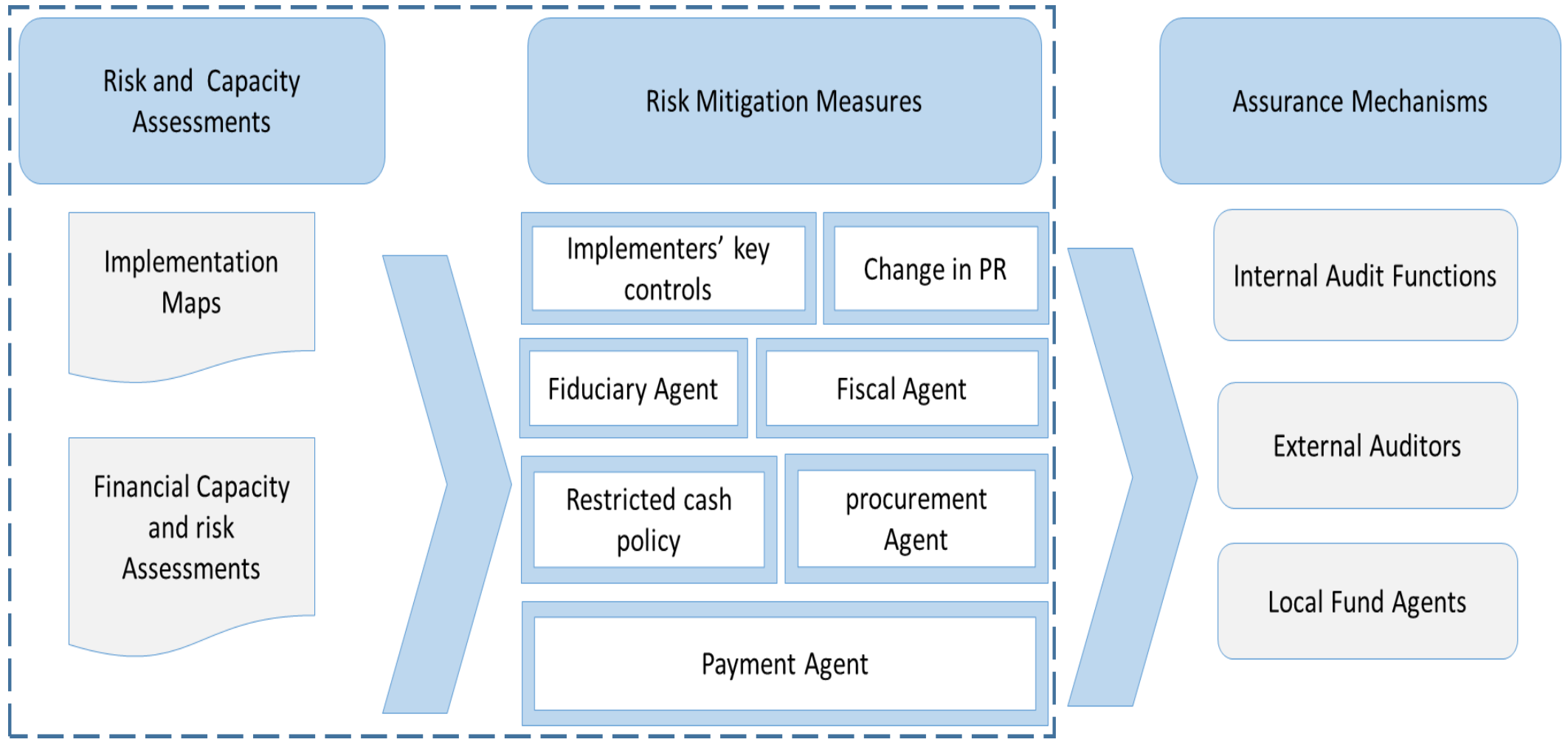
Risk Category	1 Programmatic and M&E Risks	2 Financial and Fiduciary Risks	3 Health Product Management and Supply Chain Risks	4 Governance, Oversight and Management Risks
Risk	1.1 Inadequate program design and relevance	2.1 Inadequate flow of funds arrangements	3.1 Inadequate selection of health products and equipment	4.1 Inadequate national program governance
	1.2 Inadequate design and operational capacity of M&E systems	2.2 Inadequate internal controls	3.2 Unreliable forecasting, quantification and supply planning	4.2 Ineffective program management
	1.3 Inadequate program quality and efficiency	2.3 Financial fraud, corruption and theft	3.3 Inefficient procurement processes and outcomes	4.3 Inadequate program coordination and SR oversight
	1.4 Limited data availability and inadequate data quality	2.4 Inadequate accounting and financial reporting	3.4 Inadequate warehouse and distribution systems	
	1.5 Limited use of data	2.5 Limited value for money	3.5 Limited quality monitoring and inadequate product use	
	1.6 Inadequate Promotion of Human Rights and Gender Equality	2.6 Inadequate auditing arrangements	3.6 Inadequate information (LMIS) management systems	

The Financial Risk and Assurance Framework

- The Global Fund Financial Risk and Assurance Framework defines the general approach to managing financial and fiduciary risks and the related mitigating actions including implementers' key controls, and identifies the possible mechanisms of assurance of the grants.
- The Framework uses the financial risks already mentioned above to determine the overall financial risk assessment of individual grants.
- Each of the financial risks are clearly defined.

Financial Risk Management process

Financial risk and assurance process



Emphasis on some key areas

Implementation Maps

- Increase transparency around who is doing what and with what proportion of the grant funds.
- Help us identify key implementers.

Implementation maps should be accurate and reflect the actual implementation arrangement

The PR should update the implementation maps to reflect changes and additional information on IA as they occur.

Capacity Assessment

Requirements



- All new Principal Recipients (PR)
- Existing PR if it will be implementing new activities that have not been previously assessed
 - Changes in scope of the program for activities (i.e. community outreach, case management, etc.)

Potential triggers

- Material changes in scale of the program (e.g. expanding from covering 2 states to 10 states)
- PRs with no or limited past experience in specific activities (i.e. procurement of non-health products, procurement, etc.) being tasked to take over such tasks.
- PRs with recurrent performance issues (i.e. B2 rated for previous 2-3 reporting periods)

Emphasis on some key areas

Fraud Risk Assessments

- This is a completely new section in the Capacity Assessment tool.
- Today this is being rated by most country teams in the absence of any assessment whatsoever.
- Despite the serious risk that fraud presents to Global Fund grants, many grant implementers still do not have formal systems and procedures in place to prevent, detect and respond to fraud.

Going forward, fraud risk assessment to be a key area for consideration with a focus on preventive controls and ensuring there is an adequate fraud risk management policy in place.

Emphasis on some key areas

Implementer Key Controls

- This is a key area of focus. An understanding of the implementer key controls.
- “A key control is one that is required to provide reasonable assurance that material errors or/and material losses will be prevented or timely detected.”
- These key controls should be evaluated for design adequacy and operating effectiveness

A thorough understanding of the control environment with emphasis on key controls

Emphasis on some key areas

Risk Mitigating Measures

- The first option is to strengthen implementer controls
- However, when the circumstances demonstrate that these controls are inadequate or not effective and remedying in the short term is not feasible, some/other risk mitigating may be used to ensure appropriate financial management of the funds used for the program's implementation.

The LFA has to ensure that the proposed actions are specific, relevant and realistically achievable in the implementation context.

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Alignment of LFA services to Global Fund Strategic Objectives

Assurance services have been updated for more effective input of LFA based on the SOs and continuous improvement.

Financial and Fiduciary

List of assurance activities

1	Budget Review	2	Review of adequacy of the funds flow	3	Value for money reviews and analysis
4	Review of independence and effectiveness of the audit arrangement and function	5	Domestic funding and co-financing, willingness to pay verification and analysis	6	Review preparedness for reliance on country financial management systems/assurance mechanisms
7	Review design and/or effectiveness of the internal control environment	8	Financial data quality review	9	Expenditure verification and / or review of compliance
10	Validation of financial statements	11	Audit related activities (a,b,c,d)	12	Country Coordinating Mechanism expenditure verification
13	Review of reconciliations of imprests, SR/SSR advances and decentralized activities	14	Financial spot checks	M&E 3	Joint programmatic, financial and supply chain spot checks
15	Fraud specific review	16	Review of Financial Management Transition	17	Analysis of root causes of systemic/structural bottlenecks
18	Budget Variance Analysis	19	Fixed (non-health) Asset Verification		

Alignment of LFA services to Global Fund Strategic Objectives

Mapping of Mitigation and Assurance against Risks

Inadequate flow of funds arrangements

- Implement alternative fund transfer mechanism (mobile money, payment agent, etc)
- Review monthly the aging balance of advances to sub-recipients

1	Budget Review
2	Review of adequacy of the funds flow
3	Value for money reviews and analysis
13	Review of reconciliations of imprests, SR/SSR advances and decentralized activities
17	Analysis of root causes of systemic/structural bottlenecks
18	Budget Variance Analysis

Inadequate auditing arrangements

- Change external auditor
- Reinforce internal audit function (skillset, training, etc)

4	Review of independence and effectiveness of the audit arrangement
8	Financial data quality review
10	Validation of financial statements
11	Audit related activities (a,b,c,d)

Emphasis on some key areas

Risk and Assurance Toolbox

Reference guide on the typology of mitigating actions and available assurance activities against the risks and mitigating actions.

For each risk, there is a guidance on:

- Typology of mitigating actions,
- Potential assurance activities
- High level details of each assurance activity.

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Best Practices in delivering LFA services



LFA
Engagement



Collaboration between the
various assurance
providers



Spot checks



Use of experts



Submission of
findings



Regular follow up

LFA engagement during elaboration of the LFA annual work plan

Proactive engagement of LFA Team is encouraged during elaboration of the LFA annual work plan. Suggestions for risk-based spot checks as well as other targeted assurance activities are encouraged.

Workplan preparation

Country Teams prepare annual LFA work plans jointly with LFA.

Workplan implementation

Adjustments to the work plan are usually needed during the year based on ongoing monitoring of assurance needs and changes in the implementation.

Workplan preparation/ implementation

LFA shall recommend the appropriate verification and assessment methodologies and advise the Country Team on the tailoring of LFA work to the specific grant, Principal Recipient/Sub-recipient, and country context

Key take-away: LFA shall be proactive and shall steer the CT what are the most essential and adding value services.

Collaboration between the FA, LFA, EA and IA



Case study

Country ABC is a challenging operating environment with suboptimal capacity of the finance staff and revealed gaps in effectiveness of the internal controls of the implementers. The Global Fund relies on the FA to manage risks in their portfolio and the LFA, EA and Internal Auditor to provide the necessary and sufficient assurance to the Secretariat.

1. Who should collaborate with whom and how often?;
2. What are the areas to be covered during the collaboration?;
3. What best practices can you give for a good relationship and how it improved the grant implementation?

Collaboration between the FA, LFA, EA and IA



- These service providers play a significant role in either directly managing risk across the portfolio (in the case of FAs) or providing independent assurance on adherence to internal controls, the management of risk and confirming the proper use of grant funds (in the case of the LFA ,EAs and IAs).
- Efficient and effective communication is key for (i) facilitating the work of the assurance providers and (ii) successfully maintaining a harmonised understanding of the risks faced on the grants and (iii) ensuring the Global Fund’s expectations of these assurance providers are being met; all of which are crucial for ensuring robust and coordinated assurance in a cost effective manner.
- Even if there is no Fiscal Agent presence on a portfolio/grant, the LFA , External Auditor and Internal Auditor should engage in joint assurance planning & risk assessment alignment.

Collaboration between the various assurance providers(cont'd)

Aligned approach and aligned risk profile for each implementer



Expected Outcome



The LFA and the EA take the information from the FA into consideration when conducting the reviews and audits of financial information reported by the PR and during the spot checks



FA directly responds to the issues reported by the LFA and the EA through their embedded compliance work and capacity building

Tailoring LFA services and spot checks

The types of services provided by LFAs vary considerably according to the portfolio situation, including the country context, risk profile and grant funding provided. LFA services should be targeted to those areas where the LFA is expected to add most value, in terms of providing additional information and addressing a particular risk. The depth of LFA involvement and the respective cost should reflect the following considerations:

1. Risk levels and prioritized mitigating actions
2. Complexity of the grants/country environment
3. Volume of funding and scope of program activities
4. Capacity and performance of country systems and implementers
5. Historical grant performance
6. Reliance on partners' work

Engagement of external experts and consultants

In case of non-standard CT requests which would require more specific knowledge and experience which the LFA team does not have in-house, the LFA should consider engaging external experts/consultants.

Case study: Construction of a warehouse:

As part of an RSSH grant in country XXX, US\$ 5 million have been approved and budgeted for a construction of a national warehouse which will also house all the health products procured under the three diseases after being delivered to the country. The PR wants to start the activity. In your opinion - what engagement should LFA have at the different stages, who should be involved and until completion of the warehouse and what contribution they are expected to make?



Internal Control Assessments

- Reviews and spot checks should be conducted with the intention of not only identifying issues of non-compliance, but with the overarching goal of strengthening internal control systems.
- Key objectives when assessing internal controls:
 - ✓ Identify the key controls;
 - ✓ Assess the design;
 - ✓ Ensure they are effective;
 - ✓ Provide recommendations for improvement.
- Identification of controls at the implementer level is obtained through documentation reviews or interviews key stakeholders which includes walkthroughs.

Internal Control Assessments (cont'd)

It is critical to agree on the following aspects with the CT prior to the commencement of the review:

- The overall approach and strategy for the assignment;
- Key controls sampling methodology and the period that the testing will cover;
- How the LFA will test the controls;
- The entities and the locations that will be tested.

The LFA should ensure that the review of controls also considers the Risk of Fraud:

Submission of Findings

During the course of the LFA's review, \$1,495 pertaining to trainings was deemed ineligible by the LFA. This was due to lack of supporting documentation including:

- The recipient's name did not appear on the approved participant list.
- There was no evidence of attendance by the recipient on the signed attendance sheets.
- The recipient was unable to produce any evidence of attendance such as hotel invoices or transportation receipts.

The findings were documented as follows in the PUDR:

Question: How could the presentation of findings and recommendations to the Country Team be improved upon?

Submission of Findings

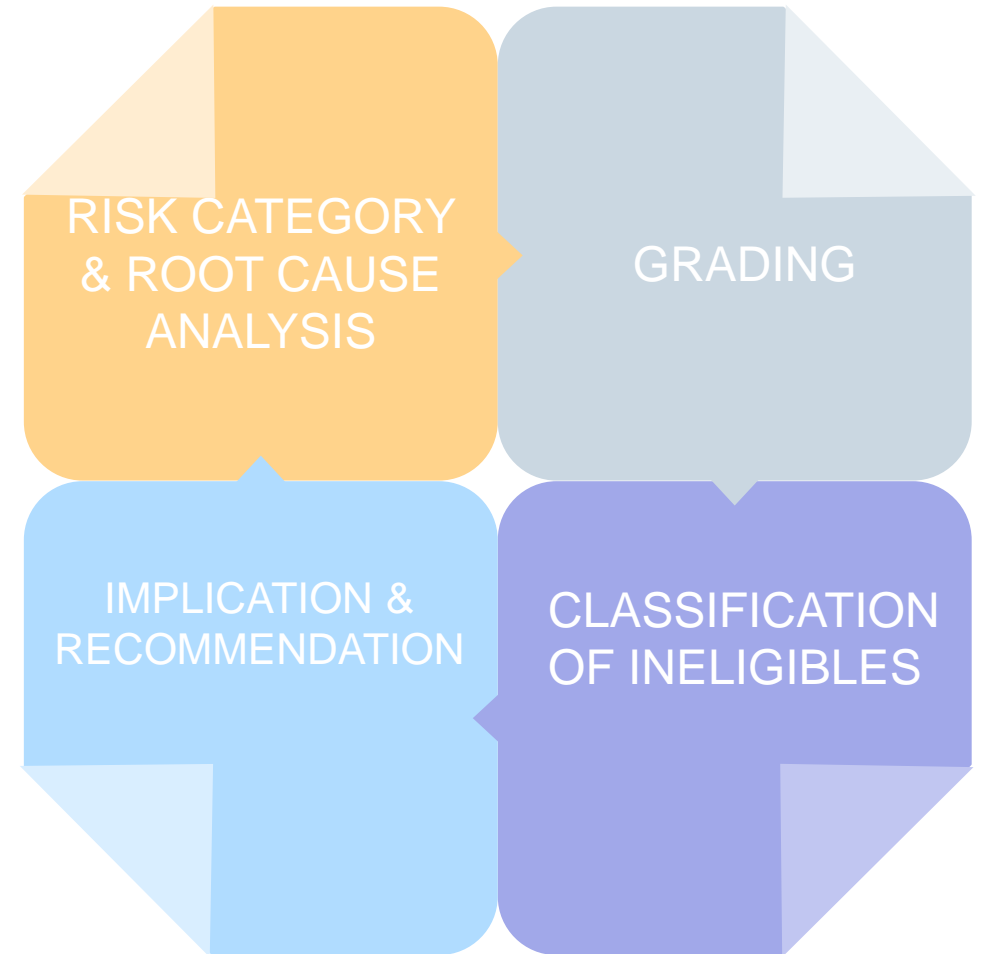
- 1 Risk Category & Root Cause Analysis**

The finding should be adequately explained, and the root cause clearly stated. In addition, the risk should be categorized based on the Global Fund's Risk Rating categories.
- 2 Grading**

A grading should be applied in order that the PR is able to better prioritize implementation of recommendations emanating from findings.
- 3 Implication & Recommendation**

The effect of the finding both from a financial and non-financial perspective should be clearly stated. Recommendations should include mitigating actions and timelines for correction
- 4 Classification of Ineligibles**

When ineligibles are identified, they should be classified by their Cost Grouping and the Type of Ineligible.



Submission of Findings (Cont'd)

Risk Category

- Inadequate flow of funds and arrangements
- Inadequate internal controls
- Financial fraud, corruption, and theft
- Limited value for money
- Inadequate accounting and financial reporting
- Inadequate auditing arrangements

Grading

- Grade I: Significant which impact on the achievement of overall grant goals
- Grade II: Findings that may have a significant impact on the control environment
- Grade III: Finds that are less significant but merit attention

Classification

- Category 1: Cost Group
 - Human Resources
 - Travel Related
 - Procurement
 - Other
- Category 2: Type
 - Unsupported Expenditures
 - Expenditures Incurred Outside the Scope
 - Expenditures Compromised
 - Other Types of Non-Compliance

LFA regular follow-up on identified risks and mitigating measures

LFA shall provide regular update on implementation of identified risks and agreed mitigating actions and timelines

Follow-up on implementation of risk mitigating plans

Country Teams on the basis of reports/assessments provided by different assurance providers (LFA, Auditors, FA) identify risks and elaborate risk mitigating actions and plans with specific timelines. LFA's follow-up and report on implementation of those is essential.

Assessment of feasibility of risk mitigating plans

During the LFA review of the implementation of the risk mitigating plans, LFA shall assess whether the initially proposed and agreed upon mitigating measures and timelines are feasible and suggest relevant adjustments, when and where necessary.

Emerging of new risks

In case during the LFA reviews/spot checks new risks have emerged, LFA shall report the same to the Country Team with appropriate mitigating actions, assurance mechanisms and timelines. Identified risks shall be ranked.

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Key principles of the revised auditing guidelines

Flexibility

The updated guidelines will provide the CTs **different options of audit type based on the risk profile of the grant , country categorization**. The guideline will introduce the notion of performance audits, system audits, asset safeguard audits and define the condition under which each audit type could be used.

Risk-based scope

In line with the above, the audit scope will depend on the risk profile of the grant. The financial Risk level will be directly taken from the IRM for consistency purposes, this will also include focused countries. There are four financial risk levels : Very High, High, Moderate and Low.

Rely on PR audit mechanism

Per the strategic objective 2 (SO2g), it's important to rely on PR's mechanisms for sustainability. The default option will be to use the PR statutory auditor (including SAI for government entities) if deemed effective (criteria defined). Otherwise, grant specific auditor will be used.

Consistency

To drive consistency, for financial audit, this guideline defines what the materiality level should be, the format of the audit report and opinion, the format of the financial statements.

Main Changes from current guidelines

Current Guideline

Revised Guideline

Key changes

Differentiation

- Financial audit for all grants

MORE OPTIONS

- Financial statement audit
- System audit
- Performance (value for money) audit
- Asset safeguard audit
- Risk-based Negative Assurance

Risk-based tailored approach with more audit options

- System audit
- Performance (value for money) audit
- Asset safeguard audit
- Limited Review

Opinion

- Financial statement, Compliance with GA, reconciliation with other financial information (PU/DR, etc.)

- Financial audit: Opinion on the Financial Statement, Opinion on Compliance
- System audit: Opinion on internal control
- Performance audit: Recommendation ON program, processes enhancement comparing use of funds and target attainment.

- Financial Audit : Opinion on internal control + Emphasis on internal control at key SRs
- Other type of audit: Enhanced recommendations or targeted opinion

Audit due date

- 3 months after period end

- Up to 6 months after period end

- Up to 3 more months for the PRs and auditors

Auditors/ Sustainability

- Grant specific auditors
- Supreme Audit Institutions (SAI)

- Leverage PR statutory auditor (including SAI) based on defined criteria.
- Use of grant specific auditors

- Use of PR statutory auditor (incl SAI) based on defined criteria

Frequency

- 6 to 18 months

- 6 to 18 months

- No change

Audit Standard and Engagement

Audit packages

AUDIT PACKAGES

1

STANDARD

Yearly Grant audit with possibility of interim audit and/or⁽¹⁾ optional audit

(1): only for performance audit

1. Statutory auditor/ SAI on TGF specific financial statements (first choice if criteria met)
2. Private audit firm if first choice not met

2

TAILORED

Year 1 and Year 2 (For all countries):

Reliance placed on PR statutory audit if established criteria are satisfied; **or** Limited Review

Year 3: Grant audit at the end of the AUP, covering the entire AUP

1. Statutory audit/ SAI based on PR own financial statements
2. Private audit firm if PR does not have a statutory audit
3. Year 3 audit on TGF specific financial statements

Audit Package Risk based Matrix

Risk level	Very High	High	Moderate	Low	
Country classification					Total Grant Budget (TBg)
High Impact/ Core	Standard	Standard	Tailored	Tailored	TBg<=10m\$
	Standard	Standard	Standard	Tailored	50m\$<TBg<10m\$
	Standard	Standard	Standard	Standard	TBg>= 50m\$
Focused	Standard	Standard	Tailored	Tailored	TBg<=10m\$
	Standard	Standard	Tailored	Tailored	50m\$<TBg<10m\$
	Standard	Standard	Tailored	Tailored	TBg>= 50m\$

For UN and some INGOs agencies, audit planning and implementation is determined by the provisions of the Framework Agreements

Do the audits achieve their intended objectives?



Appointment

Issues with appointment of external auditor, including selection process.

Communication

LFA interaction with external auditors throughout the audit.

Risk coverage

External audits do not consistently cover the key risks relating to the use of grant funds, especially at SR level.

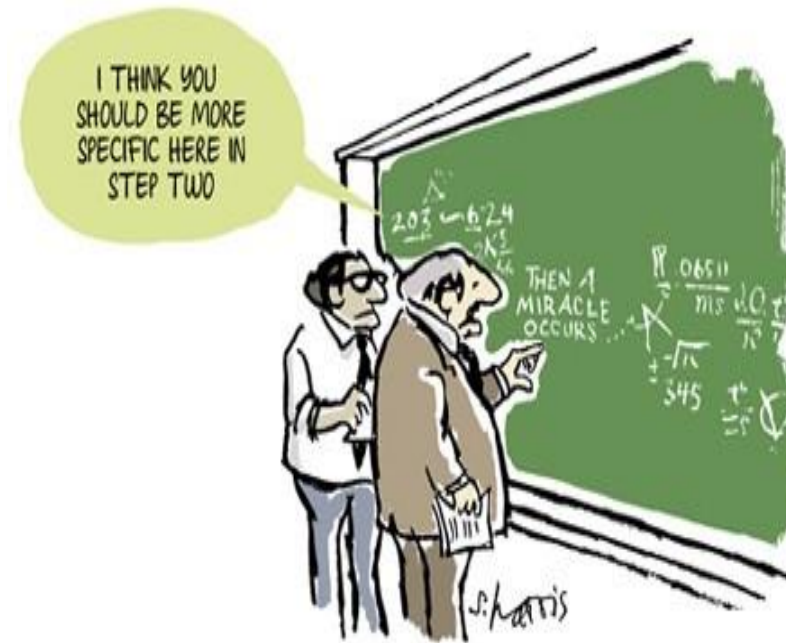
Reporting

Extensive delays exist in the submission of reports.

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LFA Role

So, what changes in LFA reviews can contribute towards an improved process?



LFA Role (Cont'd)



Scenario	LFA focus for improvement
Auditor Selection	<ul style="list-style-type: none">- Identifying gaps in selection process on a timely basis based on country context and risk considerations at PR level- Recommend practical solutions/options to CT
Audit Execution	<ul style="list-style-type: none">- Participation in audit kickoff meeting- Discussions with external auditors as necessary- Participation in exit meeting
Audit Report	<ul style="list-style-type: none">- Comment on whether the audit and audit deliverables are in line with the approved terms of reference- Analyze information and highlight inconsistencies in figures reported in PUDRs, AFRs vs the audited financial statements- Comment on the quality of the audit report and make a recommendation to the CT to accept or reject the audit deliverables

