



Audit Report

# Internal Financial Controls

GF-OIG-15-005

9 March 2015

Geneva, Switzerland

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# I. Background

The Global Fund, in its mission to fight the three diseases, has implemented a series of internal financial controls to ensure that its funds are properly used in accordance with program objectives and that financial statements are accurate, reliable and timely.

The financial internal control system has two main components:

- a) internal controls over the financial statements designed to ensure that they are free from any material misstatements;
- b) financial controls performed by Finance Officers within the Country Teams designed to ensure that grant funds are correctly used to achieve impact.

**Internal controls over the financial statements**, as set up through the Finance Step Up project,<sup>1</sup> cover key processes within the organization. For every process, internal control procedures are in place detailing the role and responsibilities of every actor.

Since its development in 2013 and phased launch in 2014, the Finance Step Up project is significantly streamlining and accelerating financial information workflows with the automation of many procedures, processes and systems.

The key grant processes for the financial statements are:

- Grant signing
- Secretariat annual funding decisions and first disbursements
- Grant subsequent cash transfers

For each of these three key processes, there are checks and validations performed at the Country Team level and manual and automated controls performed by the Finance Division. Annual Funding Decisions are signed in accordance with the Signature Authority Procedure (SAP) authorities and all cash transfers are validated internally before being sent to the World Bank for payments.

**Financial controls performed by Finance Officers** within the Country Team are meant to ensure that funds are used in accordance with program objectives.

Under the Global Fund business model, the external auditors do not provide assurance over the funds disbursed as there is no impact on financial statements once the implementers receive the funds. The assurance over disbursed funds lies with the implementers and the Global Fund Secretariat. The Finance Officers perform various checks and reviews when the Progress Update/Disbursement Request (PU/DR), a progress report on the status of grant implementation and request for disbursement by recipients, is received. They also perform financial checks at the time of the Annual Funding Decision (AFD), a high-level Secretariat process to decide on the amount of funding to disburse to any given recipient, to ensure that all finance-related data is correct and accurate.

Finance Officers are expected to review the Local Fund Agents' recommendations as well as to verify the consistency of the information received. As part of the role, the Finance Officer follows up on all the finance-related issues identified in the PU/DR, such as ineligible expenditures, finance related conditions, unresolved management actions, forecasting and detailed budget.

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<sup>1</sup> Finance Step Up is a transformation project launched in 2014 and designed to overhaul Global Fund financial systems and processes, provide a new financial data model and equip all staff with a common financial language.

# II. Scope and Rating

## Scope

This audit seeks to give the Board reasonable assurance on whether internal financial controls are adequate and effective to ensure the integrity of financial statements and the establishment of a sound control environment relative to financial reporting. The OIG also audited whether:

- a. assets are safeguarded and properly used;
- b. financial affairs are well managed;
- c. financial reporting is robust and accurate; and
- d. managers comply with laws and regulations related to finance.

The scope of the audit focused mainly on financial controls over key activities and processes of the Global Fund. Specifically, the OIG assessed controls over the following areas:

1. The controls over key grant processes and their impact on the financial statements. The following key processes were audited:
  - Grant signing (Principal Recipient, grant creation and grant agreement)
  - The Annual Funding Decision and first disbursement
  - Subsequent grant disbursements (cash transfer)

In addition to the above mentioned grant processes, as part of the internal controls over the financial statements, the OIG audit assessed the effectiveness of:

- Controls over travel expenses as well as employees’ compliance with the Global Fund’s travel regulations. Travel expenses for the top ten travelers, including the Executive Director were tested;
- Entity level controls for the financial statements closing process as well as the organization’s approach to assessing its compliance with the COSO framework.<sup>2</sup>

2. The design and effectiveness of financial controls performed by the Finance Officer in relation to the post-disbursements procedures.

## Rating<sup>3</sup>

Operational Risk	Rating	Reference to findings
Internal controls over financial statements – grant processes	<b>Generally Effective</b>	1.1
Design and effectiveness of post-disbursement internal controls	<b>Partial Plan to Become Effective</b>	2.1, 2.2, 2.3, 2.4, 2.5

<sup>2</sup> The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a dedicated body to provide thought leadership the development of frameworks and guidance on enterprise risk management, internal control and fraud. The Global Fund has adopted this framework.

<sup>3</sup> See Annex A for the definition of OIG ratings.

### III. Executive Summary

As part of its continuous transformation process, the Global Fund has invested in strengthening its financial internal controls through two major projects: Finance Step Up and the Combined Risk and Assurance Framework.

These two projects and their maturity influence in a direct way the current design and effectiveness of internal financial controls. The OIG concluded that, as a result of the Finance Step Up project, **internal controls over the financial statements are generally effective** but the current design and effectiveness of **financial controls over grant funds need to be improved** through the Risk and Assurance Framework as part of a **Partial Plan to Become Effective**.

#### 1. Internal Controls over financial statements – grant processes

Although internal controls over financial statements are deemed to be generally effective, there is a need to improve the controls designed to ensure that financial transactions are recorded in the correct accounting period.

#### 2. Design and effectiveness of post-disbursement controls

In relation to the financial controls over disbursed funds, the OIG considers that the current design does not allow the Global Fund to monitor thoroughly if funds are used in accordance with program objectives. More specifically, improvements are needed in the following areas:

##### a) Controls over grant expenditures

32% of grant expenditures, approximately USD 1.3 billion, were incurred at the Sub-Recipient level and below. From 2011-2013, the Global Fund has limited oversight over expenditures at this level. The Finance Officer is not able to check the accuracy of the Sub-Recipients' figures, reported through the Enhanced Financial Report, by comparing the amounts with those reported by the Sub-Recipients' annual audit reports. This is because the reporting dates of the Enhanced Financial Report and those of the annual audit reports are different and/or issued in different currencies. For some countries, the Local Fund Agent checks the Sub-Recipients' expenditures on a sample basis but the level of coverage is low.

##### b) Financial Capacity of Implementers

The capacity of every implementer is assessed at the time of its selection or when a new grant is signed. However, implementer capacity is not formally reviewed or readdressed during the life of the grant. As a consequence of sometimes poor and unaddressed financial capacity, the Principal Recipient is not always able to absorb the funds granted, to oversee the expenditures, cash and other Sub-Recipient financial transactions. Where the capacity is weak, the Principal Recipient is not always able to provide valuable and accurate financial reporting to the Global Fund. Therefore there is a need to formally review, for every important decision, or at a minimum every two years (in line with grant milestones), the Principal Recipient's financial capacity to help management take better informed decisions.

##### c) Escalation Framework

Financial escalation triggers are not clearly defined and not consistently and formally escalated to the next level of authority. The auditors noted material deviations from Global Fund regulations that, even if sometimes explained and documented, are not referred to the next level of authority for approval. To make sure that all financial risks are addressed, escalated and approved by the required level of authority, a new Signatory Approval Matrix will be developed as part of the agreed management actions.

##### d) Cash balances in country and risk associated

Because implementers pay their invoices some time after receiving grant funds, material amounts of cash are held at the Principal and Sub-recipient level, giving rise to financial risks. In 2014, a series of initiatives were taken by the Global Fund to reduce the level of cash in countries from USD 1.7 billion at the beginning of the year to USD 1.3 billion by Q3. Ten countries account for almost 70% of the total cash balance and, in most cases, this money is needed upfront for procurement related processes.

With regards to mitigating the financial risks associated with cash balances in countries, the Global Fund will develop a system of “disbursing as needed”, tailored to every Principal Recipient according to the materiality of the disbursements and its ability to address cash management risks.

**e) The role of the Finance Officer**

Although the role of the Finance Officer is defined in the Country Team responsibility matrix, the tasks the officer is expected to perform for every important decision, and the areas of risk, are not clearly articulated and therefore not applied consistently. As part of the development of a differentiated role for the Finance Officer, dependent on the complexity and materiality of the countries, a clear set of minimum checks and responsibilities will be detailed.

# IV. Findings and agreed actions

## 01 Internal Controls over Financial Statements – Grant Processes

1.1	The design and effectiveness of controls over grant processes.
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**The internal controls over financial statements were deemed to be effective. Nevertheless, there is a need to improve the controls designed to ensure that transactions are recorded in the correct accounting period.**

The internal controls over the financial statements, designed through the Finance Step Up project, cover the key processes of the Global Fund. For every process analyzed, internal control procedures are in place to detail the role and responsibilities of every actor.

Using the Oracle-based “Global Fund System”, the Finance Step Up project has led to many automated controls being implemented to ensure that financial statements are free from material misstatements. These automated controls are seconded by manual controls and a Signature Authority Procedure (SAP).<sup>4</sup>

However, the OIG noted areas for improvement related to the controls tested, especially those designed to ensure that transactions have been recorded during the correct accounting period. Specifically:

- The Annual Funding Decision notification emails sent to the Principal Recipient were not using the correct automated notification letter but rather the Performance Letter<sup>5</sup>. This ultimately led to one AFD being communicated to the recipient four days before its corresponding journal entry was entered. It also led to other instances where the funding decision was communicated with delays (over 100 days in some cases) and instances where the emails notifying the Principal Recipient were not provided to the audit team.
- For cash transfers, the Principal Recipient’s confirmation of receipt of cash was delayed up to 190 days.

### Agreed Management Actions

With the implementation of Salesforce and its automated interface with the Global Fund System/Oracle, scheduled for Q4 2015, the online Annual Funding Decision notifications will be available for implementers. This development will also allow the Principal Recipients to confirm quickly the receipt of cash. Any delays will be monitored and addressed in a timely manner.

Until the new project goes live, a manual compensating control over Annual Funding Decisions notifications and confirmation of cash transfers was put in place for the 2014 annual financial closure.

**Owner:**  
Manager, Finance & Accounting Team  
**Target date:** 31 December 2015

<sup>4</sup> This internal procedure, last amended in May 2014, sets out the terms and conditions according to which the authority to sign legally binding documents on behalf of the Global Fund is delegated to certain officers of the Global Fund.

<sup>5</sup> A Performance Letter is issued to the implementers alongside the “Annual Funding Decision Letter” to outline issues arising from the Global Fund Secretariat’s review of the Progress Update, recommended actions to address these issues, and a timeline for completion.

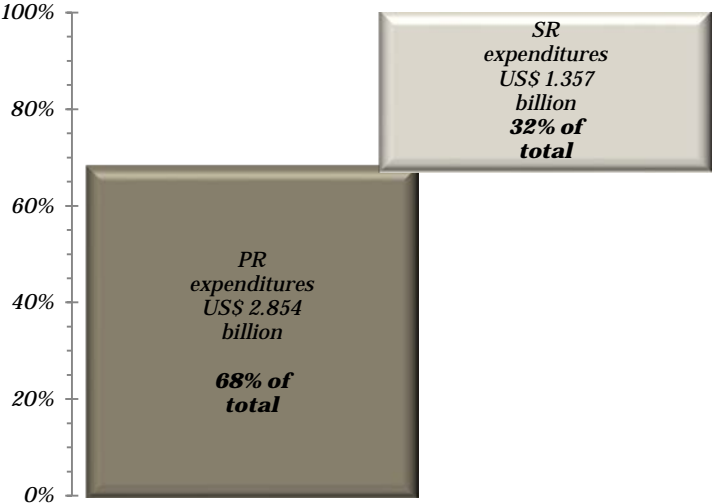
## 02 Post Disbursement Controls

2.1	The design and effectiveness of controls over grant expenditures.
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**The Global Fund needs to improve oversight over grant expenditures, especially at Sub-recipient level.**

From 2011-2013, implementers spent approximately USD 4.2 billion out of the total of USD 5.8 billion disbursed by the Global Fund. A total of 32%, corresponding to USD 1.3 billion of total expenditures, was incurred at the Sub-recipient level.

The current design of internal controls over grant expenditures does not allow the Global Fund to monitor rigorously and consistently that the grant funds are being used in accordance with program objectives.



*Expenditures by type of implementer, 2011-2013*

### 1. Controls over Principal Recipient expenditures

Principal Recipient expenditures are validated on a sample basis by the Local Fund Agent at the time of the Annual Funding Decision, once the Progress Update/Disbursement Request is received and at the time of the next Progress Update, every six to seven months. The Local Fund Agent checks the accuracy of expenditures on a sample basis, looking at up to 50% of amounts, depending on the country. There is no control of expenditures before new cash transfers following the disbursement schedule.

### 2. Controls over Sub-recipient expenditures

All the funds for Global Fund grants are disbursed to Principal Recipients who, based on the implementation arrangements, transfer the funds to Sub-recipients for program operations. Sub-recipients' expenditures are reported annually to the Global Fund through Enhanced Financial Reports (EFR). The reliability of the reported Sub-recipient expenditures is checked neither by the Local Fund Agent nor by the Finance Officers. The Finance Officers are supposed to check the accuracy of the figures reported through EFR by comparing those amounts with the ones reported in the Sub-recipients' annual audit report. This control is not performed systematically, as the reporting dates of EFR and the annual audit reports are different and/or they are issued in different currencies. For high risk countries, special measures have been taken to increase the level of assurance, for example, spot checks for Sub-recipient expenditures or the appointment of fiscal agents.

In 2014, the Global Fund adopted "Guidelines for annual audits of Global Fund Grant Program Financial Statements" that will come fully into effect for the accounting periods ending 31 December 2014 and beyond. These new guidelines should improve the controls



over the grant expenditures as they contain the following:

- a consolidated grant-specific audit will be required for an overall audit opinion combining the transactions of the Principal Recipient and Sub-recipients;
- the reporting period will be aligned with the grant annual calendar, any deviation being agreed with the Global Fund in advance;
- annual audit reports will be presented in the grant currency and grant expenditures should be presented against the budget as defined in the grant agreement for the period.

### **Agreed Management Actions**

In addition to the abovementioned actions, new financial controls over grant expenditures will be designed to increase the level of Global Fund assurance over funds disbursed. Specifically these will include the following:

- For key implementers the Global Fund will work towards the requirement for a quarterly expenditure report that will provide details on whether significant budget variances or ineligible expenditure have occurred. The requirement for a quarterly expenditure report will be phased into financial reporting requirements according to the materiality and risk of the grants, and the ability of the implementer to provide them. The provision of the expenditure report will be a financial control requirement but will not be a condition relating to cash transfer. Where significant budget variances and potential ineligible expenditures exist, the Finance Officer should require supporting documents and/or further assurance activity (Internal Audit/ External Audit/LFA) checks in case the reporting expenditures are not in line with the agreed budget or serious doubts over eligibility exist. Minimum checks to be performed at this stage should be detailed in clear guidelines; this will include the requirement for monitoring expenditure at a sub-recipient level.
- Once the new consolidated annual audit reports are submitted, as detailed in the new audit guidelines, the Finance Officer will check them against the Expenditure Report received during the year. Any material difference between the Principal Recipient reporting during the year and the Consolidated Annual Report will be investigated and additional checks by the Local Fund Agent will be requested.

### **Owner:**

Head, Program Finance & Controlling Department

**Target date:** 30 June 2015

2.2	Financial Capacity of Principal Recipients as a basis for implementing the Global Fund programs.
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**The financial capacity of the Principal Recipient is not formally reviewed regularly to inform management practice.**

The capacity of every implementer is formally assessed through the Capacity Assessment Tool at the time of the appointment of the Principal Recipient or when a new grant is signed.<sup>6</sup>

There is no formalized review of the financial capacity of the Principal Recipient during the life cycle of a grant. Therefore there is no clear and timely visibility of a Principal Recipient's capacity to manage the financial risks of a grant program. Principal Recipient difficulties, financial risks and mitigating measures can be detected using the existing reporting tools, such as QUART tool and the Progress Update/Disbursement Request during the Annual Funding Decision. However, due to the complexity and size of these tools, it is difficult to detect, rate and follow up the financial capacity gaps for a Principal Recipient during the grant life cycle.

As a consequence of limited financial capacity, the Principal Recipient may not be able to absorb granted funds, have visibility over the expenditures, cash and other financial transactions of its Sub-recipients and to report accurately to the Global Fund.

### **Agreed Management Actions**

Principal Recipient financial capacity is an important element of the Combined Risk and Assurance framework developed by the Global Fund. The framework sets out the scope and modality of regular reviews of Principal Recipient capacity.

As a complement to the current framework, the financial section of the QUART should be improved to be able to provide an update of the Principal Recipient financial capacity at the time of every major decision but no later than at the start of every implementation phase. The Financial Capacity of the Principal Recipient should be assessed by the Finance Officer using past experience, country visits and/or report from key assurance providers. Criteria used, but not limited to, the following:

- Principal Recipient's ability to supervise the financial activity of Sub-recipients;
- Principal Recipient's accounting systems and staffing;
- Existence and adequacy of internal financial controls;
- Absorption rate.

A rating of the PR's financial capacity will be given after every evaluation. The progress on improving the capacity will be assessed on a continuous basis and tailored measures including financial support will be recommended by the Finance Officer to the Country Team for the next period to further develop the Principal Recipient's financial capacity to implement grant programs.

#### **Owner:**

Head, Program Finance & Controlling Department

**Target Date:** 31 December 2015

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<sup>6</sup> The Capacity Assessment Tool, or CAT, ensures, before signing a grant agreement, that the proposed implementation arrangements, systems and capacities of key grant implementers are adequate for effective management, and maximum impact.

**Material amounts of cash are held at the Principal Recipient or Sub-recipient level, giving rise to financial risks.**

Due to the time lapse between the date when the money is disbursed by the Global Fund and the date when Principal Recipients/Sub-recipients pay their invoices, the total amount of cash in countries was about USD 1.7 billion at the beginning of 2014.

In order to reduce the risks associated with such cash balances in country (fiduciary risk, country risk, counterparty risk, inflation risk, cash management risk and foreign exchange (fx) risk) a series of initiatives has been taken by the Global Fund to reduce these balances, including:

- progressive disbursements based on a schedule associated with the Annual Funding Decision instead of one or two disbursements per year;
- centralized procurement through the Pooled Procured Mechanism that allows the Global Fund to pay for procurement on behalf of the Principal Recipient once the goods have been received.

These measures have reduced the level of cash balances in country to approximately USD 1.3 billion as at the end of Q3 in 2014. Ten countries account for 67% of the total cash balance in country. Furthermore, new instructions have been provided by Grant Finance Management to Finance Officers to better assess the implementers' cash needs before every disbursement.

Based on the OIG's sampling, the auditors identified instances where in-country cash balances were higher than the prescribed Global Fund recommended levels (25% of the previous disbursement). In most cases this was due to procurement-related processes in countries where the money is needed before the tender starts. However, in some instances this was due to more cash being held because it was difficult to predict the next disbursement.

**Agreed Management Actions**

The Global Fund will develop a system of "disbursing as needed", tailored to every Principal Recipient and its ability to manage the financial risks associated with cash balances. At least two actions will be performed in this respect:

1. Provide the countries that request the cash upfront for starting the procurement process with full assurance on credit risk. This can be achieved by issuing a letter of commitment by the Global Fund, a standard Letter of Credit from an accepted bank or the set-up of an escrow account. Depending on each country's accepted rules and the materiality of the amounts, one of the three solutions can be chosen.
2. The Secretariat will put in place a process to provide clarity on the timing and process for cash disbursements to countries. This will be undertaken with selected key PRs to integrate their disbursement processes with the Global Fund's to produce a more timely process.

**Owner:**

Head, Program Finance & Controlling Department  
Deputy Chief Officer, Treasury Team

**Target Date:** 31 December 2015

2.4	The design of the escalation framework and the financial risk signatory approval matrix.
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**Financial escalation triggers are neither clearly defined nor consistently and formally escalated to the next level of authority.**

The OIG concluded that there is no clear and consistent understanding of financial red flags across different country teams. Every Finance Officer has their own understanding of red flags and how they should escalate them to the next level of authority.

In addition, there are various deviations from Global Fund regulations that, although sometimes explained and documented, are not referred to the next level of authority for approval. One example of this is the Indicative Funding Range, which is the level of funding based on the grant rating. In most cases this not in line with Global Fund policies and procedures.

Based on the audit sampling, the OIG identified inconsistencies regarding escalating previously unresolved points from Principal Recipients' Performance Letters in respect to potential issues/risks and the evaluation of their impact on the implementation of grants.

In recommending a new annual funding decision, the Finance Officer should consider past performance as well as the financial risks incurred by every grant. Currently, the only criterias for sign off are the amount of the annual decision, although there are some clear instances where a higher approval is needed (e.g. OIG investigations, expiration of grants) or unclear provisions referring to noncompliance with Global Fund policies and procedures.

**Agreed Management Actions**

In order to be sure that all the financial risks are addressed, escalated and approved by the right level of authority, a new Signature Authority Procedure (SAP) will be developed. The new approval matrix will contain a financial risk component, assessed by the Finance Officer at the time of every annual decision, in addition to the level of the amount.

A clear set of escalation indicators will be defined as part of the new financial risk component as well as the weight of every indicator in the final rating. Escalation procedures and follow up instructions will be issued as well.

**Owner:**

Head, Program Finance & Controlling Department

**Target Date:** 30 June 2015

**The role of the Finance Officer within the Country Team should be better defined, communicated and aligned to avoid inconsistent interpretation.**

Although the role of the Finance Officer is defined in the Country Team responsibility matrix, the tasks the officer is expected to perform at the time of every important decision and the areas of risks are not clearly defined and therefore not applied consistently.

Based on interviews with finance officers for High Impact Countries, the OIG auditors observed that the understanding of the Finance Officers of their roles is not consistent. Some Finance Officers believe their main responsibility is to assess the work of the Local Fund Agent; others, the link between programmatic and financial concerns, or how the figures for budgeting, forecasting and other tools relate.

It was not clear what Finance Officers should check at a minimum at the time of important decisions, nor what should be the points of attention, the escalation mechanism or their role in the Global Fund accountability framework.

#### **Agreed Management Actions**

Clear guidelines will be issued regarding the role of the Finance Officer within the Country Team. These guidelines will at least describe their role within the overall accountability framework and their reporting lines in case of escalation.

Based on producing a clear, differentiated set of roles for Finance Officers across the portfolio's a clear set of minimum checks and responsibilities will be detailed

**Owner:**

Head, Program Finance & Controlling Department

**Target Date:** 30 June 2015

03 Other financial statements controls

3.1	Design and effectiveness of internal controls over travel expenses
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After reviewing the design of the internal controls system for travel expenses (flights and travel claims) and performing a detailed check of travel expenses for the top ten travelers in the Global Fund, including the Executive Director, the OIG concludes that the **controls in place are relatively effective.**

However, key improvement points have been identified and should be addressed to strengthen the controls, the monitoring of travel expenses and to reduce the number of exceptions from the travel policy. Specifically:

**1. The system is unable to produce a consolidated view of travel costs per person**

As part of every travel expense, two cost categories occur: the cost of flight and other travel expenses recorded in the travel claim form. Flight expenses are managed and monitored by the administration unit and travel claims by the financial services unit. As the two categories are registered in separate modules of the Oracle/Global Fund Services system, there is no automated possibility to see combined total costs (flights and travel expenses) for each traveler.

**2. Exceptions from the travel policy in relation to travel expense claims are not automatically tracked by the system**

OIG testing of all travel claims revealed various exceptions from the travel policy. The current system is not able to provide an audit trail for these exceptions and therefore a reliable monitoring of policy exceptions cannot be performed.

**3. Travel policy is not always followed and should be updated**

Based on the sample, the OIG observed that the travel policy is not always followed. Several exceptions, approved by MEC members, were noted. Although of limited materiality, these exceptions refer to:

- situations where hotel costs were unnecessarily expensive, with employees not exercising the necessary care and value for money;
- instances where car rental and hotel costs were approved by the budget holder after the trip and not before as the policy requires.

**Agreed management actions**

The IT, Administration and Financial services departments are currently implementing a project, called Spend Vision, which will put in place an integrated travel and expenses service allowing users for benefit for various new functionalities and improved reporting. This project, set to be operational in Q1 2015, should provide a consolidated view. A new development for the automated tracking of the exceptions will be developed in Q2 2015.

**Owners:**  
Manager, IT Manager, Corporate Services  
Manager, Administration; Manager, Financial Services Team

**Target date:** 30 June 2015

Clear and effective guidelines for actions to be taken in case of noncompliance with travel and expense regulations will be established. The importance of complying with policy should be communicated to all budget holders and staff to encourage behavioral change.

The Secretariat will revisit its policy and the treatment of exceptions. In addition, a detailed analysis on per diem, hotels and flight travel will be performed to ensure that the conditions for staff travel remain appropriate and that employees are able to undertake their work effectively once at their destinations. A benchmark against similar organizations will be considered.

**Owner**

Manager, Administration

**Target date:** 31 March 2015

3.2	Entity level controls for the financial statements closing process
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In testing the design and effectiveness of entity level controls (ELCs) <sup>7</sup>, the OIG selected and analyzed key ELCs within the accounting department’s process of financial statement closure. The OIG assessed the Global Fund’s strategy and compliance with the COSO framework in relation to entity level controls at a high level.

**Controls were effective for the financial statement closing process. Progress on COSO compliance is limited.**

To date, a bottom-up approach has been adopted by the Risk Department. As part of this approach, 12 processes have been self-selected by every process owner. In implementing the COSO framework, there is concern over the selection criteria used since there is no active management of this selection by the Risk Department. The selection of key processes was not undertaken via a robust process and our judgment is that critical processes have been omitted. For example, no risks were chosen from the Grant Management division. Thus, the full range of potential risks affecting the organization has not been identified and considered.

The OIG found that the FISA/Accounting department (financial statement closing process) had an effective entity level controls structure in place which was also COSO compliant. According to Risk other key departmental processes at the time of this report were either yet to begin the control and risk identification process or were currently in progress. The Risk Department, under the guidance of the Chief Risk Officer, has a partial plan in place to address these departmental shortcomings, including actions to map out processes as well as completing a self-assessment in respect to COSO. The COSO implementation for other key processes of the Global Fund is set to be completed by the end of 2015.

**Agreed management actions**

The selection of the key processes to become COSO compliant for 2015 and onwards will be validated by the Risk Department to make sure that the key processes for the organization are prioritized.

The Risk Department will regularly inform the Management Executive Committee about progress on compliance with the COSO Framework and the estimated date of full compliance with the framework.

**Owner**

Head, Risk Management Department

**Target date:** 31 March 2015

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<sup>7</sup> Entity Level Controls (ELCs) are internal controls that help ensure that management directives pertaining to the entire entity are carried out.



## V. Table of Agreed Management Actions

No.	Category	Agreed Management Action	Owner/ Date
1	The design and effectiveness of controls over grant processes.	<p>With the implementation of Salesforce and its automated interface with the Global Fund System/Oracle, scheduled for Q4 2015, the online Annual Funding Decision notifications will be available for implementers. This development will also allow the Principal Recipients to confirm quickly the receipt of cash. Any delays will be monitored and addressed in a timely manner.</p> <p>Until the new project goes live, a manual compensating control over Annual Funding Decisions notifications and confirmation of cash transfers was put in place for the 2014 annual financial closure.</p>	<p><b>Owner:</b>            Manager,            Finance &amp;            Accounting Team  <b>Target date:</b>            31 December            2015</p>
2.1	The design and effectiveness of controls over grant expenditures.	<p>In addition to the abovementioned actions, new financial controls over grant expenditures will be designed to increase the level of Global Fund assurance over funds disbursed. Specifically these will include the following:</p> <ul style="list-style-type: none"> <li>• For key implementers the Global Fund will work towards the requirement for a quarterly expenditure report that will provide details on whether significant budget variances or ineligible expenditure have occurred. The requirement for a quarterly expenditure report will be phased into financial reporting requirements according to the materiality and risk of the grants, and the ability of the implementer to provide them. The provision of the expenditure report will be a financial control requirement but will not be a condition relating to cash transfer. Where significant budget variances and potential ineligible expenditures exist, the Finance Officer should require supporting documents and/or further assurance activity (Internal Audit/ External Audit/LFA) checks in case the reporting expenditures are not in line with the agreed budget or serious doubts over eligibility exist. Minimum checks to be performed at this stage should be detailed in clear guidelines; this will include the requirement for monitoring expenditure at a sub-recipient level.</li> <li>• Once the new consolidated annual audit reports are submitted, as detailed in the new audit guidelines, the Finance Officer</li> </ul>	<p><b>Owner:</b>            Head, Program            Finance &amp;            Controlling            Department  <b>Target date:</b>            30 June 2015</p>

		will check them against the Expenditure Report received during the year. Any material difference between the Principal Recipient reporting during the year and the Consolidated Annual Report will be investigated and additional checks by the Local Fund Agent will be requested.	
2.2	Financial Capacity of Principal Recipients as a basis for implementing the Global Fund programs.	<p>Principal Recipient financial capacity is an important element of the Combined Risk and Assurance framework developed by the Global Fund. The framework sets out the scope and modality of regular reviews of Principal Recipient capacity.</p> <p>As a complement to the current framework, the financial section of the QUART should be improved to be able to provide an update of the Principal Recipient financial capacity at the time of every major decision but no later than at the start of every implementation phase. The Financial Capacity of the Principal Recipient should be assessed by the Finance Officer using past experience, country visits and/or report from key assurance providers. Criteria used, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Principal Recipient's ability to supervise the financial activity of Sub-recipients;</li> <li>• Principal Recipient's accounting systems and staffing;</li> <li>• Existence and adequacy of internal financial controls;</li> <li>• Absorption rate.</li> </ul> <p>A rating of the PR's financial capacity will be given after every evaluation. The progress on improving the capacity will be assessed on a continuous basis and tailored measures including financial support will be recommended by the Finance Officer to the Country Team for the next period to further develop the Principal Recipient's financial capacity to implement grant programs.</p>	<p><b>Owner:</b> Head, Program Finance &amp; Controlling Department <b>Target Date:</b> 31 December 2015</p>
2.3	Cash balances in country and the risks associated.	<p>The Global Fund will develop a system of "disbursing as needed", tailored to every Principal Recipient and its ability to manage the financial risks associated with cash balances. At least two actions will be performed in this respect:</p> <ol style="list-style-type: none"> <li>4. Provide the countries that request the cash upfront for starting the procurement process with full assurance on credit risk. This can be achieved by issuing a letter of commitment by the Global Fund, a</li> </ol>	<p><b>Owner:</b> Head, Program Finance &amp; Controlling Department Deputy Chief Officer, Treasury Team <b>Target Date:</b> 31 December 2015</p>

		<p>standard Letter of Credit from an accepted bank or the set-up of an escrow account. Depending on each country's accepted rules and the materiality of the amounts, one of the three solutions can be chosen.</p> <p>5. The Secretariat will put in place a process to provide clarity on the timing and process for cash disbursements to countries. This will be undertaken with selected key PRs to integrate their disbursement processes with the Global Fund's to produce a more timely process.</p>	
2.4	The design of the escalation framework and the financial risk signatory approval matrix.	<p>In order to be sure that all the financial risks are addressed, escalated and approved by the right level of authority, a new Signature Authority Procedure (SAP) will be developed. The new approval matrix will contain a financial risk component, assessed by the Finance Officer at the time of every annual decision, in addition to the level of the amount.</p> <p>A clear set of escalation indicators will be defined as part of the new financial risk component as well as the weight of every indicator in the final rating. Escalation procedures and follow up instructions will be issued as well.</p>	<p><b>Owner:</b> Head, Program Finance &amp; Controlling Department <b>Target Date:</b> 30 June 2015</p>
2.5	The role of the Finance Officer within the Country Team.	<p>Clear guidelines will be issued regarding the role of the Finance Officer within the Country Team. These guidelines will at least describe their role within the overall accountability framework and their reporting lines in case of escalation.</p> <p>Based on producing a clear, differentiated set of roles for Finance Officers across the portfolio's a clear set of minimum checks and responsibilities will be detailed</p>	<p><b>Owner:</b> Head, Program Finance &amp; Controlling Department <b>Target Date:</b> 30 June 2015</p>
3.1	Design and effectiveness of internal controls over travel expenses	<p>The IT, Administration and Financial services departments are currently implementing a project, called Spend Vision, which will put in place an integrated travel and expenses service allowing users for benefit for various new functionalities and improved reporting. This project, set to be operational in Q1 2015, should provide a consolidated view. A new development for the automated tracking of the exceptions will be developed in Q2 2015.</p>	<p><b>Owners:</b> Manager, IT Manager, Corporate Services Manager, Administration; Manager, Financial Services Team <b>Target date:</b> 30 June 2015</p>

		<p>Clear and effective guidelines for actions to be taken in case of noncompliance with travel and expense regulations will be established. The importance of complying with policy should be communicated to all budget holders and staff to encourage behavioral change.</p> <p>The Secretariat will revisit its policy and the treatment of exceptions. In addition, a detailed analysis on per diem, hotels and flight travel will be performed to ensure that the conditions for staff travel remain appropriate and that employees are able to undertake their work effectively once at their destinations. A benchmark against similar organizations will be considered.</p>	<p><b>Owner</b>  Manager,  Administration  <b>Target date:</b>  31 March 2015</p>
3.2	Entity level controls for the financial statements closing process	<p>The selection of the key processes to become COSO compliant for 2015 and onwards will be validated by the Risk Department to make sure that the key processes for the organization are prioritized.</p> <p>The Risk Department will regularly inform the Management Executive Committee about progress on compliance with the COSO Framework and the estimated date of full compliance with the framework.</p>	<p><b>Owner</b>  Head, Risk  Management  Department  <b>Target date:</b>  31 March 2015</p>

# Annex A: General Audit Rating Classification

<b>Highly Effective</b>	<b>No significant issues noted.</b> Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.
<b>Generally Effective</b>	<b>Some significant issues noted but not material to the overall achievement of the strategic objective within the audited environment.</b> Generally, internal controls, governance and risk management processes were adequate, appropriate, and effective. However, there is room to improve.
<b>Full Plan to Become Effective</b>	<b>Multiple significant and/or (a) material issue(s) noted. However, a full SMART (<i>Specific, Measurable, Achievable, Realistic and Time-bound</i>) plan to address the issues was in place</b> at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should ensure adequate, appropriate, and effective internal controls, governance and risk management processes.
<b>Partial Plan to Become Effective</b>	<b>Multiple significant and/or (a) material issue(s) noted. However, a partial SMART plan to address the issues was in place</b> at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should improve internal controls, governance and risk management processes.
<b>Ineffective</b>	<b>Multiple significant and/or (a) material issue(s) noted.</b> Internal controls, governance and risk management processes were not adequate, appropriate, or effective. They do not provide assurance that objectives will be met. <b>No plan to address the issues was in place</b> at the time audit Terms of Reference were shared with the auditee.

## Annex B: Methodology

The Office of the Inspector General (OIG) performs its audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place across the Global Fund as well as of grant recipients, and is used to provide specific assessments of the different areas of the organization's' activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results ( immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.