Guidance Note

**Local Fund Agent Term of reference** **for the Review of independence and effectiveness of internal audit function**

**Background**

1. The Global Fund Assurance framework consider the implementer’s internal audit function as an assurance provider for programs. However, this will be considered only under certain circumstances confirmed through an assessment. Section 4 of the [Global Fund's Financial Management Handbook for Grant Implementer (Implementer’s handbook](https://www.theglobalfund.org/media/7034/financial_grantimplementersmanagement_handbook_en.pdf?u=636917015610000000)[[1]](#footnote-1), establishes the key principles and best practices for grant implementation including internal audit function.
2. The Implementer's Handbook describes the internal audit (IA) function as an independent, objective assurance and consulting activity designed to add value, improve an organization’s operations, assisting on accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes[[2]](#footnote-2).
3. The adequacy and efficiency of the Internal Audit function should be evaluated preferably during grant negotiations, or during the first year of the grant. It is expected that such assessment should be performed by the Country Teams in High Impact and Core portfolios at least once every five years. For Focused countries, the assessment should be done on a need basis.
4. Where deemed independent and effective, the Global Fund may rely on the implementer’s internal audit as one of the assurance providers for the grant.

**Objective of the assignment**

The review should be performed by the LFA at the request of the Global Fund Country Team.

1. The objective of the review is to assess whether the implementer’s internal audit function is optimal given the grant’s risks and to assess whether the Global Fund Country Team could place reliance on the implementer’s internal audit function.
2. It is expected that an LFA will provide recommendations on how to improve the effectiveness of the internal audit function.
3. The review should also consider how internal audit and external audit complement each other from a grant assurance perspective and provide recommendations where necessary.

**Scope of Work**

1. The review should include an interview with the internal auditor. Such interview should be facilitated by the Principal Recipient at requested by the Country Team.
2. The review could be a desk review with the use of the following documents (indicative list):

* [The Financial Management Handbook for Grant Implementer](https://www.theglobalfund.org/media/7034/financial_grantimplementersmanagement_handbook_en.pdf?u=636917015610000000)
* The Global Fund financial risk and assurance plans[[3]](#footnote-3)
* The grant’s Summary Budget and Performance Framework
* The grant’s implementation map
* The Key Risk Matrix
* The external audit terms of reference
* The Global Fund performance letters
* Prior external audit reports Prior external audit management letters
* Prior Internal Audit reports and related management monitoring reports
* Where applicable, the internal audit plan
* Where applicable, the PR risk matrix

1. The assessment of independence and effectiveness of the implementer’s Internal Audit Function should be performed using the questionnaire embedded here:



**Report and timelines**

1. The design and content of the report should be agreed between the Global Fund Country Team and the LFA during the planning of the engagement. The report should be completed within 10 working days after the completion of the field work unless otherwise agreed with the Global Fund Country Team. The indicative LOE for this assignment is from 5 to 10 days and should in any case be agreed with the Country Team.
2. LFA report should include recommendations to the Country Team using the below grading system and provide conclusion on whether LFA believes the internal audit function is effective. Recommendations should Specific, Measurable, Acceptable, Realistic and Time-bound.
3. The following system of grading is recommended:

* **Grade I findings are** those which are particularly critical and the involvement of management may be required for their resolution. These are high-level issues which impact seriously on the achievement of overall grant goals
* **Grade II findings** are those that may have significant impact on the control environment. Here control environment looks at risk factors derived from **management’s attitude to risk** as regards operational activities within the PR/Sub-recipient organization.
* **Grade III findings** are those which are less significant than Grade I and II but nevertheless

**ANNEX 1. ILLUSTRATIVE REVIEW REPORT**

**1. Background**

* Overall objectives of the review as per approved TOR
* List of the reviewed implementers, geographic regions covered and other relevant background information:

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| --- | --- | --- | --- |
| **Grant:** | *Standard name of the grant(s) concerned* | **Principal Recipient:** | *The name of the PR reviewed* |
| **Implementers:** | *The names of the implementers reviewed* | | |
| **Trigger(s):** | *Reason(s) for selecting this particular program, implementer, intervention or activity, as well as specific areas LFA focused on their review (if any)* | | |
| **Type of review:** | *Whether the review was done ex-ante (pre-implementation) or ex-post (during the implementation).* | **Locations visited:** | *Specific location(s) of the implementer that were visited during the assessment* |
| **Geographic area covered by the review:** | *Specific geographic area covered by the reviewed program, implementer, intervention or activity* | **Period covered by review:** | *Where relevant, specific time period that was under the LFA scrutiny* |
| **Assessed by:** | *Name of the LFA specialist(s) who undertook the assessment* | **Assessment date:** | *Date(s) on which the spot-check of the implementer took place* |

**2. Methodology/approach**

Considering the nature of this specific assignment, which is [*state goals, objectives and requirements of the specific assignment as stated in the TOR*], the LFA used the following methodology: [*describe specific aspects of the LFA approach/methodology not referred to in the TOR if any, e.g. basis for the selection of specific implementer’s site(s) to visit, sample size of expenditure subset(s), specific risks that the LFA paid additional attention to etc*.]

**3. Findings and recommendations**

Findings should be sufficiently elaborate and conclusive for the Global Fund to fully understand the root cause of the issue reported by the LFA and its implications on the implementation of the program (with regard to both, its financial and non-financial aspects). Recommendations should be sufficiently detailed, contextualized, specific, actionable and realistically achievable by the implementer.

Finding should be classified in accordance with the following system of grading:

* **Grade I** (high priority) findings are those which are particularly significant and the involvement of management may be required for their resolution; these are high level issues which impact seriously on the achievement of overall grant goals;
* **Grade II** (medium priority) – those that may have significant impact on the control environment, i.e. risk factors derived from management’s attitude to risk as regards operational activities within the implementer organization; and
* **Grade III** (low priority) – those that are less significant than Grade I and II but nevertheless merit attention and resolution.

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| **#** | **Findings** | **Implications** | **LFA Recommendations** | **Benefits** | **Management’s Comments (if any)** |
| HIGH PRIORITY (GRADE I) | | | | | |
| 1 | *The condition or issue presently resulting from non-compliance with the assessment criteria. Where possible, the reason(s) and/or the rationale for the identified non-compliance to the criteria or factors contributing to the finding should be also stated.* | *The effect of the finding on the implementation of the program from both, the financial and non-financial perspectives.* | *Practical and specific recommendations relevant to the finding; these should be aimed at eliminating or reducing to an acceptable level the stated implications of the finding to such an extent that there is no negative material impact on program implementation.* | *The advantages of implementing the stated recommendations from both, the financial and non-financial perspectives.* | *During an LFA de-brief following the review, implementers may provide some comments on LFA findings stating whether or not they agree or disagree, the reasons thereof or provide some background information allowing to better understand the issue. LFA should document such responses and, where relevant, report these to the Global Fund in this section to allow for better understanding of the context and nature of the issue.* |
| 2 |  |  |  |  |  |
| MEDIUM PRIORITY (GRADE II) | | | | | |
| 3 |  |  |  |  |  |
| 4 |  |  |  |  |  |
| LOW PRIORITY (GRADE III) | | | | | |
| 5 |  |  |  |  |  |
| 6 |  |  |  |  |  |

**5. Individuals Interviewed**

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| --- | --- | --- | --- | --- |
| **#** | **Name** | **Job Title** | **Location** | **Contact Information** |
| 1 |  |  |  |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |

**6. Documents Reviewed**

|  |  |  |
| --- | --- | --- |
| **#** | **Document Title(s)** | **Format/Location** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |

1. Issued in December 2017 [↑](#footnote-ref-1)
2. Reference: The Institute of Internal Auditors [↑](#footnote-ref-2)
3. Also known as Finance Risk Tracker [↑](#footnote-ref-3)