AUDIT REPORT

Audit of Global Fund Internal Financial Controls

GF-OIG-21-003
15 March 2021
Geneva, Switzerland

The Global Fund
Office of the Inspector General

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1. Executive Summary

1.1. Opinion

The Global Fund has continuously improved its internal financial control processes over time. With mature financial management processes, robust systems supporting business transactions, effective controls and management oversight, and adequate ownership over financial data, the finance function has become a strategic enabler for the organization.

Despite the progress made, improvement is needed in grant financial controls and in the management of financial risks; the OIG rates both as ***partially effective***. The effectiveness of grant financial controls is impacted by limited measures to ensure all relevant information is captured in the Annual Funding Decision, changes are documented, and escalations are applied. Similarly, inconsistent controls on Pooled Procurement Mechanism reconciliations limit the effectiveness of grant financial controls.

Limitations in the Grant Operating System, disbursement delays and missing controls could impact funding decisions, forecasting, and program implementation. Challenges around the Integrated Risk Management system are hindering the monitoring of risks and management actions. There is no alert mechanism to trigger review and approval when changes are made to key information, and no policy on the timeframe to communicate performance management letters to implementers.

Controls for disbursements or payments of strategic initiatives and operating expenses are ***effective***. Following a 'phishing' incident in April 2020, the Secretariat put interim measures in place to detect and prevent fraudulent payments; it has yet to formalize and update organizational policies and procedures relating to these measures, however.

1.2. Key Achievements and Good Practices

Well-developed policies, guidelines, processes, systems and tools

The Accelerated Integration Management Project (AIM) seeks to differentiate and optimize internal work processes. It harmonizes modules such as Annual Funding Decisions[1], disbursements, grant reporting, the Integrated Risk Module (a risk management tool) and external audit tracking into the Grant Operating System (GOS).[2] The review and approval process for these modules is now embedded into the system. Policies, processes and systems have been updated to provide further guidance to users, and training and tools provided to Finance Specialists to help them identify and mitigate financial risks during the COVID-19 pandemic.

Regular monitoring of performance against key performance indicators

Key performance indicators (KPIs) have been developed for financial processes related to grants and corporate processes. These include forecast accuracy, mitigation actions in the Integrated Risk Management (IRM) system completed within the timeframe, financial capacity building, and performance of assurance providers. The KPIs are reported on a timely basis, regularly monitored, and discussed during team and management meetings.

[1] Annual Funding Decisions determine when funds will be disbursed to Principal Recipients
[2] Refer to Section 2 for detailed information on the Annual Funding Decisions and Integrated Risk Module

1.3. Key Issues and Risks

Improvements are needed in Annual Funding Decision, disbursement and forecasting processes

Annual Funding Decision: Insufficient documentation and activation of exception levels means that issues which should trigger exceptional approvals are not being escalated. As a result, 75% of AFDs/disbursements to the eight countries sampled contained exceptions which were approved without the relevant information.

Disbursements are being made at, or near, the end of grant execution periods due to disbursement control framework requirements and implementation challenges. This could contribute to planned grant activities not being implemented in the agreed period.

Forecasting: Corporate forecast data stored in Hyperion are not integrated and synchronized with GOS, meaning differences between the corporate forecast and actual AFD amounts have to be calculated manually. The audit also noted non-alignment of the underlying processes resulting in US$127 million differences between disbursement forecasts and funds ring-fenced for the Pooled Procurement Mechanism. These are due to different, unsynchronized systems being used to monitor forecasts and committed funds, and to a lack of coordination among Secretariat teams in obtaining up-to-date information. Although the variance is considered in the corporate level portfolio optimisation as part of financial performance, proactive identification of the variance between Supply Operations and Finance departments could trigger timely in-country optimization and reprogramming during grant implementation to avoid high variance at the end of the grant cycle.

Separately, delays averaging 221 days in final invoice reconciliation for PPM procurements resulted in possible unutilized funds of US$130 million not being reprogrammed earlier for other activities.

Processes to identify, mitigate and track key actions need to improve

The audit noted gaps in risk management processes, including communication of risks and mitigation actions, as well as grant reporting. Inadequate prioritization of risk and mitigation actions, and lack of assurance arrangements over certain key mitigating actions were noted, as were delays in implementing mitigation actions. IRM system (GOS) limitations are contributing to the gaps in effective monitoring of risks and management actions; no notification or workflow approval alerts exist in IRM to trigger alerts when Country Teams make changes to key information.

Delays in the communication of performance/management letters[3] to Principal Recipients were also noted. The lack of a policy on the timeframe to communicate performance management letters to implementers is impacting the timely resolution of issues.

Procedures and guidelines need updating to ensure consistent implementation of financial controls

Financial controls exist to prevent and detect fraud risk with respect to payments. Following a ‘phishing’ e-mail fraud incident which was communicated to the Audit & Finance Committee on 3rd July 2020, the Secretariat put in place interim measures to detect and prevent fraudulent payments. The audit did not identify any additional losses from the samples reviewed. While these interim controls were implemented effectively, organizational policies and procedures, such as related workflows, have not yet been updated to take account of them. This audit noted non-compliance in the approval process for bank account modifications during the invoicing stage; a mitigating control was however in place. The Secretariat has contracted a consultancy firm to assist in updating the financial procedure on cash management and financial data with the interim measures.

[3] Performance/management letters are used to communicate grant issues to Principal Recipients

1.4. Objectives, Ratings and Scope

The audit's overall objective was to provide reasonable assurance to the Global Fund Board on the adequacy and effectiveness of internal financial controls at the Secretariat.

Specifically, the OIG assessed:

Objective	Rating	Scope
Adequacy and effectiveness of the Global Fund's internal financial controls for grants, including: a. Annual Funding Decision, disbursements and forecasting b. Grant Reporting and Grant Assurance c. Relevant financial controls in the Pooled Procurement Mechanism	**Partially effective**	**Audit period:** July 2018 to June 2020 **Scope exclusion:** The audit did not cover financial related controls over recoveries and grant closure, which have been covered in other OIG audits.
Adequacy and effectiveness of controls for disbursements or payments of strategic initiatives and operating expenses	**Effective**	
Adequacy and effectiveness of the measures in place to oversee and manage financial risks during grant implementation	**Partially effective**	

2. Background and Context

2.1 The Annual Funding Decision, Disbursements and Forecasting

The Secretariat monitors grant performance and budget execution through the Annual Funding Decision (AFD), which determines when funds will be disbursed to Principal Recipients. A schedule is set up, on a staggered basis and according to the grant agreement, to determine when funds are released. In many cases, the Principal Recipient also disburses funds to smaller organizations who serve as Sub-recipients and Sub-sub-recipients. All financial commitments are processed through the AFD, except for health product procurements through the Pooled Procurement Mechanism[4].

An annual decision-making form (ADMF) specifies the amount to be disbursed over a specified 12-month period (the "execution period"); this may include a buffer period of up to six months.[5] Each grant's progress is reviewed in terms of programmatic achievements, financial and management aspects, and an overall grant rating is assigned. Before the ADMF is submitted for approval[6], the Risk Department reviews it to ensure that risks have been identified and appropriately prioritized, mitigation measures are adequate, and appropriate assurance mechanisms have been identified. Country Teams, however, remain the overall risk owners and responsible managers for all grant risks.

The Secretariat forecasts grant disbursements, to monitor the organization's corporate asset and liabilities over the implementation period, three times a year, with a mid-term plan updated twice a year. There are procedures and framework to guide financial forecasts and budgets, and controls to ensure forecasts are accurate and adjustments are approved at the right level. Forecast information is reported on a regular basis to the Management Executive Committee (MEC) and Audit & Finance Committee (AFC) for key decision making.

2.2. Financial Risk Management and Integrated Risk Management

A preventive and focused risk management approach is critical to the Global Fund's mission of saving lives. The Secretariat's risk management process, illustrated in *Figure 1* on the following page, has built-in feedback capabilities to allow for timely adjustment to risk levels and their corresponding mitigating actions.

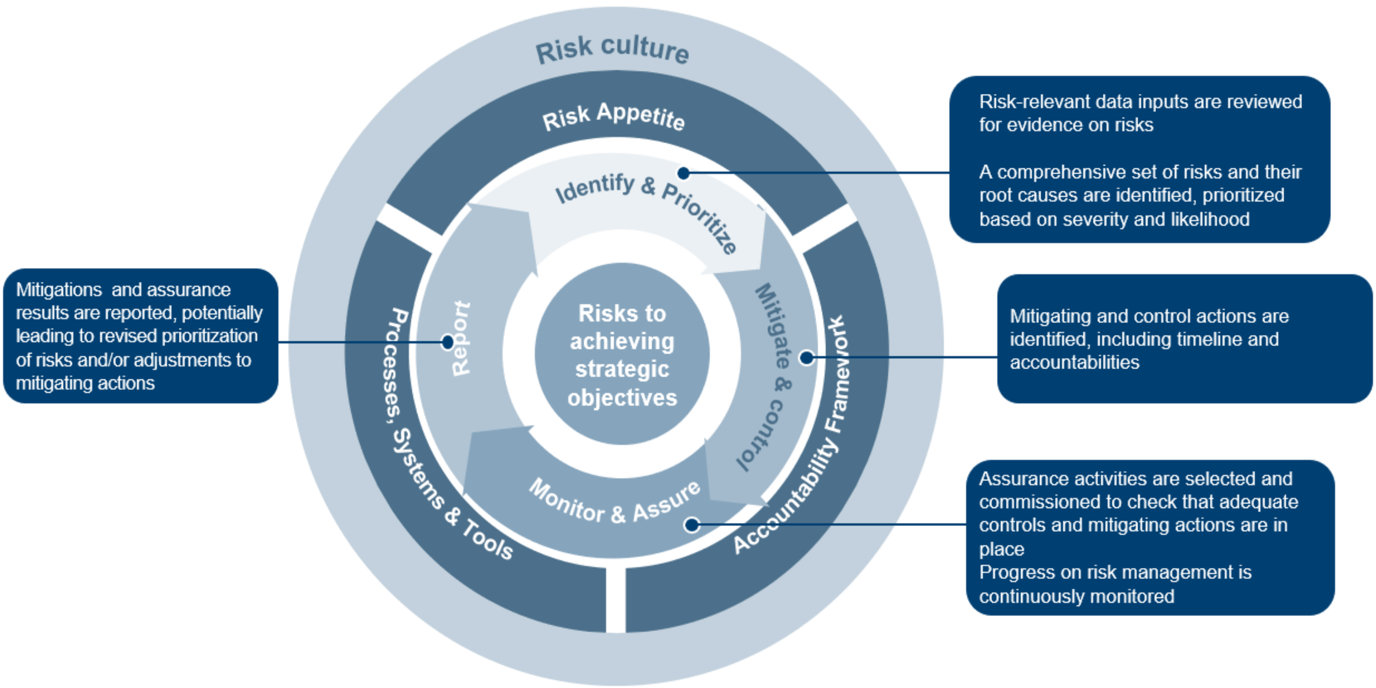
The Integrated Risk Management (IRM) module, an online platform within the Grant Operating System, is used by Country Teams to manage, prioritize and monitor grant-specific risks, as well as corresponding controls and mitigating actions, throughout the grant lifecycle. The IRM groups risks into four categories: Programmatic and Monitoring & Evaluation; Financial and Fiduciary; Health Product Management and Supply Chain; and Governance, Oversight and Management. This audit focused on the six Financial and Fiduciary risks:

Flow of funds and arrangements	Internal controls	Financial fraud, corruption, and theft
Accounting and financial reporting	Value for money	Auditing arrangements

These six risks are assessed and rated at the grant level. Grant risk ratings are then aggregated using the risk rating methodology to generate an organization risk rating, which is tracked in the Organizational Risk Register. Risk ratings captured in the IRM also feed into decision making documents, such as Country Risks Management Memoranda and Country Portfolio Reviews.

[4] The Pooled Procurement Mechanism is a key initiative the Global Fund use to aggregate order volumes on behalf of participating grant implementers to negotiate prices and delivery conditions with manufacturers
[5] The Global Fund Operational Policy Manual, Oct 2020 (Issue 2.27)
[6] First disbursement made within 30 days of the Purchase Order approval does not require Risk department's approval

Figure 1: Risk and Assurance Planning Process



Source: Risk and Assurance Handbook (2018)

On-going Risk Assessment for High Impact and Core Portfolios

Grant risks in High Impact and Core portfolios are updated on a regular basis when either: mitigating actions or assurance activities are completed or revised; a new risk or root cause is identified; risk levels or implementation arrangements change; or Country Teams recognize an important change in the grant risk profile. Country Teams update the risk assessment of grants to reflect an up-to-date risk profile as progress reports, audit reports, Health Facility Assessments and mission reports, among others, become available. From time to time, risk management information (including ratings, root causes, mitigating actions and assurance activities) is subject to review and approval through certain grant management milestones, such as the Country Portfolio Review, Grant Approval Committee review, or Annual Funding Decision review.

2.3. Adaptations to internal financial controls during the COVID-19 pandemic

In response to COVID-19, the Secretariat adopted a range of contingency measures and policy exceptions, including financial controls to ensure continuity and mitigate disruptions to operations. These include:

- **Grant flexibilities**, e.g. waiving escalation approval for exceptions in the AFD; extending the AFD disbursement period by three months; allowing an additional 30 days for Progress Update and Disbursement Request submission/validations; allowing more time for external audit report submissions; waiving Local Fund Agent (LFA) mid-year performance assessments.
- **Risk contingency planning**, e.g. prioritizing assurance activities, allowing assurance providers to conduct remote reviews rather than performing reviews at implementer offices.
- **Institutional business continuity**, e.g. designation of essential staff, delegation of authority on key workflows facing bottlenecks due to staff unavailability.

The Secretariat developed and rolled out a country monitoring survey to ensure timely assessment of in-country disruption levels resulting from the pandemic. The Finance department conducted a survey to obtain information from Finance Specialists and Fiscal Agents to understand COVID-19 disruption to the financial objectives.

3. Findings

3.1 Processes and systems are available to support Annual Funding Decisions, disbursement, and forecasting, with some improvements needed

The Secretariat has mature financial management processes and robust systems to support business transactions and data. Limitations in the Grant Operating System, disbursement delays and missing information are however hindering funding decisions and program implementation.

Annual Funding Decisions and Disbursements

The Annual Funding Decision (AFD) process, which has been integrated into the Grant Operating System (GOS), includes built-in controls such as automated approval process and standard templates. AFD and disbursement processes could however be further strengthened to ensure accurate and complete information is available to support decision making, as follows:[7]

Improvement needed in the Annual Funding Decision and disbursement processes

The AFD Operational Policy Note highlights exceptions to the standard[8] AFD and disbursements which require additional approval. However, there are no automated controls to monitor whether exceptions, including deviations of +/-10% of agreed forecasted amounts, are identified and escalated by Country Teams to Regional Finance Managers. As a result, 75% of AFDs/disbursements to the eight countries sampled contained exceptions which were not appropriately escalated for approval. Explanations for not escalating for approval are not documented in funding decision forms. Insufficient documentation in the AFDs and the lack of exception alerts are responsible for issues not being escalated. This results in funding decisions not being sufficiently documented and justified, with the risk that decisions are made without the necessary information. A similar issue was noted in the OIG Grant Monitoring Audit in 2017[9]; the Secretariat subsequently automated the escalation of certain exceptions, however some key exceptions, such as comparisons between corporate forecasts and AFD amounts, are still not automated.

The segregation of Hyperion from GOS is another contributing factor. For example, deviations of +/-10% that require exceptional approvals are not identified in the review process, as corporate forecast data stored in Hyperion are not integrated/synchronized with GOS, resulting in manual calculation of the differences between corporate forecasts and actual disbursements. There are no controls to track and explain deviations/differences between AFD and actual disbursements, or cancellations of planned disbursements. Of the countries sampled, 45% of AFDs for non-PPM activities had variances without appropriate justifications. For example, in 2019 the average difference between the actual disbursement and the AFD amount for a high-impact country was 54% (US$12.8 million). Requirements regarding the escalation of exceptions in the AFD policy are unclear, and there is no regular AFD compliance review.[10]

Annual Funding Decisions are being cleared by the Risk Department without justification

During AFD review, the Risk Department provides oversight over grants to ensure key risks are adequately identified, prioritized and mitigated, and appropriate assurance mechanisms are in place. Issues identified are escalated in accordance with the process outlined in the Guidance on Country Team Approach. The OIG noted that 38% of AFDs sampled were approved by the Risk department without documented justification, despite delayed or unmet key mitigation actions not reported or flagged in the AFD by Country Teams.

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[7] The audit focused on financial related controls of the AFD and did not look at programmatic performance incl. grant rating

[8] Standard Annual Funding Decisions (AFD) are made annually after the first AFD. These are typically for years 2 and 3 of the grant implementation period and are established based on demonstrated performance and financial needs as reported through the Progress Update/Disbursement Request

[9] Audit of Monitoring Processes for Grant Implementation at the Global Fund, 2017 (GF-OIG-17-022)

[10] Grant Finance Centre of Expertise planned to conduct a review in 2020. This was however cancelled to avoid duplication as it coincided with the OIG audit. The Secretariat is yet to decide whether the compliance review will be conducted on regular or ad-hoc basis

Implementation challenges impacting timely disbursements

Disbursements are performed quarterly, and at other times during the execution period when a Principal Recipient (PR) requires funds. A control framework requires funds to be disbursed only when needed. The audit noted that funds disbursed were not being fully utilized by PRs, impacting or delaying further disbursements. All 43 sampled disbursements reviewed were made within or near the end of the grant execution period; 21% were disbursed in the final month of the execution period or later (see *Table 1* below). The disbursement control framework and delays in receiving funding requests from PRs, in PRs providing further clarifications on their disbursement requests, and in implementation of activities by PRs, contribute to delays in disbursements.

Table 1: Disbursement delays, examples

Grant	Previous period closing cash balance (US$)	Funds requested by PR (excluding closing cash balance) US$	Disbursement period	Disbursement date	Delay after execution period start date (days)
Core Country A	2,217,088	5,988,757	Jan – March 2019	26 March 2019	84 days
High Impact Country A	1,870,876	4,704,353	Oct – Dec 2019	12 Dec 2019	72 days
Core Country B	1,312,343	6,712,205	Jan - June 2020	23 April 2020	113 days
High Impact Country B	2,274,431	5,215,860	April - Sept 2018	9 Aug 2018	130 days

Mechanisms are being introduced to ensure the rapid release of quarterly disbursements, such as pulse check reporting with summary snapshots of forecasts and cash balances. This will enable quarterly releases without the need for detailed forecasts or extended due diligence, and is intended to encourage Country Teams to rely more on AFDs approved with quarterly releases, based on a summary snapshot from PRs.

Forecasting

The Global Fund's forecasting process has matured over the years, and is monitored on a regular basis at different levels of the organization. Following the 2017 OIG Audit on Treasury Management, processes were put in place to improve monitoring of grant forecast accuracy and trends. A corporate KPI on forecast accuracy measures deviations between forecasted and actual disbursement amounts, which is key in Asset and Liability Management (ALM) and the organization's financial performance. Forecast accuracy is also included in the performance evaluation of Finance Specialists and other Country Team members. While the process is adequately designed to incentivize forecast accuracy, its operationalization could be improved.

Secretariat forecasts of implementers' needs differ significantly from what they actually disburse. While corporate-level forecast accuracy as of December 2019 was -8%, within the established KPI, it varied significantly at grant and PPM level. Two high-impact regions which contribute more than 50% of the PPM portfolio had forecast variability of over 24% (against corporate KPI of +/-10%). The lack of a standardized approach means forecasts are performed inconsistently between PPM activities (within the Global Fund control) and non-PPM activities (at the country level). Forecast accuracy varies, due to the nature of the Global Fund's business and implementers' capacity to provide accurate information, necessitating in-depth understanding from portfolio finance specialists.

Misalignment between data used by the Pooled Procurement Mechanism (PPM), Wambo and disbursement processes

Grant funds are earmarked for PPM orders in the Global Fund Financial System (GFS) by setting a PPM ceiling amount, based on the approved PPM-related procurement budget for the grant implementation period. This is adjusted over time as each PPM order request is received. There was a variance of US$127 million between the second[11][12]annual disbursement forecast in 2020 and the ring-fenced PPM-committed funds in GFS. Differences were also noted between PPM forecasts and actual orders placed; one grant had a difference of US$12 million

[11] The forecasting process is normally done three times per year (i.e. F1, F2 and F3)

[12] The variance includes C19RM funding which was included in the forecast but not in the ceiling, as the grant revision process on this additional funding had not been completed in the Grant Operating System.

four months before grant-end. Although the variance is considered in corporate-level portfolio optimization as part of financial performance, proactive identification of the variance between Supply Operations and Finance departments could trigger timely in-country optimization and reprogramming during grant implementation, to avoid a high variance at the end of the grant cycle.

Contributing factors include the lack of an automatic link between health product lists and the PPM/Wambo earmarked amount, and the use of different, unsynchronized systems to monitor forecasts and committed funds. Country Teams and Sourcing staff do not coordinate sufficiently to obtain up-to-date order information[13] on PPM/Wambo health products, meaning unutilized funds are not identified in a timely manner for reprogramming. As of April 2020, the Secretariat has been performing a triangulation of cross-system information between actual orders received through the Wambo/PPM platform and forecasting data from the Hyperion and GFS systems. In addition, the Secretariat is working on a project to improve health product demand and financial visibility. This is expected to improve forecast accuracy for health product investments.

For PPM procurements, there are delays in reconciling final invoices. Purchase orders (POs) can only be closed after products have been received by Principal Recipients and all Procurement Service Agent payments have been made. Delays averaged 221 days (against a target of 60 days) in reconciling POs with their respective final invoices from 2018 – 2020.[14] As a result, 7% of remaining committed funds could not be reprogrammed for other activities. The possible unutilized funds from closing POs for reprogrammable grants ending in December 2020 represent US$130 million.[15]

Agreed Management Action 1:
The Secretariat will implement a business process improvement based on gaps identified to ensure increase automated controls on exception management process, integration and availability of consistent data for corporate forecasting, procurement, Annual Funding Decision and GOS disbursement.
OWNER: Chief Finance Officer
DUE DATE: 31 March 2022

Agreed Management Action 2:
The Secretariat will strengthen the processes to improve management of health product demand and budget/forecast to optimize the use of funds throughout the grant cycle by: • Defining the processes, including the roles and responsibilities of Grant Management, Finance and Supply Operations departments, in the management of health product budget and forecast to identify unutilized funds for reprogramming. • Strengthening oversight over PPM process by establishing KPI on PPM forecast accuracy and purchase order/invoice reconciliation.
OWNER: Head, Supply Operations
DUE DATE: 30 September 2021

[13] This information includes remaining quantities to be procured from the original health product demands (LoHPs) and linkage with PPM forecast as well as actual orders placed reconciled against HPMTs/LoHPs to revise budgets and reprogram funds
[14] The average time to close purchase orders decreased from 260 days in 2018 to 181 days in 2020
[15] Total POs for NFM 2 grants ending in December 2020 is USD 1.87 billion

3.2 Processes to identify, mitigate and track key actions could be optimized in light of evolving financial risks

Various processes and tools exist for financial risk monitoring, including some introduced as a result of COVID-19. Gaps were noted in the implementation of these controls, impacting the monitoring and mitigation of financial-related risks.

Since the OIG Risk Management Audit in 2017, the Secretariat has improved the organization's risk management processes, including financial risks. This includes deploying an Integrated Risk Management (IRM) module in the Grant Operating System (GOS) to monitor risks, mitigation actions and assurance mechanisms for each grant. Financial risks are managed, and implementation of key mitigation actions (KMAs) is tracked as part of the corporate key performance indicator (KPI). There is an opportunity to further strengthen management and communication of risks and mitigation actions, as well as grant reporting, as follows:

Management of risks and mitigation actions needs to improve

Key mitigation actions are not implemented or followed up effectively due to: missing root causes and lack of prioritization when KMAs are set up; mitigation actions being too generic; system limitations in terms of alerts and escalations; or lack of regular monitoring. In consequence, key issues remain open at portfolio levels.

For example, in 75% of sampled countries, critical issues flagged by assurance providers (e.g. external auditors, internal auditors and Local Fund Agents) were not included in the IRM, even when they had been repeatedly flagged. In the eight countries sampled, 11% of risks had no corresponding mitigation actions, 10% of key mitigation actions had no associated assurance response, and some mitigation actions did not meet "SMART" criteria.[16] There were also delays in implementing mitigation actions: 50% (against a target of 80%) of mitigation actions were completed in Q3 2020; this was however an increase from Q4 2019, when only 20% were completed.

The root causes for these issues include:

- *Improvement needed in prioritizing risks and mitigation actions:* all mitigation actions in the IRM are tracked and monitored for completion. The Secretariat has conducted an exercise to prioritize key actions in the IRM, and key risks and mitigation measures are reviewed as part of the annual Country Portfolio Review or Country Risk Management Memorandum. Despite this, prioritization of risks and mitigations actions needs to be enhanced. For example, the Nigeria portfolio had 189 mitigation actions as of September 2020; it is challenging to effectively monitor/implement these if critical actions are not prioritized.
- *Inadequate classification of findings by assurance providers:* Assurance providers, including Local Fund Agents and internal auditors, do not adequately classify key mitigating actions. From 2020, the Secretariat has been reporting only key and critical mitigation actions, in order to prioritize their monitoring.
- *IRM system limitations* hinder effective monitoring of risks and management actions. There are no notifications or alerts to indicate when Country Teams input changes to key information, including key risks and due dates of mitigation actions. As a result, changes to risk and management action due dates are not effectively monitored for review and approval. In addition, process workflows and user interface also need to be improved. For example, there is no system workflow for Regional Finance Managers to review assurance planning, although their validation of financial assurance planning is tracked as part of the corporate KPI.[17]
- *IRM updates and monitoring:* Country Teams are expected to regularly review and update IRMs during the grant lifecycle. However, IRM reviews are mainly conducted once per year by Country Teams, before Portfolio Performance Committee meetings or as part of the AFD process. The OIG noted instances where delays in KMA

[16] SMART criteria: i) Specific - what must be implemented is clearly understood; ii) Measurable - status can be tracked and measured; iii) Attainable - within the span of control of the actor to which it is assigned to; iv) Relevant - to the identified risk; and v) Time-bound - to ensure exposure to the risk is within agreed limits.

[17] The KPI reports only the number of IRM available in the system and does not consider whether it has been approved by the Regional Finance Manager

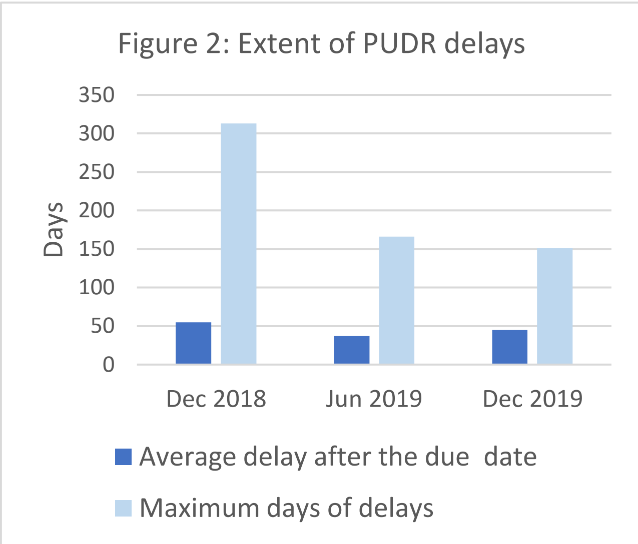
implementation were not explained in the IRM. Starting in 2020, reviews are occurring twice per year in one region (High Impact Africa 2).

- *Not mandating sub-milestones for mitigation actions* with completion dates of more than six months, to keep them on track to be completed on time, and to an acceptable level.

The Secretariat is currently undertaking several initiatives, including a project to enforce the accountabilities of Second Line functions over risk management and enhance the IRM tool.

Delays in grant reporting and in communicating performance/management letters

There are long delays in the submission and validation of reports, such as Progress Update and Disbursement Requests (PUDR) and external audits by Principal Recipients (PRs) and the Secretariat respectively. In December 2018 and December 2019, only 9% and 4% of PUDRs were validated on time, respectively[18] (see *Figure 2*). Delays were due to various factors, including the capacity of PRs to produce good-quality reports, GOS issues and challenges (e.g. incorrect data uploaded in the system and system bugs) and delays in circulating the PUDR template to PRs.



Similarly, there are delays in communicating performance/management letters to PRs.[19] In our sample, 34% of letters were sent to PRs more than six months after the reporting end date, while 25% of PUDRs were not communicated to PRs through performance letters.

On average, it took 91 days for Country Teams to provide feedback on external audit reports to PRs. This is largely due to the lack of a policy on the expected timeframes for communicating performance/management letters to implementers.

These gaps in managing and mitigating risk could impact the timely feedback and resolution of issues, such as those noted repeatedly in OIG audits in countries including the Democratic Republic of Congo (DRC), Pakistan, Malawi, Kenya, Togo, Papua New Guinea and Indonesia. They could also result in assets not being properly traced, as highlighted in OIG audits in DRC, Sudan and Liberia.

Agreed Management Action 3:
The Secretariat will strengthen implementation and second line oversight as well as the Integrated Risk Management (IRM) tool by: • Issuing guidance to Country Teams and Second Line functions to ensure clearer accountability, and better consistency in prioritization, monitoring and oversight of risk mitigation actions. • Performing IRM diagnosis and use the conclusions to improve application controls for reporting, tracking and monitoring portfolio risk information by Country Teams, Assurance Providers and the Risk Department.
OWNER: Chief Risk Officer
DUE DATE: 31 December 2021

[18] The deadline for PU and PUDR validation is 75 days and 90 days after the reporting end date. Due to Covid-19 challenges, with the implementation of Business Continuation Plan, the PUDR submission for December 2019 could be extended for another three months.

[19] Delay of communicating Performance Letter to PRs was also identified during the OIG audit of the Global Fund Recoveries Management Processes (GF-OIG-20-006 dated 17 March 2020).

3.3. For payment controls, adequate measures exist but updated procedures and additional guidelines are needed

While financial controls are available to prevent and detect fraud risk in payments, additional guidelines are needed to ensure their consistent implementation. Policies and procedures are yet to be updated with new mitigating controls put in place following an e-mail fraud.

In April 2020, the Global Fund experienced a loss of US$110,000 due to a 'phishing' incident, a form of e-mail fraud[20]. The Secretariat quickly put in place a number of measures to prevent and detect fraud risk in the payments process. This included telephoning suppliers to confirm the authenticity of bank account modifications, and establishing a central log of returned/rejected payments (monitored weekly by Treasury and Financial Services, with exception reporting to the Chief Finance Officer). The Secretariat is developing additional measures of automated e-signing by suppliers to confirm bank account modification requests, using the Supplier Portal, which will mitigate potential quality issues during supplier validation. Formal due diligence and evidence of LFA verification before approving modifications have also been put in place.

Organizational policies and procedures remain, however, to be updated to take account of the interim controls/measures (and related workflows) put in place following the phishing incident. The audit noted varying approaches in implementing the interim measures: for example, different approaches are taken by LFAs to validate bank account modifications; some check independently with the bank, while others perform only desk review of bank letters. Setting up clear baselines/guidelines would ensure uniform quality standards by LFAs in validation control. The audit also noted non-compliance with different layers of the approval process for bank account modifications during invoicing; a mitigating control is however in place.

The Secretariat identified that not including fraud risk among key management risks was a key contributor to the phishing loss. The OIG's review of the incident noted a lack of fraud risk awareness and sensitization at all levels, and at all stages in the invoicing and payment process. The Secretariat has subsequently included fraud risk monitoring in payment procedures, and conducted fraud and cyber security risk training for the finance department and business focal persons, as well as general phishing awareness training for Global Fund staff. The Secretariat has contracted a consultancy firm to support the updating of financial procedures on cash management and financial data incorporating the new interim measures.

Agreed Management Action 4:
The Secretariat will establish exception management and reporting requirements for the newly established controls/procedures introduced during the Covid-19 pandemic to demonstrate proactive monitoring and oversight of the new measures.
OWNER: Chief Financial Officer
DUE DATE: 30 September 2021

20 The incident occurred when a recipient's email was hacked, permitting fraud on a payment of strategic initiative funds.

Annex A: Audit rating classification and methodology

Effective	**No issues or few minor issues noted**. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.
Partially Effective	**Moderate issues noted**. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.
Needs significant improvement	**One or few significant issues noted**. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.
Ineffective	**Multiple significant and/or (a) material issue(s) noted.** Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised**.**

OIG audits are in accordance with the Global Institute of Internal Auditors' definition of internal auditing, international standards for the professional practice of internal auditing 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 documents help safeguard the independence of the OIG's auditors and the integrity of its work.

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 is used to provide specific assessments of these different areas. 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.