



Audit Report

Audit of Global Fund Grants to the Republic of Ecuador

GF-OIG-14-024
23 December 2014
Geneva, Switzerland

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I. Background

The Republic of Ecuador is situated in the Andean region of Latin America. It has 15.7 million inhabitants and a GNI per capita of USD 5,510.¹ The GNI has been growing, in large part due to the increase in oil prices, which account for over half of Ecuador's exports. This means the country is classified as upper middle income, which has implications for Global Fund support.

Ecuador has a concentrated HIV/AIDS epidemic, with a prevalence of 0.4% in the general population but much higher rates in key populations. HIV prevalence is 31.9% among transsexual, transvestite and transgender Ecuadoreans, 11% for men who have sex with men, 3.2% for female sex workers and 1.4% among prison inmates.²

Ecuador has the fourth highest number of tuberculosis cases in the Americas, with a prevalence rate of 82 per 100,000, an incidence rate of 56 and a mortality rate of 2.³ Ecuador is in the pre-elimination stage of malaria and aims, through the Global Fund grants, to strengthen and consolidate its efforts to reduce morbidity and mortality of malaria to low levels such that malaria does not represent a health problem in Ecuador.

Ecuador operates dual track financing (to both government and civil society recipients) for each of the three diseases. The Ministry of Health is responsible for managing three grants. The civil society Principal Recipients are Corporación Kimirina for HIV and Malaria and CARE for tuberculosis (see Annex D for details of active grant portfolios.)

At the time of the audit, Ecuador had six active grants amounting to USD 27.4 million, of which USD 26.3 million had been disbursed. All current grants to Ecuador are in Phase 2. The two malaria grants will come to an end in January 2015, with the TB and HIV grants ending in December 2015. Ecuador remains eligible for future funding for HIV only.⁴ It received an allocation of USD 16.3 million, of which USD 4.5 million are additional funds.

Ecuador has undergone significant reform in recent years, particularly in the health sector, with progressively increasing budgetary resources available to the Ministry of Health. Under the new Constitution, health is a right guaranteed by the State. The National Disease Programs, which had been 'vertical' programs, became 'horizontal', with an emphasis on primary health care. Nonetheless, the high staff turnover that accompanied reform, coupled with the centralization of key systems such as surveillance, control, prevention, and procurement, affected the implementation of activities for donor-funded programs such as the Global Fund.

The grants to the Ministry of Health had a history of poor performance during Phase 1, including inadequate management oversight, delays in procurement and low financial and programmatic performance, with Phase 1 budget execution for the HIV grant at only 2.5%.⁵ In consequence, the HIV Phase 2 grant was redesigned and funds were partly reallocated from the Ministry of Health to Corporación Kimirina. The Country Team worked with partners, including UNAIDS, the WHO and the International HIV/AIDS Alliance, to address the risks identified in Phase 1 prior to approving further funding.

Ecuador's grant renewal request was first considered for Phase 2 renewal in December 2012. It was resubmitted in March 2013 and finally approved upon the third submission in June 2013 by the

¹ World Bank, 2013

² UNAIDS, WHO and Ministry of Health reports, 2012 and 2013

³ WHO Tuberculosis Report, 2013

⁴ Given the Global Fund's revised Eligibility and Counterpart Financing Policy.

⁵ This analysis was done by the Secretariat at the end of Phase 1 (from January 2011 to December 2012).

Grant Approval Committee (and by the Global Fund Board in August 2013). Phase 2 grants were signed in September and October 2013. The performance targets for the grants where, however, held constant and performance frameworks backdated to cover the original Phase 2 period, i.e. January 2013 to December 2015.

II. Scope and Rating

Scope

The OIG assessed the level of assurance the Global Fund has over its investments in Ecuador. This is to ensure that grants achieve their objectives in line with the Global Fund strategy to achieve impact against the three diseases. Specifically the OIG assessed:

- i. financial and fiduciary controls in place;
- ii. the adequacy and effectiveness of assurance related to impact in Ecuador;
- iii. a review of procurement and supply chain management related to the HIV/AIDS grant at Corporación Kimirina; and
- iv. the programmatic performance against targets including whether program activities were likely to be sustainable after Global Fund funding ends in 2015.

The Ecuador grants were chosen for an audit in accordance with the OIG’s risk-based audit plan for 2014, approved by the Audit and Ethics Committee. The field work for this audit was carried out in June 2014. The audit work focused mainly on the two active HIV grants, since only these will remain eligible beyond 2015, and included work in the offices of the Technical Management Unit of the Ministry of Health (“UTG”), the National HIV Program and the Ecuadorian NGO Corporación Kimirina (“Kimirina”), with visits to health facilities of the Ministry of Health and to Sub-recipients (SRs) implementing HIV grant activities (see tables below).

Table 1 - Number and location of health facilities and SRs visited

City/Province	Sites visited	Number visited
Quito	Health Facilities	8
	SRs: DNI, Equidad 1, FNJ, RedTrabSex	4
Guayaquil	Health Facilities	8
	SRs: Silueta X, Equidad 2	2
El Oro	Health Facilities	3
	SR: Fundación Quimera	1
Total number of sites visited		26

Table 2 – Percentage of health facilities visited by location

City/Province	Number of health facilities visited	Number of health facilities SRs work with in each location	% Visited
Quito	8	11	73%
Guayaquil	8	10	80%
El Oro	3	5	60%

Rating⁶

Operational Risk	Rating	Reference to findings
Fiduciary and Financial	Generally Effective	n/a no significant findings
Governance, Oversight and Management	Full plan to become effective	4.1
Health Services and Products	Ineffective	4.2
Programmatic and Performance	Ineffective	4.3

⁶ See Annex A for the definition of OIG ratings.

III. Executive Summary

Context

Recently classified as an upper middle income country, Ecuador remains eligible only for limited amounts of Global Fund support going forward. That makes it important that the funding provided to the country is used effectively and efficiently. In this audit, the OIG assessed the status of current grants to Ecuador in the middle of Phase 2, with a focus on the HIV/AIDS grants (ECU-910-G06-H implemented by the Ministry of Health and ECU-910-G07-H implemented by Corporación Kimirina), since only HIV-related activities targeting key populations will be eligible following 31 December 2015.

The Global Fund Secretariat had highlighted problems in the implementation of grants to the Ministry of Health in Ecuador well in advance of the OIG audit. When the grants approached the end of Phase 1 (December 2012), the Secretariat undertook an assessment to identify the areas of highest risk and the potential for impact in the Ecuador portfolio. Consequently, the HIV Phase 2 grant was redesigned and funds partly reallocated from the Ministry of Health to Corporación Kimirina, a national NGO, to address the risks identified in Phase 1.

Financial and fiduciary risk

The OIG found that the Secretariat's management of financial and fiduciary risk related to the grants to Ecuador is **generally effective**. The Secretariat ensures that Corporación Kimirina verifies the financial reports and records of all its SRs on a monthly basis and maintains the financial records for those SRs assessed as lacking financial capacity. The audits of Corporación Kimirina include its SRs; all were up-to-date at the time of our audit, with all recommendations addressed. The Ministry of Health had a low level of budget utilization, especially for HIV (four per cent since the inception of the grant). The Secretariat had reacted appropriately, with no disbursement made for the HIV grant since January 2011. Whilst the OIG did not undertake an investigation in Ecuador, we found no indication of fraud or abuse.

Governance, oversight and management risk

The Ecuador grant portfolio is comparatively small and not included in the Global Fund's "high impact" portfolio. In such a context, assurance cannot be as comprehensive as in high-value and high impact portfolios and must be far more targeted to addressing key risks in a cost-effective manner.⁷ This means assurance activities need to be tailored to provide assurance over the achievement of critical outcomes in the portfolio. In the case of the Ecuador portfolio, the Country Team selected assurance activities based on its analysis of risk in the grants and by using the standard model in place at the Secretariat at the time, which relied largely on the Local Fund Agent and external audit for assurance. This did not sufficiently cater for non-high impact, small value grants, and resulted in gaps in assurance provision, specifically leaving the Secretariat without assurance over key outcomes data.

Prior to the audit, the Secretariat had already developed a **full plan to become effective** in this area. A high-level Risk and Assurance Working Group has been constituted to better articulate and formalize the assurance framework around grant funds, which will consider, among other things, what differentiation is needed in providing assurance over high-impact versus non-high-impact grants. The Working Group will establish a process for the ongoing assessment and review of assurance provision within all grants supported by the Global Fund, including OIG findings on Ecuador. In addition, the Capacity Assessment Tool that has been introduced as part of the New Funding Model requires Country Teams to confirm that indicators used in measuring grant performance are in fact measurable.

⁷ Typically those that provide assurance over financial controls, impact data, and procurement and supplies management, or "data, drugs and dollars".

Health services and product risk

The distribution of condoms and lubricants to populations at risk is a key aspect of HIV/AIDS prevention in Ecuador. The Ministry of Health had failed to deliver an adequate supply of condoms during Phase 1 of the grants. As a result the Country Team transferred the procurement of condoms and lubricants to Corporación Kimirina in support of the envisaged scale up of prevention activities by civil society. Having been alerted to Kimirina's limited capacity and experience in international health product procurement by the Local Fund Agent, the Country Team took a number of steps to mitigate procurement risk. It did not, however, undertake a formal external assessment of Kimirina's procurement and supply chain management capacity or put in place a capacity building plan.

At the time of finalizing this report, Kimirina had not been able to procure the needed quantities of condoms and lubricants.⁸ The underlying causes included that Kimirina was not able to obtain tax exemption for the condoms and lubricants as required under our grant agreement and that UNFPA, which was to aid Kimirina, was not able to enter into a contract with a non-government entity. The audit found that only one quarter (4,400 of 17,334) of the "prevention packages" delivered from July 2013 to March 2014 contained condoms. A process for the procurement of condoms and lubricants had not been formalized at the time of the audit and repeated emergency purchases did not cover programmatic needs.

The Secretariat has provided ongoing support to Kimirina throughout the process, for example by reviewing relevant procurement-related documents and engaging with partners and the Ministry of Health to urge national authorities to grant Kimirina tax exemption for the importation of condoms and lubricants. Subsequent to the audit, the Ministry of Health and Kimirina signed a cooperation agreement for the tax-free import of condoms and lubricants.⁹ This means that product should arrive in Ecuador in February 2015.

Nonetheless, Kimirina's lack of procurement capacity and experience, documented both by the Local Fund Agent and the Country Team prior to signing the grant, raises questions about the decision to select it over other viable service providers, albeit some more expensive, without doing a formal external assessment of its procurement capacity. In addition, the absence of a workable solution to procure condoms and lubricants until the last year of grant implementation means that the Secretariat's management of health services and product risk is in our view **ineffective**.

Programmatic and performance risk

The Secretariat's risk analysis prior to the approval of Phase 2 funding is commended. However, efforts undertaken by the Secretariat since then have not resulted in notable performance improvement. This was in part because the actions proposed to mitigate risk were neither specific nor measurable, but also due to the country context, for example, rapid public policy change and high government staff turnover.

The key program activities that the Secretariat had agreed with the Ministry of Health in the HIV grant work plan and budget showed limited progress at the time of the audit. None of the eleven performance indicators in this grant could be measured accurately since they were not reported in the Ministry's management information system and/or not subject to quality control. Appropriately, the Secretariat has not made any disbursements for the HIV grants to the Ministry of Health since January 2011. Whilst Corporación Kimirina was implementing the bulk of activities under its grant, its performance against targets was affected by delays in the development of an implementation strategy on how key populations would be reached by SRs (one per cent of target met at the time of the audit).¹⁰

Overall, the Secretariat's management of programmatic and performance risk in Ecuador is in our view **ineffective**. The HIV grants in Ecuador, whose focus is on prevention activities for key populations at risk, are not on track to meet program objectives.

⁸ This was still the case at the time of finalizing this report.

⁹ On 13 October 2014

¹⁰ This had increased to an average of 35% of target met at the time of finalizing this report.

The findings from this audit raise an institutional process design issue at the Global Fund Secretariat related to managing grant performance. At present, there is no formal mechanism to escalate to senior management the risk that a grant may not achieve its expected impact or procure health products successfully. Such a mechanism would allow senior management to take decisive action where required. Formal tracking and escalation mechanisms exist with respect to delays in grant signing and disbursement; however, they are not in place for holdups in implementation that jeopardize key performance indicators. This gap requires management attention.

The audit also raised questions about the sustainability of the prevention activities currently funded by the Global Fund, given that support for Ecuador will significantly reduce over the next four years, with funding restricted to HIV only. The Secretariat has initiated discussions about the sustainability of funded programs with the government, but no concrete plans had been agreed at the time of the audit.

Subsequent to the audit, the Secretariat has agreed specific management actions with the Ministry of Health with regard to accelerating the implementation of activities not yet started for the ECU-910-G06-H grant. The Secretariat has also committed to ensuring that the Ecuador CCM develop and submit a sustainability plan that details actions and milestones for the sustenance of activities currently financed by the Global Fund.

The Secretariat undertook a country mission in November 2014 with the primary purpose of identifying key challenges in data reporting and agreeing on the next steps with the National Authorities and the Principal Recipients on how to integrate Global Fund reporting into the national system. The mission also assessed the technical assistance necessary to support the process going forward. Remaining issues following this mission are being escalated to senior management by the Country Team.

IV. Findings and agreed actions

IV.1	The design of the assurance framework	Executive level	Full plan to become effective
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The Ecuador grant portfolio is comparatively small. In light of its disease burden and concentrated HIV epidemic, the Global Fund does not include it among the “high impact” portfolios. In such a context, assurance cannot be as comprehensive as in high-value and high impact portfolios and must be far more targeted to addressing key risks in a cost-effective manner, with assurance activities tailored to assuring critical outcomes in the portfolio. In the case of the Ecuador portfolio, the Country Team targeted assurance activities based on a retrospective analysis of risk in the grants and by using the standard model in place at the Secretariat at the time, which relied on the Country Team, the Local Fund Agent, and external auditors for assurance. This approach did not sufficiently cater for portfolios such as Ecuador’s and resulted in the gaps in assurance provision listed below.

Assurance over outcomes

The due diligence undertaken by the Country Team prior to signing the grant did not ensure that all the agreed indicators were measurable. As a result, the programmatic achievement of key activities at the UTG under grant ECU-910-G06-H cannot currently be measured:

- The information management system of the Ministry of Health does not capture the data agreed in the grant performance framework. The data reported against the eleven performance indicators do not undergo quality control by the Ministry of Health and cannot be relied upon for accuracy.
- An attempt by the Ministry of Health in 2014 to collect data related to the number of people from key populations referred to facilities by SR promoters and animators through a survey of health facilities resulted in a response rate of 5%.
- The 25 health personnel, whose role was to identify, record and report the number of people from key populations that were referred to facilities by SR promoters and animators, had not been hired at the time of the audit.¹¹

Being able to distinguish between single versus repeat contacts with people from key populations is important, particularly in the light of the planned scale-up of prevention services. Performance reports analyzed by the OIG at Kimirina showed double-counting in the results submitted by its Sub-recipients:

- Kimirina was not able to validate all the contacts reported by its Sub-recipients since the latter were unable to differentiate recurring from primary contacts with respect to the number and percentage of people from key populations who received HIV prevention packages through animators. RedTrabSex noted that the numbers they reported included a mix of both old and new clients.
- The OIG audit identified 101 individual female sex workers who were double-counted under the indicator “Number of Sex Workers who receive an HIV prevention package through peers” by SRs RedTrabSex and Quimera (out of a total of 2,726 female sex workers reported by RedTrabSex and 512 female sex workers reported by Quimera for the period July to December 2013, i.e. 3% of RedTrabSex numbers and 20% of numbers reported by Quimera).¹²

Scope of assurance provision

- The scope of work of the Local Fund Agent related to Progress Updates did not include site visits to verify implementation.¹³ The Local Fund Agent undertook a desk review of

¹¹ Fourteen of the 25 are reported to have been hired subsequent to the audit.

¹² This had improved per the LFA report dated November 2014, with no duplicates in the period Jan-Jun 2014.

¹³ The LFA has an allocation of three days to undertake spot checks for two grants. Terms of reference for these spot checks have been drafted following the OIG audit.

programmatic results, placing reliance on the work that had been done by the PRs.¹⁴ Whilst this was a deliberate decision by the Secretariat, it resulted in incomplete assurance over implementation.¹⁵

- The coverage of onsite data verification was inadequate given the size of the affected population. On the one hand, the Phase 2 Malaria onsite data verification focused on ten out of 24 provinces that represent 80% of the malaria cases, and the number of sites visited in Ecuador (19) was greater than what was required under Global Fund guidance (six). On the other hand, the total onsite data verification coverage was less than 4% of the total number of sites, since the methodology used for onsite data verification by the Global Fund does not require statistically representative sampling.
- No assessment of service quality over the HIV grants was performed. Global Fund policy does not require the use of the rapid service quality assessment in Ecuador.

Fiduciary and financial assurance

- The external audits for the grants managed by Kimirina were submitted on time and had unqualified opinions.
- The external audits for the three grants managed by the UTG for 2012 and 2013 were still pending.¹⁶
- There had been no reviews of the grant programs managed by the UTG by other assurance providers such as the Ministry of Health Internal Audit Department or the National Audit Office.

The findings above mean that at the time of the audit the Global Fund did not have sufficient assurance over key activities related to the grants, such as external audit of recipients and data on grant performance. An overall assurance framework for the Ecuador portfolio, tailored to assure that critical outcomes were being achieved, was absent.¹⁷ It should be noted in this context that optimizing the Global Fund's combined assurance framework across the entire portfolio of countries is a known Secretariat issue. The findings in the Ecuador audit will inform the ongoing Secretariat process to address risk and assurance.

Agreed management action

The Management Executive Committee has constituted a "Risk and Assurance Working Group" as part of its efforts to inculcate a culture of accountability and transparency at the Fund, and to prioritize assurance in 2014. The findings from the OIG audit in Ecuador will contribute to this Working Group. Activities currently underway encompass the following:

- i. Articulation and formalization of the Global Fund framework together with ongoing active monitoring of the aggregate cost of implementing this framework to ensure that the combined assurance provided is both efficient and effective.
- ii. Highlight the "big ticket" assurance needs for a sample of 20- 30 country portfolios.
- iii. Establish who is doing what from an assurance perspective.
- iv. Establish gaps and overlap in assurance provision and put in place mechanisms to remedy the gaps and avoid duplication.
- v. Undertake a root cause analysis of the gaps to fill them going forward and develop systematic solutions.

¹⁴ Only Kimirina had submitted PUDRs at the time of the audit.

¹⁵ The Secretariat cut back LFA site visits since no major data quality issues had been identified in 2012 onsite data verifications.

¹⁶ The 2012 audit for the malaria grant was in progress at the time of OIG field work; the other two 2012 audits were underway at the time of finalizing this report.

¹⁷ Subsequent to the audit, the Country Team developed an assurance matrix for the finance and fiduciary area in order to visualize the finance assurance approach for this portfolio and ensure that the level of effort of the assurance steps taken for finance was commensurate with the materiality and the values at risk.

- vi. Establish a process for ongoing assessment and appropriate review of assurance provision within all grants supported by the Global Fund.
- vii. Outline differentiated approach for managing portfolios, taking into consideration risk, materiality, and other relevant factors to set the level and type of assurance activities for individual portfolios.

Owner: Risk and Assurance Working Group Project Sponsor

Target Date: 31 December 2014

IV.2	Procurement of condoms and lubricants	Country Team level	Ineffective
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The distribution of condoms and lubricants to populations at risk is a key aspect of HIV/AIDS prevention in Ecuador. The Ministry of Health failed to deliver an adequate supply of condoms during Phase 1 of the grants. As a result the Country Team approved the CCM's proposal to transfer the procurement activity to Corporación Kimirina; over twenty percent of the HIV grant to Kimirina was allocated to the purchase of condoms and lubricants. Having been alerted to Kimirina's limited capacity and experience in international health product procurement by the Local Fund Agent, the Country Team took a number of steps to mitigate procurement risk, e.g. engaging with technical partners and visiting the warehouses proposed for storage. However, it did not undertake a formal external assessment of Kimirina's capacity or put in place a capacity building plan. Kimirina has not been able to procure the needed quantities of condoms and lubricants.¹⁸ Specifically,

- Only one quarter of the prevention packages delivered by SRs during the period July 2013 to March 2014 contained condoms (4,400 of 17,334).
- An emergency purchase of 580,000 condoms and 200,000 lubricants (two months' supply) amounting to USD 122,066 was approved by the Secretariat in April 2014. The price of the locally procured condoms was 214% higher than budgeted (USD 0.103 per condom instead of USD 0.0328).¹⁹
- Condoms were expected to run out again at the SRs from July 2014.²⁰
- At the time of the audit, Kimirina and the Ministry of Health were negotiating a cooperation agreement that would allow Kimirina to import condoms and lubricants free of tax. The agreement made Kimirina responsible for procurement (through UNFPA), storage and distribution of 12 million condoms to all health units attended by people from key populations in the country. No consideration had been given to the budgetary implications of this arrangement or to Kimirina's capacity to undertake such distribution.
- Limited formal assurance is sought over procurement and supply chain management by the LFA. No assurance work was undertaken in this area subsequent to the LFA assessment of Kimirina prior to Phase 2.

The Country Team has been working closely with Kimirina in guiding the process of procuring condoms and lubricants and continues to assist in reviewing documents, quantifications and quotations, and engaging with the Government and UNFPA to move this forward.

At the time of drafting this report, the cooperation agreement between Kimirina and the MOH had been signed (13 October 2014). The Country Team anticipates that condoms and lubricants will arrive in Ecuador in February 2015. Kimirina is exploring a new loan of condoms from the Ministry of Health in the meantime.

Agreed Management Action

The Secretariat will ensure that Corporación Kimirina has identified a viable option for the procurement of condoms and lubricants by no later than 31 October 2014 with the corresponding procurement order placed by no later than 31 December 2014.

¹⁸ A major bottleneck has been Kimirina's inability to obtain tax exemption for imported goods.

¹⁹ Locally procured condoms included freight and clearance costs; the budget covers the unit cost.

²⁰ Subsequent to the audit, Kimirina reached an agreement with the MoH who agreed to provide them with 1.2 million condoms (approx. four months' supply). 300,000 have been delivered by the MoH to Kimirina.

IV.3	HIV Grant implementation	Executive level	Ineffective
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The HIV grants in Ecuador, whose focus is on prevention activities for people at higher risk, are not currently on track to meet the program objectives. This has been a known issue in the Secretariat since Phase 1 of the grants, documented by the Country Team and the Local Fund Agent. The Secretariat proactively engaged with partners and country stakeholders to re-design the programs for Phase 2. However, Secretariat actions to date have not fully succeeded in resolving the bottlenecks to implementation.

An underlying institutional issue at the Secretariat has contributed to this situation: there are currently no formal escalation mechanisms at the Global Fund that would bring cases such as the Ecuador HIV grants, which show limited performance against targets and enduring obstacles to the procurement of key commodities, to senior management attention for decisive action.

The OIG fieldwork in three provinces, covering between 60% and 80% of the Ministry of Health facilities supported by the Global Fund, found that key program activities stipulated in the grant work plan and budget showed only limited progress at the time of the audit. Specifically,

- A comparison of actual expenditure against budget for each period since the inception of the grant showed a low level of budget utilization at the Ministry of Health.
- Registers in Ministry of Health clinics were only designed to record men who have sex with men and female sex workers, but not transsexual, transvestite and transgender people, the population with the highest prevalence.
- No guidelines had been designed for the provision of health services by the Ministry of Health to key populations, i.e. men who have sex with men or transsexual, transvestite and transgender persons (guidelines existed for female sex workers).
- The required reporting by the Ministry of Health on impact and outcomes had not taken place.
- For the period January to March 2014, the achievement against target for key populations reached by Sub-recipients was only 1%, due to a delay in the development of an implementation strategy for animators by Kimirina.²¹

Secretariat response to implementation delays

It should be noted that the Country Team has attempted to address the issues above, some of which were due to structural barriers, e.g. high Ministry staff turnover. It accurately analyzed the risks that led to this situation prior to signing Phase 2 of the HIV grant to the Ministry of Health. However, the action items proposed to resolve the issues identified at the end of Phase 1 were not specific,²² and actions taken by the Country Team since that time have not resulted in significant change, leading to the situation observed in the OIG audit.

In April 2014, the Country Team held a meeting with the Vice-Minister of Health and made clear that remedial actions were urgently needed to address the delays in the delivery of basic reporting (Progress Updates and Disbursement Requests and external audit reports). A schedule with set deadlines was established. At the time of the OIG audit the Ministry of Health had not fully complied with this schedule. No disbursement has been authorized to the Ministry since January 2011.²³

²¹ Subsequent to the audit, performance at Kimirina on this indicator increased from 1% to an average of 35% of target (Jan-Jun 2014). At the Ministry of Health, a new coordinator for the Global Fund grants was appointed.

²² Ecuador QUART lite, October 2012.

²³ At the time of finalizing this report, the OIG was informed that the MOH had delivered missing periodic reports and had prepared an action plan.

Sustainability

Under the Global Fund's revised Eligibility and Counterpart Financing Policy, funding for Ecuador has been reduced, making it eligible for an additional USD 4.5 million for HIV only. Other donors and partners have also disinvested. Unless additional domestic or international funding for HIV is secured, the gains that have already been achieved may be lost, particularly in the area of HIV prevention.

Ecuador is one of the 29 countries with the lowest dependence on international resources for HIV funding.²⁴ The government has increased its contribution towards HIV/AIDS from USD 2.6 million in 2005 to USD 24 million in 2010. However,

- The emphasis of the programs funded by government is on treatment rather than prevention among the key populations at risk.
- Government funding of HIV activities is primarily through its clinics. There was no formal commitment from the government at the time of the audit that it would continue activities implemented by civil society organizations once the grants end.
- The grant design envisages the work of SRs and government clinics to be complementary. By June 2014, SRs were working with 73 health facilities out of over 2,000 health facilities of the Ministry of Health in the country (i.e. those oriented to provide services to key populations at risk). The MOH will need to build the capacity of other health facilities to enable them to work with key populations.
- As at June 2014, no formal sustainability plans had been prepared for the HIV grants.

The current dual-track grants, with both government and NGO implementers, create an opportunity for a relationship to be forged between them. They provide a basis for discussion on how activities currently funded by the Global Fund can be sustained by the Government of Ecuador. The Country Team has initiated discussions with the government on this topic. However, concrete plans had not been formalized at the time of the audit.²⁵

Agreed management action

The Global Fund Secretariat will establish a formal mechanism for flagging grants with serious implementation delays to the Head, Grant Management Division, for action to be taken.

Owner: Head, Grant Management Division

Target Date: 31 March 2015

²⁴ Ecuador is in the group of low- and middle-income countries with the lowest dependency on international sources for supporting the national HIV response. UNAIDS report on the global AIDS epidemic 2013; p.74.

²⁵ E.g., with respect to malaria, Kimirina signed an agreement with the MOH in October 2014 for the latter to take over the Malaria Round 8 grant activities. This has been submitted to the Global Fund for approval.

Annex A: General Audit Rating Classification

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

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.

Annex C: Active grant portfolio for Ecuador

Principal Recipient	Grant Number	Grant Amount USD M	Committed USD M	Disbursed USD M	Grant Rating	End Date
Corporación Kimirina	ECU-910-G07-H	18.4	14.3	10.4	B2	31.12.2015
Ministry of Public Health	ECU-910-G06-H	4.1	4.1	2.2	B2	31.12.2015
HIV Total		22.5	18.4	12.6		
Corporación Kimirina	ECU-809-G05-M	6.4	6.4	6.4	B1	31.01.2015
Unidad Técnica Gerencial, Ministry of Public Health	ECU-809-G04-M	2.3	2.0	1.7	B2	31.01.2015
Malaria Total		8.7	8.4	8.1		
Care	ECU-910-G09-T	5.4	4.5	3.9	B1	31.12.2015
Ministry of Public Health	ECU-910-G08-T	3.3	2.3	1.7	C	31.12.2015
TB Total		8.7	6.8	5.6		
Overall Total		40	30.6	26.3		

Annex D: Summary of Comments from the Country

Country Coordinating Mechanism	OIG
<p>1. Some of the comments in the report relate to the Secretariat and are contextual to what happened in country, e.g., the assurance framework, the lack of an escalation mechanism in the Secretariat, etc. This should be reported in a separate section in order to avoid any confusion.</p>	<p>As auditors of the Global Fund we assessed the level of assurance the Global Fund has over its investments in Ecuador. This is to ensure that grants achieve their objectives in line with the Global Fund strategy to achieve impact against the three diseases.</p> <p>This report therefore addresses the Global Fund's management of grant-related risk. Findings identified at the level of grant implementation reflect the adequacy and effectiveness of controls put in place by the Secretariat to mitigate grant-related risk. Management actions have been agreed with Secretariat management to address the underlying causes of the issues noted at the country level.</p>
<p>2. The report does not provide the national context, i.e., how institutional reform that happened in the country since 2006 has affected the Ministry of Health's ability to implement grant activities.</p>	<p>A paragraph has been inserted in the background to provide this context.</p>
<p>3. The report recognizes that Ecuador has multiplied the allocation of state resources to finance HIV-related activities several times. It also states that unless additional funding is obtained, gains may be lost, especially in the area of HIV prevention. We believe that these statements are contradictory. While there is room to improve preventive activities, there is no evidence that funding for them is insufficient.</p>	<p>We noted that current government priority is on treatment and much less so on prevention. As the Global Fund resources reduce, there is a need to find alternative sources for the activities currently supported by us. The report therefore makes reference to the need to mobilize either domestic or international funding to cover prevention activities. In addition, a sustainability plan for these activities has not yet been put in place.</p>
<p>4. The grant has a design flaw: The MOH has to work with Kimirina, which means that any problems in the MOH will potentially affect Kimirina and its SRs.</p>	<p>The Global Fund Secretariat deliberated this during the grant renewal process and reached a decision to fund the program in this manner. As stated in the report, for coverage and sustainability it is important that the two PRs work together. We flag some of the difficulties we observed in forging a working relationship. It is our understanding that this will be addressed as part of the sustainability plan that is under development.</p>
<p>5. Capacity will need to be built in most MOH health facilities before they can work effectively with key populations.</p>	<p>This is now mentioned in the report.</p>

Corporación Kimirina	OIG
<p>1. Phase II of the HIV grant constitutes a prevention project unprecedented in Ecuador, given its scale up and coverage. The methodology is new to the country, region and possibly the world and at the time of the audit, implementation had only just begun. There has been much progress since then.</p> <p>Kimirina built on the peer education work undertaken in Phase I to design three new strategies to reach the population. The report misrepresents the progress made with regard to achievements related to animators.</p>	<p>The background section of the report articulates the challenges faced in the grant renewal process. We agree that the timelines and targets for rolling out a new and ambitious methodology agreed by the PR and the Global Fund Secretariat in the Phase II grant agreement were probably not realistic.</p> <p>The report notes the challenges Kimirina faced in developing the animators strategies. We footnote the progress in this area that Kimirina has made subsequent to the audit, i.e. an increase in performance from 1% in June 2014 to an average of 35% in November 2014 per the LFA reporting.</p>
<p>2. With regard to the procurement of condoms and lubricants, the report does not provide contextual information. Kimirina is blamed for the failure to procure condoms yet it did not have control over the whole process. The approved PSM plan required Kimirina to procure condoms and lubricants with the help of a procurement agent, i.e. UNFPA. Negotiations started in May 2013 and after a lot of deliberation, it was noted that UNFPA could not sign an agreement with Kimirina because it was not a state institution. The process to negotiate an agreement with the MOH started in September 2013 resulting in a signed agreement in October 2014. The delay was caused by changes in MOH staff. The statement that Kimirina lacked experience and capacity to procure the condoms should be removed.</p>	<p>The OIG conclusion, based on our audit work as well as the reports of the Local Fund Agent and internal reports of the Secretariat, is that Kimirina did not have sufficient capacity or experience to procure the quantities of condoms and lubricant envisaged in the grant agreement in line with the Global Fund regulations, specifically those relating to tax-free procurement. We recognize that Kimirina and the Secretariat tried repeatedly to address the problems that arose and appear to have found a workable solution. However, this means that condoms and lubricant will reach Ecuador in sufficient quantities some ten months before the end of a three-year grant.</p>
<p>3. With regard to programmatic risks and performance, it is important to note the complexity of reaching and working with key populations, given the need for confidentiality, and yet still be able to count the number of people reached. In order to meet the objectives of the project, Kimirina implemented a computer system that ensures that there is no double counting of people reached while also ensuring confidentiality. At the time of the audit, this system was at a test stage; it went live one month after the audit.</p>	<p>We have reflected this in the report.</p>
<p>4. The report notes the absence of a concrete plan to achieve the sustainability of prevention activities carried out by the Global Fund grants. Kimirina notes that there are complications in developing a</p>	<p>The focus of our audit was on the HIV grants. However, we have footnoted this reference to the planning for the Malaria grant.</p>

<p>sustainability plan with the MOH. However, Kimirina has already done this for the Malaria Round 8 grant. Under this grant, Kimirina and the MOH have signed agreements that activities undertaken by the former will be transferred to the MOH. This plan was presented to the Global Fund for approval in October 2014.</p>	
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