The Global Fund

Office of the Inspector General

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I. Background

Introduction

One of the Global Fund's 2012-2016 strategic objectives is to develop its funding model. This consists of refocusing current and future funding to enable Global Fund resources to be invested more strategically in order to maximize impact and improve alignment to national strategies; increase predictability of both the timing and level of funding; and reduce transaction costs. This objective resulted in the replacement of the previous rounds-based funding with a new model in 2014.

The new funding model

The new funding model is an iterative application process that allows countries to prepare earlier to ensure more flexible and predictable funding. This model was developed to address key shortcomings of the rounds-based funding system, and in particular:

- *Engagement*: The new model is meant to increase the engagement between the Secretariat and in-country stakeholders throughout the process. There is greater engagement of Secretariat senior management and development partners through the Grant Approvals Committee, a mechanism that reviews funding applications and makes recommendations to the Board for approval.

- *Predictability:* The new funding model allows countries to be able to predict more reliably the funds that have been allocated to them. Previously, disproportionately large proposals depleted available resources, thereby impacting the Secretariat's ability to finance other countries who applied for funding in the same round. Grants should be submitted to the Board for approval only when they are ready for disbursement. This is when (i) all required grant making outputs are in final form and agreed with PR(s); (ii) adequate risk mitigation measures are agreed and in place; and (iii) critical issues that would affect the first disbursement are addressed.

- *Flexibility*: The new funding model enables countries to decide when to submit funding applications. Under the rounds-based model, a failed proposal meant applicants had to wait until the next round to submit a new proposal. Unsuccessful applicants under the new funding model are given the opportunity to resubmit their applications without losing allocated funds.

- *More targeted interventions:* Funding is expected to be better targeted towards achievement of impact through an increased focus on evidence-based key interventions. In-country gaps are identified and prioritized through better country dialogue and partner involvement.

The new funding model is composed of the following key stages:

i. The *development of a funding request*, referred to as a "concept note", is based on a national strategic plan and is drawn up in consultation with all key country stakeholders. Concept notes are then submitted and evaluated by the Technical Review Panel[1] for robustness. If deemed technically sound and strategically focused, the Technical Review Panel makes a recommendation to the Grant Approvals Committee which sets the available funding ceiling for the grant(s).

ii. The *'country dialogue'*, a central element to the new funding model, is an iterative process, beginning before the concept note and continuing throughout the implementation of the grant. It identifies needs, works on national strategies, builds resource mobilization efforts and prioritizes interventions that will create the greatest impact.

iii. The *'grant making'* stage follows, where implementation modalities for the grant are developed. Once the work during this stage is completed, the grant documentation undergoes a final review by the Grant Approvals Committee.

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[1] The Technical Review Panel is an independent group of experts that evaluate requests for funding submitted to the Global Fund for technical merit as well as strategic focus

iv.   Grants that are considered to be "disbursement-ready" (i.e. ready for signature and disbursement soon after Board approval) by the Grant Approvals Committee are then recommended to the Global Fund Board for approval. Once approved, the grant is then signed and the first annual funding decision is processed.

USD 16 billion has been made available to countries during the 2014-2016 funding period. This funding is available to countries through four channels:
- USD 14.68 billion that is allocated to countries for 2014-2016;
- USD 950 million as incentive funding to reward ambitious requests to increase impact;
- USD 200 million for new regional grants; and
- USD 100 million through special initiatives not adequately accommodated through the overall allocation.

Grant-making process
Grant-making translates the funding requests reviewed and assessed by the Technical Review Panel and Grant Approvals Committee into disbursement-ready grants for Board approval and signature. During a three-month period, the Global Fund works with the Principal Recipient and the Country Coordinating Mechanism to:
- identify capacity gaps and risks related to grant implementation and the elaboration of mitigation measures;
- review and agree implementation arrangements and plans; and
- develop and negotiate key grant documents, including the performance framework, a detailed budget and a list of health products.

II. Scope and Rating

Scope

The audit assessed the adequacy and effectiveness of governance, risk management and internal controls over the grant-making process. The auditors also verified that concept notes reviewed by the Technical Review Panel and Grant Approvals Committee are translated into grants that are timely and ready for disbursement. Specifically, the audit assessed:

- the adequacy, efficiency and effectiveness of grant-making structures, systems and processes;
- whether key risks are identified, assessed and mitigated by the Secretariat in a timely manner during the grant-making process; and
- adherence of Country Teams to established grant-making policies and procedures.

The audit covered one of the key processes of the funding cycle which is grant making. This covers the process for translating the recommendations of the Technical Review Panel and the Grant Approvals Committee into disbursement-ready grants within a reasonable timeframe. The audit did not cover wider new funding model-related activities that typically occur prior to the first Grant Approvals Committee review. This is defined in the Operational Policy Note by the red circle in the diagram below:

Rating[2]

Operational Risk	Rating	Reference to findings
Systems, structures and processes	Partial Plan to Become Effective	IV. 1, IV. 2, IV.4 and IV. 5
Risk management	Partial Plan to Become Effective	IV 3
Adherence to established policies and procedures	Generally Effective	IV 4

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[2] See Annex A for the definition of the OIG ratings

III. Executive Summary

The Global Fund replaced the rounds-based funding model with a new funding model in 2014 in line with its 2012-2016 strategic objectives. Central to the new model is the grant-making process which translates the funding requests reviewed and assessed by the Technical Review Panel and Grant Approvals Committee into disbursement-ready grants for Board approval. The audit of the grant-making process sought to provide independent assurance to the Board on the adequacy and effectiveness of the governance, risk management and internal controls over the grant-making process with three specific objectives:

<u>The adequacy, efficiency and effectiveness of grant-making structures, systems and processes</u>

The Secretariat's increased engagement in grant-making through the country dialogue, coupled with the involvement of partners and senior management in reviewing grants, has strengthened the grant preparation process. Grants under the new funding model are ready for disbursement and implementation as opposed to the rounds-based model where disbursements and implementation were often delayed due to Principal Recipients' failure to meet certain conditions for disbursement. However, the pace at which concept notes are translated into grants under the new funding model is slower than was envisaged. One and a half years into the allocation period (June 2015), 37% of anticipated concept notes had been transformed into grants.[3] This affects envisaged scale-up of activities and achievement of organizational strategic objectives.

Cumbersome Secretariat processes, duplicated documentation and inadequate systems have created process inefficiencies and as a result, the three-month target for grant-making has, in many instances, not been met. This however is a significant improvement from the rounds based system. The deliverables under the new funding model and the old rounds system have remained the same to a large extent. However, the processes underpinning the production of deliverables under the new funding model have increased. For example, on average, 22 documents are prepared as opposed to the eight core documents (per the operations policy note) originally envisaged during grant-making. The information contained in the documents is sometimes duplicative and only four of these documents[4] are critical for decision making by the Grants Approval Committee.

At the time of the audit, the Secretariat was already differentiating the grant-making process in order to reduce the workload for smaller and less risky portfolios. However, there has been limited progress in operationalizing this differentiation, as demonstrated by the fact that the volume of documents required to sign grants has remained the same for all portfolios irrespective of grant size and risk. Also, while Country Teams under "differentiation" have an option to tailor the capacity assessment tool, almost half of the Country Teams did not tailor the whole tool. The limited progress of portfolio differentiation is due to inadequate guidance about its application to different circumstances. In the absence of a defined risk appetite, decision-makers feeling disempowered to take measured, risk-based decisions.

Grant-making was also envisioned under an integrated information system for capturing, processing and sharing information at the Secretariat and country level. However, the completion date and timeline extensions for the operationalization of this system have not been met.[5] As a result, the grant-making process depends on multiple standalone systems and tools into which the same data must be entered multiple times. This creates inefficiencies and the potential for errors. The Secretariat has also developed interim tools to support grant-making pending completion of the information technology system. However, while their content is satisfactory, the tools are not user-

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[3] At December 2015, the number of concept notes translated into grants was 64%

[4] Concept note, Secretariat briefing note TRP review forms and Grant-making Final Review and Sign off form

[5] Following further complications, the Secretariat commissioned an independent diagnostic review of the process to determine how this issue would be addressed.

friendly and have functionality issues. This has also contributed to the inefficiencies noted in the process.

The Secretariat missed an opportunity to learn from pilot test cases that were undertaken and to strengthen processes before rolling out the new model. The audit also noted that the grant-making process was not allowed to stabilize before further changes were made. As a result, stakeholders had to continuously adapt to new changes in the process.

The grant-making process was also affected by the difficulties in operationalizing concepts requested by the Board under the new funding model. These concepts are: incentive funding, [6] counterpart funding,[7] HIV/TB joint programming[8] and sustainability of programs post Global Fund support[9]. For instance, due to limited clarity about incentive funding, this concept has failed to meet its intended objectives of stimulating ambitious and innovative approaches in the concept notes. There is also no policy to guide countries transitioning from Global Fund support to sustain gains previously made.

At the time of the audit, the Secretariat had instituted measures through a project called Accelerated Integration Management to enhance internal processes and systems including grant-making processes. The recommendations arising from the project related to the grant-making processes are yet to be fully implemented.

The audit concludes that there is a **partial plan** to address the structure, systems and process issues underpinning grant-making.

<u>Whether key risks are identified, assessed and mitigated by the Secretariat in a timely manner during the grant-making process</u>

Identifying and mitigating risks that may affect the successful implementation of funded programs is central to the grant-making process. However, Secretariat processes and tools remain inadequate in supporting Country Teams in the identification and mitigation of risks. The OIG noted that risk management under the grant-making process is a standalone process that has not been integrated with other risk-related Secretariat processes already in place, for example, the completion of the Qualitative Risk Assessment, Action Planning and Tracking tool. There is also no mechanism to ensure that risks identified and proposed mitigation measures during grant-making are followed up once implementation is under way.

The Secretariat has multiple risk assessment tools that do not interface with each other. As a result, country teams must manually enter the same information several times. The primary focus of existing tools is on checking the adequacy of internal controls to safeguard funds, with limited attention paid to key strategic risks that may affect programs' achievement of impact. The audit found that mechanisms to check the robustness of risk assessments and resultant mitigation measures before they are presented to the Grants Approval Committee were not fully operational. For example, all functional managers were not consistently involved in the review of high risk and complex portfolios. [10]

The risk management under grant-making is therefore rated as having **partial plan** to become effective.

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[6] Incentive funding is meant to reward ambitious, high-quality expressions of full demand that go beyond the indicative funding and/or to leverage financing at the country level.

[7] An increasing level of funding should come from implementing countries to sustain the momentum in the fight against the three diseases. Counterpart financing is defined as all domestic public resources allocated to directly supporting the programs funded by the Global Fund.

[8] Countries with high burden of co-infection with TB and HIV should submit a single concept note that presents integrated and joint programming of the two diseases

[9] The Global Fund is concerned that countries are becoming ineligible for funding or increasing their domestic contribution to the programmes without clear sustainability or transition mechanisms and, therefore, risks negating the gains through the supported interventions

[10] This includes managers of the Monitoring Evaluation and Country Analysis, Health Product Management, Legal and Grant Management.

Subsequent to the audit, the Secretariat initiated a process to integrate the existing risk management tools. The Risk Department has also started reviewing Country Team submissions before the Grant Approval Committee's review.

<u>Adherence of Country Teams with established grant-making policies and procedures</u>

The Secretariat has put measures in place to support the successful roll out of the grant-making process including documentation of processes and training of staff. The OIG noted that despite their dissatisfaction with the cumbersome processes, country teams have generally followed them. Through the Accelerated Integration Management project, the Secretariat is improving the processes and this is expected to enforce compliance.

The OIG therefore concludes that the Secretariat has a **generally effective** plan to address compliance issues.

IV.   Findings and Agreed Management Actions

IV.1	Slow transformation of allocated funds into grants and disbursements to countries

Slower than expected transformation of allocated funds into grants under the new funding model may affect the implementation of funded programs within the allocation period.
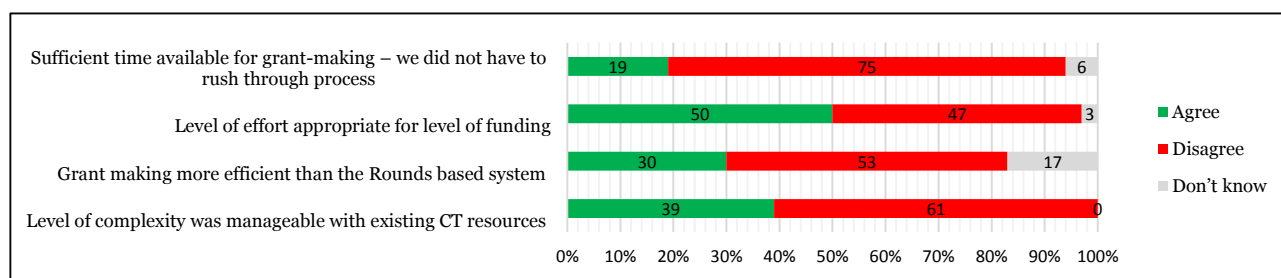
"The overall outcome is positive and the way we engaged the Principal Recipients in grant-making has given them more ownership of the program and motivated the country teams." Survey respondent

Grants are prepared for implementation in a timelier manner than under the rounds-based system when grants were signed with conditions precedent to first disbursement. However, the pace at which concept notes have been translated into grants under the new funding model has been slower than anticipated.

Balancing efficiency and quality during grant making: Although there are improvements in the timelines for grant-making under the new funding model compared to the rounds based grant negotiations, the Secretariat's internal target of completing the grant-making process within three months is often not met. The timeline for grant-making (between the two Grant Approvals Committee meetings) took 33% longer than planned - four months against the target of three months.[11] From the sample of 20 grants reviewed, thirteen grants met the three months target. This has adversely affected the achievement of the organization's Key Performance Indicator number 7.[12] At the time of the audit, the Secretariat had not analyzed the underlying causes for country teams' failure to meet set timelines.

The Secretariat does not track staff time and costs, therefore the OIG could not quantify the extent of efficiency gains from the new grant-making process nor obtain quantitative evidence on whether three months is sufficient for grant-making. The Secretariat undertook a survey of key stakeholders (in-country and Secretariat Country Teams) to understand their experiences with the grant-making process. The graph below gives survey respondents' perspectives on the efficiency of the grant-making process:[13]

The notion that grant-making is efficient is not shared by stakeholders interviewed and survey respondents. Country team specialists interviewed noted that grant-making is often rushed to meet the three-month key performance indicator and this often comes at the cost of quality.

Challenges created by flexibility in submission of concept notes: The new funding model provides countries with the flexibility to submit funding applications when preferred, rather than imposing timelines on when countries can apply for funding. While flexibility in submitting applications has its benefits, it has also created challenges.

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[11] As measured in May 2015

[12] 29 out of 63 eligible grants did not meet the 10 month target of disbursing funds after concept note submission

[13] The Survey respondents were 17 Fund Portfolio Managers and 31 members of various Country Teams

- - Translation of new allocated funds into grants: This flexibility in submitting concept notes has inadvertently led to slow transformation of allocations into grants:

    o As at June 2015, one and a half years into the allocation period, 142 out of 244 concept notes (58%) had been submitted and 37% translated into grants.[14] In value terms, this represents USD 10.8 billion out of a total USD 14.8 billion (77%). On average, 30% of the countries deferred the submission of registered concept notes to later periods.[15]

    o An analysis of the percentage of countries with the larger allocations (constituting the Global Fund's highest burden countries) showed that 51% of allocations to countries with high disease burdens had not been converted into grants (USD 4.4 billion) under the current funding model, USD 9 billion was available in the countries within the existing grants.[16] Sixty five per cent (65%) of funding to the top ten largest allocation countries (representing 35% of the total funding envelope) had not been converted into grants at the time of the audit.

- - Increased work load when multiple applications are received in the same window due to level of involvement of country teams in grant making: The audit noted that the flexibility has also meant that countries can submit multiple applications at the same time. For instance 24 countries submitted multiple applications in one review period. At the time of the audit, there was no flexibility within the Secretariat to reallocate internal resources to respond to the increased work load arising from multiple applications from countries. In such cases, grant-making happens at the same time for multiple applications from countries and this increases significantly the Secretariat's work load and may come at the cost of quality.

- - ***Grants not signed and disbursed soon after Board approval***: The Secretariat requires that all grants submitted to the Board are 'disbursement-ready' - in other words, grants should be signed and ready to disburse as soon as possible after Board approval is granted. However, the OIG found that grants that have been submitted to the Board were not necessarily disbursement-ready. Five instances were noted where Board-approved grants could not be signed because certain new terms and conditions introduced under the new funding model had not been agreed with the countries. These included mandatory tax exemption, making efforts in according privileges and immunities to the Global Fund, and strengthened "right of access" provision.

The OIG also noted that Sub-Recipients were not selected as part of the grant-making process for 13 out of the 20 grants reviewed, leading to delays in implementation once grants had been signed. For instance, one high impact country could not start implementation of activities on time due to delays in selection of sub-recipients.

Although some grants are signed in a matter of days, it takes an average of 38 days to sign grants after Board approval (our sample ranged from 2 to 130 days).

The delays in transformation of allocated funds into grants and disbursements to countries will affect the scale up of activities and the achievement of the strategic objectives of the Secretariat. The OIG recognizes, however, that the Secretariat has measures in place to tackle this; for example, by extending existing grants to avoid service disruption in cases where the grant-making process is drawn out.

Agreed Management Action: Refer to Agreed Management Action number 3

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14 87% of the concept notes representing 91% of the allocation amount had been submitted as at December 2015 with 64% translated into grants

15 By September 2015, there are only two remaining application periods in which 63 applications would have to be submitted.

16 5% of the allocations to high impact countries remained to be translated into grants as at December 2015.

| **IV.2** | **Challenges in implementing critical components of the new funding model** |

Operationalizing certain key concepts during grant-making has been challenging due to deficiencies in their design.

The Global Fund Board requested the Secretariat to make provision for certain concepts under the new funding model which included: 'incentive funding', 'counterpart financing and willingness to pay', 'sustainability' and 'joint HIV/TB concept notes'. The Secretariat has faced challenges in operationalizing these concepts.

Incentive funding: Incentive funding was introduced to drive ambitious and innovative approaches in funding applications. At the time of the audit, applications received by the Secretariat above the country allocation amounted to USD 5 billion. The Secretariat had awarded USD 704 million from the USD 950 million available as incentive funding. In-country stakeholders felt that the process of separating critical interventions from ambitious and innovative interventions required a high level of effort which, in some cases, was not commensurate to the additional funding obtained.

The audit noted that incentive funding is not meeting its intended objectives of stimulating ambitious and innovative approaches in the concept notes. This is because countries do not effectively separate critical interventions that should be funded within their allocation from ambitious and innovative interventions that could be funded from incentive funding. Instead, countries have been including core interventions in the "above allocation" request in a bid to attract additional funding, thus defeating the objective of incentive funding. This issue was also been noted in the Technical Review Panel's report on applications received during the third and fourth window.[17]

With regard to operationalizing this concept, the audit noted that the basis of awarding the incentive funding, though defined, was not consistently applied. This is demonstrated in the large deviations in amounts proposed by the Technical Review Panel for grants in two High Impact countries under the fourth review window compared with the sums approved by the Grant Approvals Committee.[18] Since the basis for determining the funding is pre-defined, there should not be significant variations. These variations have been less pronounced in subsequent review periods.

Counterpart funding: In line with the Global Fund's core principles of additionality, country ownership, and sustainability, the 'counterpart funding and willingness to pay' concept aims to mobilize additional resources to achieve the Global Fund Strategy 2012-2016. The OIG noted that the Secretariat lacks effective mechanisms to enforce this requirement. While all the in our sample had made firm commitments to meet counterpart funding thresholds during grant-making, no mechanisms were in place to ensure that this commitment would be fulfilled post grant signature.

> *"The challenge is in translating willingness to pay into firm commitments and having effective monitoring tools for measurement".*
> Survey respondent

- Countries are expected to increase their contributions to both the health sector and the national disease programs, but there is no criteria to define which interventions governments should be funding.
- While countries submit commitments in the form of letters or budgetary allocations, there are no institutional requirements at the Secretariat to track and ensure that commitments are made as stipulated during grant-making.
- Fifteen percent (15%) of a country's allocation is only accessible once governments have met their funding commitments. However at the time of the audit, there was no safeguard in the Secretariat's disbursement processes that ensured that this requirement will be enforced.

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[17] 72% of the Technical Review Panel members acknowledged that incentive funding is not meeting its intended objectives.
[18] The Grant Approvals Committee determines the upper ceiling for incentive funding based on the Technical Review Panel's assessment of technical soundness of proposals.

Sustainability: Counterpart funding commitments typically only cover the funding period (2014-2017) and do not focus on ensuring sustainability beyond the current funding cycle. Countries are not required to prepare plans that reflect how programs will be sustained. This raises the risk that the gains from grants will not be sustained after the available funding is exhausted:

- There is an estimated USD 700 million funding gap for 12 lower income 'shortened grant duration countries'. The existing grant-making process does not reflect how critical activities will be supported until the next funding allocation.[19]
- The 2015 eligibility list published by the Secretariat identified countries not eligible for funding for certain diseases. While some of those countries may be supported through regional grants, it remains unclear how gains achieved in countries previously supported by Global Fund will be sustained. [20]
- The eligibility list also identified eight countries that will transition from Global Fund support under disease components. The grant-making policy does not emphasize the need for a plan to ensure that funding of core program activities remains uninterrupted following the transition.[21]

HIV/TB joint programming: The Global Fund requires that all countries with a high burden of TB and HIV co-infection (38 in total) submit joint concept notes to strengthen collaboration activities between the two programs. While 20 joint HIV/TB concept notes had been submitted and endorsed by the Technical Review Panel, the audit noted that in all these cases, two grant-making processes follow (one for each disease) with limited interfaces to support the implementation of the joint activities. As a result, the benefits of the joint programming as laid out in the approved concept notes including improved coordination, and care and treatment for co-infected patients, may not materialize.

Agreed management action 1:
Drawing from the 'lessons learned' exercises of the first implementation of grant-making under the new funding model (including the review of reports resulting from relevant Technical Review Panel, Technical Evaluation Reference Group and OIG engagements), the Secretariat will present options for refining the implementation of the following concepts to the Strategy Investment and Impact Committee:
i.   Incentive funding;
ii.   Counterpart financing/willingness to pay including transition arrangements for middle income countries;
iii.   Joint TB/HIV programming; and
iv.   Measures to support sustainability in countries transitioning from Global Fund.

Owner: Head of Policy Hub
Due date: 31 December 2016

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[19] The Secretariat has initiated a portfolio optimization initiative to identify savings to support activities in such countries
[20] The Global Fund eligibility list identifies which country components are eligible to receive an allocation under the funding model
[21] The OIG acknowledges that the Secretariat is currently working on a policy to guide transition and sustainability issues

IV.3	Risk management processes within grant-making

Risk management tools and processes are not designed to support efficient and effective grant-making.
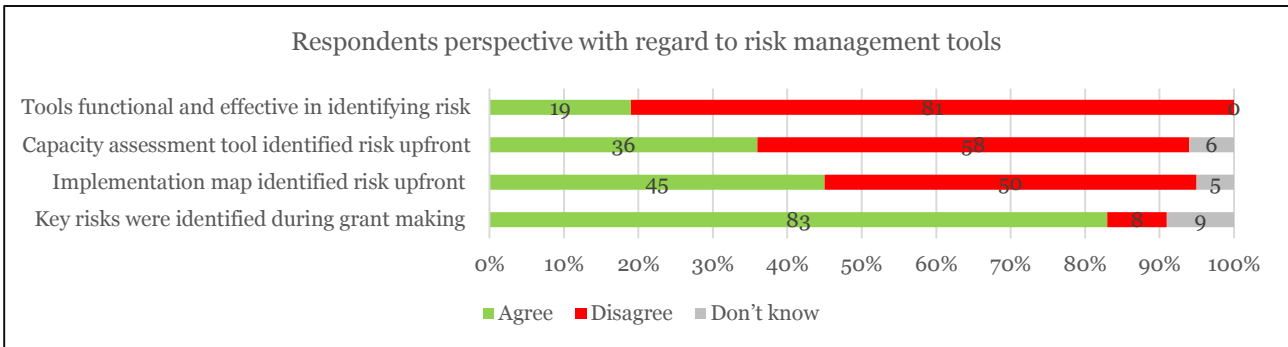
Grant-making aims to identify and pre-empt potential implementation challenges so that implementers 'hit the ground running' once grants are signed. This makes the identification and mitigation of risks that could affect the successful implementation of funded programs critical to the grant-making process. However, current risk management processes are inefficient and ineffective in supporting the identification of risks during grant making.

Risk management during grant-making not integrated with other risk related processes in the Secretariat: Risk management under the grant-making process is a standalone process that has not been integrated into other risk-related Secretariat tools and processes. While the guidelines require country teams to consider previous risk assessments, risk assessments under grant-making do not build on risk-related assessments previously undertaken and overseen by the operational risk committee. There is also no mechanism to ensure that risks identified during grant-making are tracked once implementation is underway. Secretariat data show that 90% of proposed implementers under the new funding model are already managing programs and have been assessed using the Qualitative Risk Assessment, Action Planning and Tracking tool. However, these implementers are re-assessed during grant-making using the capacity assessment tool that seldom takes into consideration risks identified in prior assessments.

Inefficiencies created by multiple tools that do not interface: Country Teams are required to complete multiple risk management tools during grant-making including the implementation map and the capacity assessment tool. The audit noted that there is limited interface between the different risk assessment tools and consequently the information has to be entered into different tools several times. There are no mechanisms in place to prevent discrepancies in the information entered.

While most respondents believe that key risks to program implementation are identified during grant-making, they do not feel that available tools help in the identification and management of risk in a structured way. The graph below reflects survey respondents' perspective on risk management during grant-making.

> *"It is not new tools that improve focusing on impact or managing risk. It is the organization-wide focus on impact and risk management that puts an extra emphasis on this."*
>
> Survey respondent

Respondents perspective with regard to risk management tools

	Agree	Disagree	Don't know
Tools functional and effective in identifying risk	19	81	0
Capacity assessment tool identified risk upfront	36	58	6
Implementation map identified risk upfront	45	50	5
Key risks were identified during grant making	83	8	9

Ineffective processes to identify and mitigate risk: The audit noted, through the review of 20 grants, that current risk management processes during grant-making do not effectively support the identification of risks:

- The tools primarily focus on checking the adequacy of internal controls to safeguard funds, with limited attention paid to key strategic risks that affect programs' achievement of impact. For instance, the tools do not identify the risk of low absorption which has been consistently identified as a challenge to the timely disbursement of funds.

- Risk assessments typically focus only on the Principal Recipient and do not cover sub-recipients, despite the fact that they often receive majority of funds and implement program activities. For instance, five out of the twenty grants reviewed where identified sub-recipients will handle significant proportion (average of 35%) of grant funds. However, there was no evidence that risks assessments were undertaken on the sub-recipients in these five grants.
- The Secretariat undertakes integrity due diligence screening on key implementing personnel before grants are signed. However, the audit noted from the 20 grants reviewed that this screening only covers personnel at the Principal Recipient level and does not cover sub-recipients.

Inadequate independent checks on the robustness of risk assessments: The audit found that risk assessments and the resulting mitigation measures are not subject to quality checking:
- The Secretariat does not validate the assessments undertaken by the Country Coordinating Mechanisms with regard to the Principal Recipient's compliance with the minimum standards.
- The Risk Department started to perform an independent quality check of the risk assessments and mitigation measures proposed by Country Teams in August 2015. However, it remains unclear how the outcome of such reviews are factored in the grant approval process.
- The grant-making guidelines require the Regional Managers or Department Heads to involve other Functional Managers[22] in reviewing high risks and complex portfolio. However, this was not consistently implemented, (with the exception of the Legal Department) as was noted in eight out of the 20 portfolios reviewed.

Agreed management action 2: The audit findings will be addressed through a previously Agreed Management Action in the OIG audit report GF-OIG-15-018.[23]

Owner: Chief Risk Officer
Target Date: 31 December 2016

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[22] This includes managers of the Monitoring Evaluation and Country Analysis, Health Product Management, and Legal Grant Management
[23] Audit of Global Fund Grants to the Republic of Ghana, Agreed Management Action 6

IV.4	**Cumbersome processes, heavy documentation and inadequate systems creating process inefficiencies**

The grant-making process is complicated by burdensome processes and lack of automated grant information system

The new funding model was promoted as a simpler process compared to the previous rounds-based system. A comparison of grant-making under the new funding model and grant negotiations under the rounds-based system shows that the deliverables under the two systems have to a large extent remained the same. However, what has changed is how grants are made under the two processes. The processes underpinning the production of grants, including the phases involving country dialogue and the preparation for Grant Approvals Committee meetings, coupled with the inadequate systems and tools, have made the process more cumbersome.

Limited differentiation in processes across the grant portfolio: The OIG noted that 33 grants account for a USD 8.8 billion of allocated funds, with 202 grants accounting for the remaining USD 6 billion. However, the grant-making process for all grants, regardless of size, has remained substantially the same. The Secretariat has initiated a project to differentiate the grant-making processes, based on the size and risk of each portfolio. While differentiation has reduced the process in some instances, it has been met with challenges including:

> *"The level of effort is too high-and the process heavy. It did not give sufficient time for strategic dialogue".*
>
> Survey respondent

- The same volume of documentation is required for all grants regardless of allocated amounts, assessed risk, and implementation arrangements.
- There is limited guidance on how differentiation can be operationalized and as a result, decisions are not made on the basis of risk. For example, 50% of the country teams did not tailor their capacity assessment tool based on the guidance that was available. Instead they completed 90-100% of the tool.
- Mechanisms to enforce differentiation were also not fully operational. For example while non-High Impact grants without major Technical Review Panel comments and incentive funding can be fast tracked at GAC 1 (that is exempted from the first Grant Approvals Committee review), only 54 grants had been fast tracked at the time of the audit.

Heavy documentation during grant making: The audit noted that, on average, 22 documents are submitted to the Grants Approval Committee meetings, compared to the eight core documents envisaged under the operational policy note. While the Grant Approval Committee members find all the documentation provided useful, they do not have time to review the documents provided. An analysis of the documentation prepared showed that reviewers and approvers have large volumes of documentation to absorb:

- For the first Grant Approvals Committee, an average of 10 documents are required; however, based on the purposes that the documents are used for, the OIG noted that only three documents are critical for decision- making.
- For the second Grant Approvals Committee, all critical information required for decision making is contained in the sign-off form. However, 11 other documents are also provided to the Grant Approvals Committee.

The volume of documents required impacts the timely submission to the Grant Approvals Committee (10 days before the meeting). The Secretariat does not track the timeliness of document submissions, but it is widely acknowledged that Country Teams do not submit grant documents on time. There are also no defined consequences for late submission. Consequently, there is risk that documents submitted late place additional burden on approvers' ability to undertake meaningful reviews of these documents.

***Inadequate information system to support grant making*:**
Grant-making was envisioned under an integrated information system designed to capture, process and share information at the Secretariat and country level. The information contained in the different approval documents is often duplicative and, because the systems are not linked, Country Teams have to re-type the same information in different tools, e.g. the modular templates and programmatic tables. The process to develop an automated system started in February 2014, with a projected completion date of February 2015. [24] The completion date and other timeline extensions have not been met, and following further complications, the Secretariat commissioned an independent diagnostic review which identified significant project execution issues and resulted in a complete overhaul of this integration initiative.

***Sub-optimal tools to support the process*:** In the absence of an integrated system, the Secretariat has developed interim[25] tools to support grant-making processes, including the performance framework, detailed budget template, health product quantities and costing tool, and capacity assessment tool. However, the Secretariat and in-country stakeholders continue to use these interim tools due to the failure to complete the automated system. The OIG found that many of the tools were not user-friendly and the lack of effective functionalities of these tools has created inefficiencies in the process:

- Heavy 'macros' embedded in the tools that require high bandwidth as well as high capacity computers to run. This has been particularly challenging for certain in-country stakeholders. This was caused by the inadequate involvement of the information technology team in developing the tools which would have mitigated many of the technical issues faced.
- The Capacity Assessment Tool cannot be used offline, which creates significant challenges for recipients where internet access is not reliable or readily available. The tool also lacks an auto-save functionality, resulting in the loss of data when tools crash or where there is an electricity outage. As a result, Secretariat staff and in country stakeholders spend considerable time re-entering lost information.
- The operating systems on which the capacity assessment tool runs, Infopath, is not compatible with typical systems at country level which affects the systems' processing speed.
- Tools such as the budget template contained formulae errors and therefore Secretariat and in-country stakeholders waste time waiting for the bugs to be fixed.[26] These arose because tools were not piloted in order to identify and address the issues before the full roll-out. In addition, technical support for the tools was limited because their usage was expected to be temporary.

Stakeholders at Secretariat and country level expressed a high level of dissatisfaction with the grant-making tools. This notion was reinforced by 81% of survey respondents stating that grant-making tools are ineffective. Respondents estimated that they spend 25% of their time dealing with tool-related matters. To reduce issues experienced, most stakeholders have resorted to working off line and then re-entering data online which also is inefficient.

> *"It was extremely stressful to fight the three diseases plus the disease of IT tools".*
> Survey respondent

***Change management process could have been stronger*:** The Secretariat put measures in place to support the successful roll out of the grant-making process including defined and documented processes, tools to support the process, training of staff, evaluation of pilot test cases and amending processes in response to lessons learned, and ongoing support to staff through 'situation rooms'[27]. However, the effective transition from the old to new grant-making processes was affected by the following:

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[24] Staggered releases of the different functionalities were expected to start in July 2014

[25] The tools were meant to be a temporary solution until the full roll-out of the automated system

[26] At the time of the audit, the Secretariat had initiated steps to revise some of the tools including the budget template

[27] A team of disease specialists and technical partners that supported country teams in dealing with disease or country specific issues

- Pilot test cases started before processes had been initially defined and documented. As a result, grant-making processes that were rolled out in March 2014 had not been effectively tested and led to inefficiencies.
- Stakeholders at country level did not receive adequate training in the use of some of the new tools before they were rolled out. In particular, limited training was provided on the budget template and capacity assessment tool.
- Once processes had been defined, they were not allowed to stabilize or be embedded before further changes were rolled out, resulting in repetition of steps by staff to comply with newly established processes. Examples include the introduction of a pre-GAC meeting and the requirement to sign-off final grant-making forms which required Country Teams to re-performing certain processes.

Agreed management action 3:

As part of the ongoing differentiation project, the Secretariat will consider various options in addressing the challenges including:

i.   Tailoring the required documents for GAC decisions in line with size of portfolio and risk involved;
ii. Simplification of grant-making processes for defined grants;
iii. Allocation of resources to support significant and high risk portfolio when necessary.

Owner: Head of Grant Management
Target Date: 31 December 2016

Agreed management action 4:

Project "AIM" was recently launched to revisit and deliver business and solution designs for grant management and should be completed as scheduled. However, in the short term, the Secretariat will enhance the functionality of the existing grant-making tools including capacity assessment tool and budget template by fixing known functionality issues.

Owner: Head of Grant Management
Due date: 31 December 2016.

IV.5	Limitations in grant approval governance mechanisms

Governance mechanisms around grant approval require strengthening

The Secretariat's senior management team, through their role as the Grant Approvals Committee members, approves the upper ceiling of funding that is available under each grant. They also assess the readiness of each grant before they are submitted to the Board for final approval. Stakeholders interviewed generally found Grant Approvals Committee comments were helpful for preparing grant documents. The majority of survey respondents (70%) appreciated the value that Grant Approvals Committee and Technical Partners bring to the discussions. However, there several areas for improvement in the grants approval process.

Limited effectiveness of the Grant Approvals Committee: As noted in finding number 1, grants have been recommended for Board approval that could not be signed because certain new terms and conditions introduced under the new funding model had not been agreed with the countries. These included mandatory tax exemption, making efforts in according privileges and immunities to the Global Fund, and strengthened "right of access" provision. This raises questions on the effectiveness of the Grant Approvals Committee in ensuring that grants submitted to the Board for approval are disbursement-ready. The Secretariat has initiated a review of grant documents in preparation for the Grant Approvals Committee meetings (known as "pre-GAC"). While this process is encouraged, its application is not clear and the membership and deliberations is variable in practice.

Inadequate documentation of changes to Committee decisions: The OIG noted differences between amounts approved at Grants Approval Committee meetings and amounts indicated in the report submitted to the Board for approval. For 3 out of 20 grants reviewed, the OIG audit noted that amounts approved at the committee's meeting were revised by Country Teams to correct errors identified in the calculation of the final grant amount. While the committee approved the Board reports, the changes were not highlighted in the committee's report.

Inadequate governance over special initiatives: The Board approved USD 100 million to support countries through special initiatives not adequately accommodated through the overall allocation. At the time of the audit, USD 24m out of the USD 100m had been disbursed. While grant-making for the indicative, incentive and regional allocations follows the same process, the modalities for countries accessing funds under the special initiatives are different.

At the time of the audit, the Secretariat was defining the processes to follow to enable countries to access funding under the various special initiatives.

Agreed management action 5:
 The Secretariat will re-evaluate the governance mechanism of the grant approval process including:
i.   The documentation produced in between the Grant Approval Committee meetings and Board approval includes evidence that GAC members are made aware of any changes that may occur between management discussions at GAC meeting and GAC report being sent to the Board;
ii.   Ways to mainstream and optimize the pre-GAC preparatory meetings to ensure a smooth and effective run of the GAC meeting itself.

Owner: Head of Strategic, Investment and Impact Division
Due date: 30 June 2016

V. Table of Agreed Actions

No.	Category	Agreed Action	Target date and owner
1	Challenges in implementing critical components of the new funding model	Drawing from the 'lessons learned' exercises of the first implementation of grant-making under the new funding model (including the review of reports resulting from relevant Technical Review Panel, Technical Evaluation Reference Group and OIG engagements), the Secretariat will present options for refining the implementation of the following concepts to the Strategy Investment and Impact Committee: i. Incentive funding; ii. Counterpart financing/willingness to pay including transition arrangements for middle income countries; iii. Joint TB/HIV programming; and iv. Measures to support sustainability in countries transitioning from Global Fund.	Owner: Head of Policy Hub Due date: 31 December 2016
2	Risk management processes within grant making	The audit findings will be addressed through a previously Agreed Management Action in the OIG audit report GF-OIG-15-018	Owner: Chief Risk Officer Target Date: 31 December 2016
3	Cumbersome processes, heavy documentation and inadequate systems creating process inefficiencies	As part of the ongoing differentiation project, the Secretariat will consider various options in addressing the challenges including: i. Tailoring the required documents for GAC decisions in line with size of portfolio and risk involved; ii. Simplification of grant-making processes for defined grants; iii. Allocation of resources to support significant and high risk portfolio when necessary.	Owner: Head of Grant Management Target Date: 31 December 2016
4	Cumbersome processes, heavy documentation and inadequate systems creating process inefficiencies	Project "AIM" was recently launched to revisit and deliver business and solution designs for grant management and should be completed as scheduled. However, in the short term, the Secretariat will enhance the functionality of the existing grant-making tools including capacity assessment tool and budget template by fixing known functionality issues.	Owner: Head of Grant Management Due date: 31 December 2016

| 5 | Limitations in grant approval governance mechanisms | The Secretariat will re-evaluate the governance mechanism of the grant approval process including:
i. The documentation produced in between the Grant Approval Committee meetings and Board approval includes evidence that GAC members are made aware of any changes that may occur between management discussions at GAC meeting and GAC report being sent to the Board;
ii. Ways to mainstream and optimize the pre-GAC preparatory meetings to ensure a smooth and effective run of the GAC meeting itself. | Owner: Head of Strategic, Investment and Impact Division

Due date: 30 June 2016 |

Annex A General Audit Rating Classification

Highly Effective	**No significant issues noted**. Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.
Generally Effective	**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.
Full Plan to Become Effective	**Multiple significant and/or (a) material issue(s) noted. However, a full SMART (*Specific, Measurable, Achievable, Realistic* and *Time-bound)* 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.
Partial Plan to Become Effective	**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.
Ineffective	**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.

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.