



## The Office of the Inspector General

Report on Lessons learnt from  
the country audits and reviews undertaken

Report No: TGF-OIG-09-002  
Issue Date: 3 September 2009

## Table of contents

Acronyms .....	4
Executive summary.....	7
Introduction.....	7
Purpose and objectives .....	7
Scope .....	7
Summary of lessons learnt.....	7
Audit recommendation implementation status.....	10
Background.....	12
Overview.....	12
Objectives of the review .....	12
Scope of the review.....	12
Recommendations .....	13
Summary of country audit findings .....	14
Bolivia.....	14
Zambia.....	15
Indonesia .....	15
Kenya.....	16
Sierra Leone.....	17
India Supply Chain Management.....	18
Zimbabwe .....	19
Tanzania .....	21
Review of the suspension/termination process for Global Fund grants (Ukraine, Myanmar, Uganda, Indonesia and Chad) .....	22
Lessons learnt .....	27
Country Coordinating Mechanism .....	27
Effectiveness of the CCM in executing its defined roles.....	28
Principal Recipient .....	30
Compliance with grant agreement clauses.....	30
Procurement and logistics management of pharmaceutical products.....	33
Salaries and allowances paid out of Global Fund grants.....	35
Financial management systems .....	36
Monitoring and evaluation .....	37
Pass through PRs.....	39
Slow program implementation.....	40
Secretariat oversight .....	44
Risk identification and mitigation procedure.....	44
Implementation status of audit recommendations .....	45
Indonesia .....	47
Zambia.....	47
Sierra Leone.....	47
Bolivia.....	48
Kenya.....	48

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

Table 1: Audit recommendations Implementation Status .....	11
Table 2 Summary of common issues.....	26
Table 3 Audit recommendations Implementation Status.....	46
Table 4 Summary of the audit recommendations status for Indonesia.....	47
Table 5 Summary of audit recommendations implementation status for Zambia .....	47
Table 6 Summary of audit recommendations implementation status for Sierra Leone	48
Table 7 Summary of audit implementation status for Bolivia .....	48
Table 8 Summary of audit recommendations implementation status for Kenya .....	48

### Acronyms

ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immune Deficiency Syndrome
AMREF	African Medical and Research Foundation
ARG	Aids Response Group
ART	Anti Retroviral Therapy
ARV	Antiretroviral
CAG	Comptroller and Auditor General
CBOH	Central Board of Health of the Republic of Zambia
CBS	Capacity Building Services
CCM	Country Coordinating Mechanism
CHAZ	Churches Health Association of Zambia
CIES	Centro de Investigación, Educación y Servicios
CP	Conditions Precedent
CPDO	Country Programs Director's Office
CSO	Civil Society Organization
CTD	Central TB Division
DDMF	Disbursement Decision Making Form
DIR	Detailed Implementation Review
DKI	Jakarta Provincial Implementing Unit
DP	Development Partners
DR	Disbursement Request
EMT	Executive Management Team
FMA	Financial Management Agent
FM	Fund Manager
FMS	Financial Management System
FPMs	Fund Portfolio Managers
GFIs	Global Fund Investments
GNI	Gross National Income
GOI	Government of India
GOT	Government of Tanzania
HIS	Health Information System
HIV	human immunodeficiency Virus
HMIS	Health Management Information System
LFA	Local Fund Agent
LUDHB	Lusaka District Health Board
LLINs	Long Lasting Insecticide Treated Nets
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MERG	Monitoring and Evaluation Reference Group
MOA	Memorandum of Agreement
MOF	Ministry of Finance

## Lessons learnt from the country audits and reviews undertaken by OIG

---

MOFNP	Ministry of Finance and National Planning
MOH	Ministry of Health
MOHCW	Ministry of Health and Child Welfare
MOH & FW	Ministry of Health and Family Welfare
MOHS	Ministry of Health and Sports
MOHSW	Ministry of Health and Family Welfare
MOU	Memorandum of Understanding
MSD	Medical Stores Department
NAC	National AIDS Council
NACC	National AIDS Control Council
NACO	National AIDS Control Organization
NAS	National Aids Secretariat
NatPharm	National Pharmaceutical Company of Zimbabwe
NGO	Non-Governmental Organization
NLTP	National Leprosy and Tuberculosis Program
NMCC	National Malaria Control Centre
NMCP	National Malaria Control Program
NVBDCP	National Vector Borne Disease Control Program
OIG	Office of the Inspector General
OPC	Operational Policy Committee
OPN	Operational Policy Note
PA	Procurement Agent
PAYE	Pay As You Earn
PBF	Performance Based Funding
PC	Procurement Consortium
PHPM	Pharmaceutical and Health Products Management
PIC	Pharmaceutical Inspection Cooperation Scheme
PIE	Program Impact and Effectiveness Unit
PIs	Program Implementers
PMU	Procurement Management Unit
POs	Program Officers
PR	Principal Recipient
PSC	Policy and Strategy Committee
PSI	Population Services International
PSM	Procurement and Supply Chain Management
PU/DRs	Progress Update and Disbursement Requests
RBM	Roll Back Malaria
RCC	Rolling Continuation Channel
SLRCS	Sierra Leone Red Cross Society
SPE	Strategy , Policy and Evaluation Cluster
SRP	Screening Review Panel
SR	Sub Recipient
SWAp	Sector Wide Approach

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

TACAIDS	Tanzania Commission for AIDS
TB	Tuberculosis
TOMSHA	Tanzania Output Monitoring System for non Medical HIV and AIDS intervention
TOR	Terms of Reference
TRP	Technical Review Panel
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Program
UNOPS	United Nations Office for Project Services
US\$	United States Dollars
USAID	United States Agency for International Development
VCT	Voluntary Counseling and Testing
VPP	Voluntary Pooled Procurement
WHO	World Health Organization
Z\$	Zimbabwe dollars
ZACH	Zimbabwe Association of Church Related Hospitals
ZNAN	Zambia National AIDS Network

### Executive summary

#### Introduction

1. Since its inception in 2005, the Office of the Inspector General (OIG) as part of its mandate to provide assurance on grant processes and other main business processes, has undertaken a number of country audits and reviews of processes at the Global Fund Secretariat. As part of its 2009 work plan, the OIG has synthesized the issues arising from the audits/reviews undertaken to identify common issues emerging, identify their likely causes and make recommendations to strengthen grant processes.

#### Purpose and objectives

2. The objectives of the OIG's review were to:
- (a) Identify common critical issues cutting across the countries audited as well as underlying causes. Recommendations have been developed to address causes of common critical issues with a view to strengthen policies, internal controls etc and ensure that the risk that these issues will recur is mitigated; and
  - (b) Review the status of implementation of audit recommendations of country audits executed prior 2008 to determine the adequacy and timeliness of actions taken in response to reported audit findings.

#### Scope

3. The review covered the following country audits/reviews undertaken by OIG to date namely:
- (a) Audits undertaken in 2006 i.e. Indonesia, Zambia, Sierra Leone and Bolivia;
  - (b) Audits undertaken in 2007 i.e. Kenya;
  - (c) Audits/reviews undertaken in 2008 i.e. Zimbabwe, India and the review of suspension/termination process for Global Fund grants (Ukraine, Myanmar, Uganda, Indonesia, and Chad); and
  - (d) Audits undertaken in 2009 i.e. Tanzania.

#### Summary of lessons learnt

##### Country Coordinating Mechanism

##### Conflict of interest

4. There were various conflicts of interest noted in the country CCMs. This arose mainly from PRs and SRs sitting on the CCM which affected the objectivity and independence with which the CCM executed its various roles. While most CCMs had

## Lessons learnt from the country audits and reviews undertaken by OIG

documented conflict of interest policies that conformed to the Global Fund guidelines, there was no evidence by OIG that these policies were in operation. Moreover, the Global Fund policy on conflict of interest does not address conflict of interest arising from PRs and SRs sitting on CCMs. The Global Fund policy should be extended to address the most common conflicts of interest that arise at CCM level and put in place mechanisms to confirm compliance to this policy.

### Effectiveness of the Country Coordinating Mechanism (CCM) in executing its role

The CCMs were not executing their roles as defined in the Global Fund guidelines. Evidence of this was seen by (a) lack of mechanisms in place to oversee Global Fund programs as required; (b) engaging in operational matters at the expense of its oversight/policy setting/strategic role; (c) failure by the CCMs to identify and rectify key issues that affected Global Fund programs; (d) lack of mechanisms to verify and/or monitor the performance/results reported by the PRs. This resulted in poor and ineffective oversight management of Global Fund programs. The Country Programs Cluster should strengthen the CCM capacities to undertake their oversight role by putting more emphasis and resources into developing training manuals and grant oversight management tools.

### **Principal Recipients**

#### Compliance with grant agreement clauses

5. In all the countries audited, there were instances of PRs not complying with the grant agreement clauses. The Global Fund does not currently have in place mechanisms to 'police' and enforce compliance with grant agreement clauses. The common areas of PR non compliance with Global Fund grant agreement clauses were (a) having external audit arrangements in place for both PRs and SRs. The PRs in Indonesia, Bolivia, Zimbabwe, Sierra Leone and Uganda had no audit arrangements in place for SRs; (b) complying with reporting dates by PRs to Global Fund where all PRs audited submitted their reports late to Global Fund; (c) Weak SR management by PRs characterized by failure by PRs to institute good control of the management of grants; and (d) conditions precedent to disbursements were not always met before disbursements were effected. The Global Fund should institute measures where compliance of the PR with grant conditions and applicable country laws is closely monitored and sanctions imposed for continued failure to meet conditions.

#### Procurement and logistics management of pharmaceutical products

6. Procurement and logistics management of pharmaceutical products was not executed in line with best practice and Global Fund guidelines. There were instances where value for money was not realized e.g. in Zimbabwe where all procurements were made using restricted bidding. After approving the procurement and supply management (PSM) plan, the Global Fund does not have a mechanism to verify PRs' compliance with the procurement plan. Countries audited lacked adequate capacity to effectively forecast and quantify their medical needs which resulted in expired

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

drugs or stock outs e.g. in Uganda drugs worth over US\$ 2 million were about to expire at the time of the audit. OIG further noted that several PRs appointed procurement agents to enhance their procurement capacity. However, the Global Fund does not provide guidance through its policies on how PRs can contract and better manage these agents as well as how procurement capacity will be built at PR level so the latter can take over the procurement function with time. The Global Fund should strengthen its procurement oversight through the institution of procurement audits for the larger and/or riskier grants; put in place policies to guide procurement agent contracting and management; and provide PRs training in forecasting.

### **Salaries and allowances paid out of Global Fund grants.**

7. The payment of salaries and allowances to PRs and SRs is one of the areas most prone to abuse at country level. In all the countries that were audited, excessive “top up” salaries and allowances were being paid out of Global Fund grants when compared to those that were being paid by other development partners. It was observed that the Global Fund has not established a policy to define what is acceptable as payment for allowances and salaries. To mitigate this risk, the Global Fund should develop a policy to guide payment of salaries and allowances by PRs and SRs at country level.

### **Financial management systems**

8. OIG audits showed that most PRs audited had weak financial management and internal control systems characterized by lack of segregation of duties, insufficient policies and procedures, lack of budgeting and budgetary control, weak controls over advances to SRs, inadequate supporting documents to support expenditures incurred by third parties and inaccurate books of account making Global Fund grants susceptible to fraud. These risky factors were either not identified by the PR assessments undertaken by LFAs or if identified had not been remedied at the time of the audit. These control weaknesses should have otherwise be identified through the annual audit process.

### **Monitoring and evaluation**

9. Monitoring and evaluation frameworks for Global Fund grants in Kenya, Sierra Leone, Bolivia, Zimbabwe, India and Uganda were not operating effectively as evidenced by (a) set targets being unattainable; (b) lack of systematic mechanisms for collecting and verifying financial and programmatic data at SR level; (c) lack of approved M&E plans showing when, how and by whom monitoring should be undertaken; (d) lack of tools to assist SRs in reporting results etc. This affected the accuracy and timeliness of the results reported to Global Fund. In order to ensure that performance based funding is effective in Global Fund grants, Country Programs should work with the Monitoring and Evaluation team to strengthen the operationalisation of the policy on monitoring and evaluation. The involvement of

## **Lessons learnt from the country audits and reviews undertaken by OIG**

public health specialists during LFA verification of implementation should be mandatory with LFAs providing comments not only on the quantitative but also the qualitative aspects of the results reported by the PRs.

### **Local Fund Agents**

#### **Adequacy and quality of the work done by the LFAs**

10. The adequacy and quality of the work done by the LFAs has been affected by (a) lack of the right skill mix to execute their roles e.g. in country stakeholders expressed concern about the calibre of staff that was fielded by the LFA; (b) lack of effective execution of their role since many of the critical issues raised in the OIG country audits were obvious and should have been picked up by the LFAs as part of their assessment or verification of implementation; and (c) the TORs of the LFAs failed to respond to the specific risks associated with the Global Fund grants in different countries. The Global Fund was not therefore getting the level of assurance it contracted for. LFA TORs should reflect the risks identified at country level. In this way, the reviews undertaken by the LFA will become relevant and help identify critical emerging risks.

### **Secretariat oversight and risk management**

#### **Risk identification and mitigation process**

11. Country Programs is in the process of putting in place a risk management framework. The risk management framework under development by Country Programs, however, only identifies and categorizes levels of risk by country and not at the level of individual grants in that country. Identification of risks by grant would enable FPMs identify the critical success factors for the grant in order to achieve the results planned. Country Programs should expand the scope of the framework to include identification of events in country (i.e. at grant level) that are likely to affect Global Fund Investments. The impact of these likely events should be assessed and mitigating measures put in place. Additionally, FPMs should determine the critical success factors that would ideally guide the level of effort required in oversight and risk management.

### **Audit recommendation implementation status**

#### **Process to implement audit recommendations**

12. There was no formal process to ensure that OIG's audit recommendations were implemented in a timely manner. There was inadequate follow up of recommendations by country teams at the Secretariat, inadequate documentation to evidence implementation of recommendations and no alternative measures put in place to mitigate the identified risks for audit recommendations not implemented.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

13. Prior to 2008, OIG undertook 5 country audits and made sixty six recommendations but only thirty two (32) recommendations i.e. 48% were fully implemented at the time of this review as shown in the table below:

	Indonesia	Zambia	Sierra Leone	Bolivia	Kenya	<b>Total</b>	<b>%age</b>
Implemented	8	5	4	15	0	<b>32</b>	<b>48%</b>
Partially	1	0	7	3	7	<b>18</b>	<b>27%</b>
Not implemented	0	1	4	1	10	<b>16</b>	<b>24%</b>
<b>Total</b>	<b>9</b>	<b>6</b>	<b>15</b>	<b>19</b>	<b>17</b>	<b>66</b>	<b>100%</b>

*Table 1: Audit recommendations Implementation Status*

14. The responsibility for ensuring that the recommendations accepted and acted upon lies with the Secretariat. The Secretariat should develop a process to manage the receipt of a draft OIG report, processing of Secretariat and country recommendations, development of an action plan and follow up of the implementation of audit recommendations.

### **Background**

#### **Overview**

15. Since its inception in 2005, the Office of the Inspector General (OIG) has carried out country audits and several reviews of processes at the Global Fund Secretariat. The selection of country audits was based on a risk assessment framework which took account of factors such as size of grants, number of grants, fraud risk etc. Since a considerable body of work has been undertaken to date at country level, OIG considered it important to review the findings from this work, to see if they reflected any inherent risks that needed to be mitigated in the Global Fund grant making architecture.

#### **Objectives of the review**

16. The objectives of this review were to:

- (a) Identify common and critical issues across the countries audited as well as the underlying causes. Recommendations have been developed to address causes of common critical issues with a view to strengthen the grant making process both at the Secretariat and country level and ensure that the risk that these issues will recur is mitigated; and
- (b) Review the status of implementation of audit recommendations of country audits executed prior to 2008 to determine the adequacy and timeliness of actions taken in response to reported audit findings.

#### **Scope of the review**

17. This review covered the country audits/reviews undertaken by OIG to date. The scope of the country audits undertaken covered effectiveness of the work of the Country Coordinating Mechanisms (CCM), the Principal Recipients (PRs), the Local Fund Agent (LFA), and Sub-Recipients (SRs) and their interface with the Global Fund. The country audits undertaken were:

- (a) Indonesia, Zambia, Sierra Leone and Bolivia in 2006;
- (b) Kenya in 2007;
- (c) Zimbabwe and India in 2008; and
- (d) Tanzania in 2009.

18. With the exception of India, the objectives of undertaking the country audits were to: (a) assess the efficiency and effectiveness in the management and operations of grants; (b) measure the soundness of systems, policies and procedures followed; and (c) assess the risks the Global Fund grants were exposed to and the

measures taken to mitigate them. The objective of the India country audit was to provide assurance that the procurement, supply management and service delivery for Global Fund grant programs were undertaken efficiently and effectively and that well functioning quality assurance arrangements were in place.

19. Also covered was a review of the suspension/termination processes for Global Fund grants in Ukraine, Myanmar, Uganda, Indonesia, and Chad. It was undertaken in 2008 to identify lessons learnt from the suspensions and termination cases that had occurred in the Global Fund.

20. There were a wide range of findings in the audits undertaken. OIG chose to pay attention to only those findings that occurred in a number of audits. OIG applied “the rule of three” in indentifying which critical issues to address in this report. This means that if a weakness was identified in three country audits, it was assessed as a critical condition to draw to attention in this review. However, in exceptional circumstances, where a critical issue with wider implications was identified in just one audit, it has been referred to in this review. A critical issue is material if it has a significant negative impact on the achievement of the objectives of the Global Fund or it results in a significant risk of loss of funds.

### **Recommendations**

21. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist management in deciding on the order in which recommendations should be implemented. The categorization of recommendations is as follows:

- (a) *High priority*: Material concern, fundamental control weakness or non compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization’s interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;
- (b) *Significant priority*: There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization’s interests, weaken internal control, or undermine achievement of aims and objectives; and
- (c) *Requires attention*: There is minor control weakness or noncompliance within systems and proportional remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the organisation’s benefit.

## Summary of country audit findings

### Bolivia

22. Bolivia had three signed grants with the Global Fund at the time of audit in October 2006. The committed funds amounted to US\$17,509,843. The CCM voted for the change in PR for its three grants citing poor performance and therefore effective July 2006, UNDP became the Principal Recipient (PR) replacing Centro de Investigación, Educación y Servicios (CIES). At the time of the audit, grant implementation was behind schedule.

23. A summary of findings is provided below:

- (a) The CCM did not fully execute its oversight role as is stipulated in Global Fund guidelines.
- (b) The CCM statute, code of ethics and composition did not reflect Global Fund guidance e.g. CCM members were not selected by their constituencies as required and the calibre of representatives especially from Government was not of suitable seniority.
- (c) The audit revealed ineligible and unsupported costs. Ineligible costs are payments made for non program activities and unsupported costs are payments made without sufficient third party supporting documents to confirm that the expense has actually been incurred e.g. receipts.
- (d) CIES did not comply with conditions set out in the grant agreement, guidelines and country laws.
- (e) The internal control systems around procurement and supply management were inadequate and resulted in purchases that did not reflect value for money, expired drugs and stock outs.
- (f) The process for the selection of SRs was deficient.
- (g) Work plans, budgets and procurement plans prepared and approved for Global Fund grants were not followed.
- (h) The PR did not have a functional monitoring and evaluation framework to collect record and report results to the Global Fund.
- (i) Over 80% of the HIV funds were allocated to the National HIV Program. The poor performance of this program generally affected the overall performance of the HIV grant.
- (j) The LFA undertook several pieces of work that created a conflict of interest with its prescribed role under the Global Fund architecture.
- (k) Feedback on LFA findings was not provided to the country stakeholders.
- (l) The calibre of LFA staff assigned to undertake Global Fund work was questioned by various stakeholders.
- (m) There were no policies established by the Global Fund to guide the closure of grants.

### **Zambia**

24. The Global Fund had 15 grants in Zambia at the time of the audit (September 2006) spread amongst four Principal Recipients, namely the Central Board of Health of the Republic of Zambia (CBOH), Churches Health Association of Zambia (CHAZ), Zambia National AIDS Network (ZNAN) and Ministry of Finance and National Planning (MOFNP). The total grant portfolio was \$162 million with \$113 million disbursed through December 2006. The audit focused mainly on two PRs namely CBOH and CHAZ as well as a limited review of the internal control systems at ZNAN. The audit also covered two SRs, namely the National Malaria Control Centre (NMCC) and the Lusaka District Health Board (LUDHB) which were funded by the CBOH. At the time of the audit, grant implementation was behind schedule.

25. A summary of findings is provided below:

- (a) Allowances paid during training, workshops and duty travel for supervisory visits exceeded the approved rates of government grant recipients.
- (b) Basic financial management controls and procedures to safeguard Global Fund funds from misuse, loss and misappropriation were not being applied at some of the Government SRs.
- (c) Some expenditure incurred by PRs was not economical and effective. Some expenditure did not contribute directly to addressing the causes or the effects of the three diseases on targeted beneficiaries in Zambia.
- (d) Zambia's Global Fund grant programs had been implemented for over three years without a mid-term program evaluation which best practice calls for.
- (e) The large number of program bank accounts maintained by the PRs weakened internal control and posed the risk of misappropriation of grant funds.
- (f) The oversight and governance role of the CCM was ineffective.

### **Indonesia**

26. The Global Fund had four grants in Indonesia at the time of the audit (December 2006) managed by two directorates of the Ministry of Health as Principal Recipients, namely, the Directorate of Directly Transmitted Disease and the Directorate of Vector Borne Disease Control. The total grant portfolio was \$131 million with \$75 million disbursed through December 2006. The Directorate of Directly Transmitted Disease was managing two HIV/AIDS grants and one TB grant and the Directorate of Vector Borne Disease Control was managing one Malaria grant. A fifth grant, for TB, was signed in September 2006.

27. The audit work focused mainly on the Directorate of Directly Transmitted Disease of the Ministry of Health (MOH). Limited audit work was also carried out at the Directorate of Vector Borne Disease Control and covered receipt of grant funds and a review of the internal control system. Additionally three sub-recipients were

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

reviewed namely Jakarta Provincial Implementing Unit (DKI Jakarta), YSA Foundation (a local NGO) and the Ministry of Manpower and Transmigration. These were all recipients of Global Fund financing through the Directorate of Directly Transmitted Disease of the MOH. At the time of the audit, grant implementation was behind schedule.

28. A summary of findings is provided below:

- (a) There was a conflict of interest involving PR management and a SR (a local NGO-YSA Foundation) was owned by the authorized PR representative. It had sub-grants totaling more than \$1.2 million.
- (b) There was a lack of transparency in the procedures to select SRs.
- (c) CCM oversight of the PR was inadequate particularly regarding the development and implementation of all management action plans to address the findings of external audits and LFA verification of implementation.
- (d) The CCM Chairperson received incentive allowances from the PR which were not in line with program related expenditure.
- (e) Incentive allowances or salary supplements paid to civil servants involved in grant implementation or monitoring were excessive and unreasonable when compared to salary scales in the nation.
- (f) Some basic financial management controls and procedures to safeguard funds from misuse, loss and misappropriation were not being adequately applied e.g. segregation of duties, budgetary control, accounting for advances etc.

### **Kenya**

29. Kenya had approved grants amounting to US\$ 240 million with disbursements of US\$ 115 Million at the time of the audit (June 2007). Two of the eight grants were fully disbursed and closed. Of the remaining six grants, three were already under Phase 2 and the rest were still under Phase 1. The PR for these six grants was the Ministry of Finance (MOF). The MOF had two Sub Recipients (SRs) namely the Ministry of Health (MOH) and the National AIDS Control Council (NACC). The SRs had Program Implementers (PIs) below them, some of which were Civil Society Organizations (CSOs). Two other key stakeholders in the management of grants in Kenya were the Procurement Consortium (PC) which was responsible for procuring all grant commodities and the Financial Management Agent (FMA) that provided financial management services to SRs for the PR. Grant implementation was behind schedule.

30. A summary of findings is provided below:

- (a) Key grant operational and management structures such as the PR, CCM and SRs had not effectively fulfilled their expected roles and responsibilities. Additionally, the linkages between the stakeholders for the efficient and effective management of the programs had not been defined. This situation hindered collaboration and smooth functioning of the various grant structures in Kenya.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (b) While the Global Fund is committed to using existing in-country financial management systems for grant implementation where possible, in Kenya it resulted in significant delays in program implementation. An example is the Round 2 Phase Two HIV/AIDS funds disbursed to the PR by the Global Fund on 4 April 2007 which had still not reached implementing organizations at the close of OIG audit field work on 13 July 2007.
- (c) The PR had not fully embraced its role as defined in the grant agreement signed with the Global Fund.
- (d) The processes for the reporting and monitoring of results which underpin performance based funding were not operating effectively. The Monitoring and Evaluation procedures were ineffective as the PR had not established a systematic way of collecting and verifying financial and programmatic data at SR level.
- (e) The responsibility for programmatic monitoring for CSOs particularly under HIV was not well defined.
- (f) The CCM was not effectively undertaking its oversight role.
- (g) The process for the selection of CSOs and allocation of funds was not documented and it was not transparent.
- (h) Reports to the Secretariat were usually late and sometimes inaccurate i.e. not accurately compiled from SR reports. There was no clearly defined process for data preparation, review and approval of reports before they were sent to the Global Fund.
- (i) Instances of non compliance with grant agreement were noted.

### **Sierra Leone**

31. Sierra Leone had produced four successful grant proposals to the Global Fund by December 2006. The Sierra Leone Red Cross Society (SLRCS) was the designated Principal Recipient (PR) for the Malaria and TB grants and the National Aids Secretariat (NAS) was responsible for the HIV grant. Implementation of programs was through the Sub Recipients (SRs). The HIV grant had 38 SRs although only 27 were active. The TB grant had three SRs and the Malaria grant had eight. The disease interventions were led by the program offices in the Ministry of Health and Sports (MOHS) namely the Aids Response Group (ARG), the National Malaria Control Program (NMCP) and the National Leprosy and Tuberculosis Program (NLTP). The grants amounted to US\$ 32,786,854 at the time of the audit. Grant implementation was behind schedule especially for the Malaria and TB grants.

32. A summary of key issues were:

- (a) The CCM composition and roles were not compliant with Global Fund guidelines. Tools and procedures for overseeing proposal implementation had not been developed by the CCM in accordance with Global Fund requirements.
- (b) There was a lack of effective CCM oversight.
- (c) The audit revealed costs that were either ineligible or unsupported.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (d) The PRs did not comply with all the conditions that were set out in the grant agreement, guidelines and country laws.
- (e) The internal control systems around procurement and supply management were weak. This resulted in expiry of drugs as well as procurement processes that did not result in value for money.
- (f) One PR's capacity to manage Global Fund grants was inadequate as characterized by the weaknesses in grant management noted.
- (g) Excessive allowances were paid out of Global Fund grants.
- (h) Advances to staff and SRs were not properly accounted for.
- (i) There was no established criteria and process for the selection of SRs.
- (j) SR assessments were not properly undertaken; the objective of the assessments was limited to confirmation of existence as opposed to capacity to implement program activities.
- (k) PR monitoring and evaluation frameworks to collect, record and report results to Global Fund were not operating effectively.
- (l) The LFA role in Sierra Leone was inadequate in light of the weak internal control system and the risks that are inherent in Global Fund grants.

## **India Supply Chain Management**

### **Background**

33. Following Global Fund stakeholder concerns resulting from the World Bank's Detailed Implementation Review (DIR) report issued in January 2008, the OIG conducted an audit of the procurement, supply management and service delivery of its grant programs in India. The scope of the audit was limited to Global Fund grant programs being implemented by the three national disease control program divisions of the Ministry of Health and Family Welfare (MOH&FW) namely, the National AIDS Control Organization (NACO), Central TB Division (CTD) and National Vector Borne Disease Control Program (NVBDCP). In addition, audit tests and program visits were carried out in the states of Orissa, Andhra Pradesh and Karnataka. The audit sampled procurements made during 2007 to 2008 financed from Global Fund grant funds.

34. A summary of key issues is provided below:

- (a) United Nations Office for Project Services (UNOPS) was given responsibility for centralized procurement in April 2007 for all three diseases. OIG found delays in centralized procurement which was largely due to the multiple approval processes required and because at the inception of the contract, initial capacity deficiencies in UNOPS were being strengthened.
- (b) NACO guidelines, which OIG found to be appropriate, were in place and these were being followed to select new NGOs and assess existing NGOs. The performance of existing NGOs had been reviewed and poorly performing NGOs were no longer being used.
- (c) Serious shortcomings in storage arrangements compromised the efficacy of drugs and other health supplies such as test and diagnostic kits. In addition, the

- Government of India (GOI) needed to develop and apply standardized technical/design specification guidelines for storage facilities.
- (d) A significant stock-out of HIV Rapid Test Kits occurred due to the delivery of defective kits by one supplier. NACO quickly responded and immediately withdrew this supplier's consignment.
  - (e) The Smart Card project for management of information related to patients on ART which was planned for immediate roll-out needed thorough and independent evaluation. This was necessary because of the mixed results obtained during the pilot phase and the \$6.5 million investment required.
  - (f) The Malaria Program's vision and strategic direction needed to be translated into a strategic plan. Existing policies and guidelines had to be consolidated into a single up-to-date manual. Management and technical capacity needed considerable strengthening. In addition, the M&E system and reporting should draw on the success story of the TB programme in India.
  - (g) CCM needed to strengthen its oversight role by adopting an oversight plan.
  - (h) In addition, the CCM needed to put in place a fully staffed and functional CCM Secretariat led by an operating officer with experience in dealing with multiple stakeholders.
  - (i) There was scope for the Local Fund Agent (LFA) to give greater assurance to Global Fund by increasing the number of visits to program sites.
  - (j) The DIR had noted a number of indicators of fraud and corruption in World Bank projects. These involved international and national competitive bidding including collusion and flaws in bidding processes. The indicators could impact Global Fund grant programs. The MOH&FW took steps to mitigate the risk of fraud and corruption in procurement. Centralized procurement had become more transparent since the appointment of UNOPS in April 2007 as the procurement service agent. In addition, decentralized procurement was being strengthened with technical assistance from Crown Agents. The MOH&FW was also developing software for fraud and corruption detection that would be deployed at the central and state level entities handling procurement. However, there were continuing challenges in providing adequate programmatic and financial monitoring of grant programmes. Also, a mechanism for reporting allegations of mismanagement was planned, but was not yet in place.

## **Zimbabwe**

### **Background**

35. The Global Fund had a portfolio of five ongoing grants in Zimbabwe with an approved maximum value of US\$87,942,816 under Rounds 1 and 5. The Global Fund had disbursed US\$39,864,128 between 2004 and 2007. Zimbabwe's Round 8 proposal for funding amounting to US\$ 496,367,294 was approved at the November 2008 Global Fund Board meeting. The audit covered only Round 5 grants and all three PRs namely

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

The Ministry of Health and Child Welfare (MOHCW), the National AIDS Council (NAC) and the Zimbabwe Association of Church Related Hospitals (ZACH).

36. A summary of findings is provided below:
- (a) The economy of Zimbabwe was facing challenges relating to hyperinflation, an overvalued Zimbabwe dollar (Z\$), reduced foreign currency inflows, local and foreign currency unavailability, frequent monetary policy changes, human resource losses, high inflation rates in dollar terms etc. These and other conditions prevalent in the country affected the implementation of Global Fund programs in the country. The Global Fund as a funding mechanism has principles that govern its operations but the conditions in the country operated in a manner that frustrated the application of some of the basic Global Fund principles e.g. performance based funding, additionality, fixed term funding, fixed budgets etc.
  - (b) There were implementation delays across all the 3 PRs. These arose from delays in startup of grant activities, failure to access foreign and local currency, human resource issues, weak PR capacity to implement program activities, etc.
  - (c) The continued existence of Government entities like NAC and NATPHARM was threatened by the reducing value of the Government contribution and this placed a strain on funds from the Global Fund and other donors.
  - (d) PRs retained 6% of grants as administration fees. However, no justification for the percentage charged was provided.
  - (e) Instances were noted where funds were not used for program related activities.
  - (f) At the time of the audit, none of the PRs had been subjected to an audit of the Global Fund programs which is in breach of the conditions in the grant agreement.
  - (g) There were hardly any linkages between HIV and TB responses. With the scaling up of the HIV response, there needs to be linkages built between the HIV and TB responses to ensure that there is no duplication of scarce resources and that the programs run by the different PRs are complimentary of one another.
  - (h) There were significantly weak internal controls observed at ZACH and MOHCW e.g. the lack of policies and procedures to guide Global Fund expenditure, lack of effective management oversight of the finance function, weak controls over the program fixed assets, bureaucratic financial procedures, unsupported expenses etc.
  - (i) There were drug quantification and forecasting problems leading to the risk of expired drugs.
  - (j) Weaknesses were noted in the M & E framework. These included:
    - None of the PRs had approved disease specific M&E plans as required in the grant agreement.
    - Parallel systems for the collection and analysis of data were being established alongside the already existent Health Management Information Systems (HMIS). The creation of parallel systems further weakened the HMIS.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- Reporting to the Global Fund was always after the agreed upon date and there were several inaccuracies noted in the results reported.
  - The PRs did not carry out data quality checks.
- (k) There were no approved PSM plans at the time of the audit.
- (l) There were weaknesses noted in the contracting, definition of roles, reporting and operations of the Procurement Consortium that was appointed to carry out procurement on behalf of the PRs.
- (m) Stores management was poor as characterized by inaccuracies in stock records, variances between the quantities recorded on bin card and the Navision management system etc.
- (n) Whilst the composition of the CCM complied with the Global Fund guidelines, the non government members had not been selected by their own constituencies following a documented transparent process as is required in the Global Fund guidelines.
- (o) There were conflicts of interest noted at the CCM. Whereas CCM had a documented Conflict of Interest policy, it was not enforced.
- (p) The CCM has not provided adequate oversight to the key functional areas such as finance, procurement etc and was involved in operational issues at the expense of policy ones.
- (q) The nature of the environment in which the grants were being implemented and the challenges faced by the PRs required experienced and senior members of the LFA team to ensure sufficient coverage of risk. However, the LFA team was characterized by team members with inadequate experience and training.
- (r) The definition of the role of the LFA was not amended to address and reflect the country context.
- (s) Overall, most of the work done during the LFA assessments and verification of implementation, lacked sufficient depth to unearth the fundamental underlying problems experienced by the PRs which were identified in this OIG audit.

## **Tanzania**

### **Background**

37. At the time of the audit (February 2009), the Global Fund had a portfolio of twelve grant agreements in Tanzania amounting to \$ 820 million, of which \$ 384 million had been disbursed. The PR was the Ministry of Finance (MOF) but the authority to implement program activities was delegated to the Ministry of Health and Family Welfare (MOHSW) as the Lead Sub-Recipient for the public sector and three non-governmental organizations (NGO), namely, African Medical and Research Foundation (AMREF), Population Services International (PSI) and Pact Tanzania. MOHSW implemented its grants through three departments namely, the National AIDS Control Program (NACP) for HIV/AIDS; the National Leprosy and Tuberculosis (TB) Program (NTLP) for Tuberculosis; and the National Malaria and Control Program (NMCP) for Malaria. The Medical Stores Department (MSD), an autonomous organization under the MOHSW, was mandated by the Government of Tanzania (GOT)

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

to be responsible for procurement of medicines and health products. Service delivery under the public sector grants takes place in regional and district hospitals, health centers and dispensaries.

38. A summary of findings is provided below:

- (a) The procurement entities lacked the capacity to execute their mandated roles. This resulted in excessive delays in procurement activities of the Global Fund grant programs in Tanzania. This significantly affected grant implementation.
- (b) There was poor quantification and forecasting of medicines e.g. the forecasting of antiretroviral medicines for HIV/AIDS did not take into account variables such as actual consumption data, inventory, orders in transit and product losses, existing stock levels for drugs in the district stores and the Care and Treatment Centers.
- (c) The inventory control and stock management system at MSD could not be relied upon to give accurate information necessary to track and account for procurement, storage and distribution of medicines and other health products in the supply chain.
- (d) Storage capacity was overstretched at all levels of the supply chain which affected the storage condition of medicines and risked compromising the efficacy of the drugs.
- (e) The two main instruments developed for monitoring HIV/AIDS in Tanzania, the CTC2 Database managed by the NACP and the Tanzania Output Monitoring System for non-medical HIV and AIDS interventions (TOMSHA), are parallel to the National Health Information Management System (NHIMS).
- (f) PRs did not prepare and submit reports to the Global Fund in a timely manner. It was difficult to verify and establish the audit trail for these reports e.g. the PUDRs from TACAIDS were not supported by reports from sub recipients such as MOHSW because the data on indicators was collected through phone calls.
- (g) There were significant delays in disbursing grant funds received from the Global Fund to implementing organizations resulting in implementation delays.
- (h) There were several internal control weaknesses at PR and SR levels. These weaknesses were attributed to inadequate supervision of accounting staff, workload issues, high staff turnover and lack of relevant qualified and experienced finance/accounting staff to undertake routine financial control duties.
- (i) Implementing Organizations failed to obtain tax exemption on the purchase of both medical and non medical products for Global Fund grants.
- (j) There were multiple players involved in grant oversight in Tanzania with overlapping responsibilities and inadequately defined roles and responsibilities which invariably left gaps in ownership and fulfillment of grant oversight responsibilities.

### **Review of the suspension/termination process for Global Fund grants (Ukraine, Myanmar, Uganda, Indonesia and Chad)**

### **Background**

39. The review covered the four countries namely Ukraine, Uganda, Indonesia and Chad where the Global Fund suspended grants and the terminated grants of Myanmar. OIG obtained findings from the individual country reviews and used these cases to draw up conclusions for the Global Fund as a whole as lessons learnt. Except for Indonesia, a background and summary of the issues that led to the suspension/termination is provided below by country for Ukraine, Uganda, Myanmar and Chad. The suspension of grants in Indonesia was based on the findings from the OIG country audit and these findings have been highlighted already in paragraph 26-28 of this report and will therefore not be repeated in this section.

### **Ukraine**

40. At the time the review of the suspension/termination processes for Global Fund grants was undertaken (August 2008), Ukraine had signed six grant agreements with the Global Fund; three grants amounting to US\$ 7,577,976 with three PRs (MOH, UNDP and Ukrainian Fund to Fight HIV/AIDS) before the suspension and another three grants amounting to US\$ 129,470,733 post suspension. A summary of issues that led to the suspension of the grants in Ukraine is provided below:

- (a) The PRs were assessed by the LFA and found to have limited or no capacity to implement Global Fund programs but grants were signed on the premise that capacity would be developed during grant implementation. This did not happen as the grant progressed resulting in slow program implementation.
- (b) The CCM oversight of Global Fund programs was inadequate. The CCM was largely defined as dysfunctional as evidenced by it rarely meeting and being unable to take collective decisions and when made this was done in a non transparent manner.
- (c) The process for selecting SRs was not transparent and there were allegations of the payment of kickbacks to MOH from prospective SRs.
- (d) The procurement process did not follow best practice resulting in the selection of the highest bidder for the supply of ARVs.
- (e) There was a very low program implementation rate; only 4% of the approved grant amounts were utilized by the PRs one year into the initial two year grant period.

### **Myanmar**

41. At the time the review of the suspension/termination processes for the Global Fund grants was undertaken (August 2008), Myanmar had signed three grants with the Global Fund amounting to US\$ 35,680,724 and UNDP was the PR for all three grants. A summary of issues that led to the termination of the grants in Ukraine is provided below:

- (a) Tax exemption on all grant proceeds had not been secured by the CCM.
- (b) The exchange rates applied on grant proceeds were unrealistic.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (c) Access of Global Fund staff, the LFA, UNDP and the SRs to the implementing areas was restricted.
- (d) The CCM had not approved the program work plan and budget.
- (e) There was slow program implementation of the Tuberculosis, HIV and Malaria grant. Program activities had not commenced seven months after signing of all the grants.

### **Uganda**

42. At the time of the review of the suspension/termination processes for the Global Fund grants was undertaken (August 2008), Uganda had signed seven grant agreements with the Global Fund for amounts totaling US\$343 millions. The PR for all the grant agreements was the MoFPED. A summary of issues that led to the suspension of the grants in Uganda in 2005 is provided below:

- (a) The CCM did not execute its role as defined in the Global Fund guidelines.
- (b) Whilst the CCM structure conformed to Global Fund guidelines, there was no evidence that NGOs were elected by and after consultation with their constituencies.
- (c) The PR's management of the SRs was weak as evidenced by:
  - An SR selection that was not transparent. Selection criteria were set but this was not followed.
  - Assessments of SRs were not undertaken before disbursing funds.
  - MOUs were signed between the PR and SRs to define the roles and responsibilities of each selected SR but the SRs did not receive their copies of the signed contracts.
  - External audits of SRs were not conducted.
  - The PR did not effectively supervise the activities of SRs.
- (d) The internal controls over the procurement process were weak resulting in procurement of non health products on a non competitive basis. There were problems with drug forecasting and quantification resulting in stock outs and expired drugs.
- (e) There were weak internal controls observed at both the PR and SR levels e.g. advances amounting to US\$4,939,497 were not accounted for; several transactions did not have adequate supporting documents; budgets and work plans were not followed resulting in several expenses unrelated to the budget/work program; proper books of account were not kept; unsupported expenditures and where supporting documents were available, they were not genuine; and the PR/PMU lacked the capacity to implement.
- (f) The PR did not comply with clauses in the Global Fund grant agreement e.g. the PR did not comply with the host country's statutory requirements (the MOH failed to pay VAT), progress reports were not provided to the CCM and periodic reporting to Global Fund was always late.
- (g) Excessive allowances and salaries were paid out of Global Fund grants when compared to those paid by the host country and other DPs.
- (h) There was slow program implementation across all the programs.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (i) The M&E framework was weak as evidenced by weak data collection, processing and reporting of results often producing inaccurate data/results.

### **Chad**

43. At the time the review of the suspension/termination processes for the Global Fund grants was undertaken (August 2008), Chad had signed two grant agreements with the Global Fund for amounts totaling US\$20,822,665. The PR for the two grants was the Fonds de Soutien aux Activites en matiere de Population. A summary of issues that led to the suspension of the grants in Chad is provided below:

- (a) The PR had a very weak internal control structure. Gaps were identified in the accounting records maintained and there was non compliance with the established guidelines and procedures.
- (b) The management and monitoring of SRs was not satisfactory as evidenced by the difficulties in tracking funds at SR level, lack of training of SRs, lack of SR supervision, etc.
- (c) Instances of transactions that appeared fraudulent were identified. These included disbursements of funds to unidentified bank accounts, unsupported expenditures, inflated prices, poor quality products being procured etc.
- (d) The PR had not implemented recommendations from previous audits/ reviews.
- (e) There was a change of PR and PR signatories but these had not been communicated to the Global Fund.

44. A summary of common issues that occurred across the countries is provided in the table below:

## Lessons learnt from the country audits and reviews undertaken by OIG

	Indonesia	Zambia	Sierra Leone	Bolivia	Kenya	Zimbabwe	India	Ukraine	Myanmar	Uganda	Chad	Tanzania
Existence of conflict of interest in the CCM	√	√	√	√	√	√				√		√
CCMs ineffectively executed their roles	√		√	√	√	√	√	√		√		√
Failure to have external audits for SRs	√		√	√						√		√
Late reporting				√	√	√				√		√
Weak SR management by PRs	√	√	√	√		√		√		√	√	√
Weak logistics and stores management			√	√		√	√		√	√		√
Excessive salaries and allowances paid out of GF grants	√	√	√		√	√						
Proper books of account were not kept			√	√	√	√		√	√	√	√	
Budgeting and budgetary control was not in use			√	√	√	√						
Failure of SRs and PRs to account for advances			√			√				√	√	
Insufficient supporting documents			√	√	√	√		√	√			
Weak M & E frame work			√	√	√	√	√			√		√
Pass through PRs					√					√		√
Slow program implementation	√	√	√	√	√	√	√	√	√	√	√	√
Inadequacies in the work done by the LFAs.	√	√	√	√	√	√	√	√	√	√	√	√
Over priced procurement contracts	√		√	√		√		√				

Table 2 Summary of common issues

## Lessons learnt

### Country Coordinating Mechanism

#### Conflict of interest

There were various conflicts of interest noted at CCM level. These conflicts of interest arose mainly from PRs and SRs sitting on the CCM as voting members. This affected the independence and objectivity with which the CCM executed its various roles as well as the overall effectiveness of the CCM. There are policies by the Global Fund to provide guidance on conflict of interest. However, these policies do not cover the most common conflicts and are often not enforced.

45. There were several forms of conflict of interest noted at CCM level in Zimbabwe, Uganda, Kenya, Indonesia, Bolivia, Zambia, Tanzania and Sierra Leone. This mainly arose from having PRs and SRs sitting on the CCM. This affected the independence and objectivity with which the CCM deliberated and undertook its prescribed role. In other instances, it resulted in the CCM getting involved in the operational aspects of grant management and neglecting its policy and strategic role.

46. Most CCMs had documented conflict of Interest policies that required members to disclose the existence of any conflict of interest and reclude themselves from participation at the CCM meetings where deliberations and decisions being made related to them. At the time of the audits, there was no evidence that the policy was in operation as evidenced by CCM Secretariats having not received any conflict statements despite there being conflicts of interest noted. As a result, no waivers had been issued to CCM members with conflicts of interests and no evidence was seen of CCM members being recluded from deliberations that related to them.

47. The Global Fund has a conflict of interest policy that requires that when PRs and Chairs or Vice Chairs of CCMs are from the same entity, the CCM has a written plan in place to mitigate against this inherent conflict of interest. This plan should include, at a minimum, that the PR, or prospective PR, shall reclude itself from participation at the CCM meeting and should not be present during deliberations or decisions related to the CCM's monitoring and oversight of the PR.

48. The Global Fund policy is deficient in the following aspects:

- (a) It does not address the most common conflicts of interest noted i.e. PRs and SRs sitting on CCMs;
- (b) Although it caters for having plans to mitigate the risks that arise from the CCM conflicts of interest for CCM Chairs and PRs, this is usually not developed and where developed it was not being implemented. This implies that the risk arising from the conflicts of interest remains unmitigated.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

### ***Recommendation 1 (Significant)***

*The Global Fund policy should be extended to address the most common conflicts of interest that arise at CCM level. The Global Fund should put also in place mechanisms to ensure that the policy is implemented e.g. having a mechanism to confirm that this policy is complied with. This will ensure that the CCM remains independent and objective in undertaking its various roles.*

### **Effectiveness of the CCM in executing its defined roles**

The CCMs do not effectively undertake their roles resulting in weak oversight of Global Fund programs.
--

49. The Global Fund has defined the roles of the CCM and these are defined in the Global Fund guidelines. They are:

- (a) Coordination of the submission of one national proposal for funding;
- (b) Selection of one or more appropriate organization(s) to act as PR for the Global Fund grant;
- (c) Monitoring of the implementation of activities under Global Fund approved programs, including approving major changes in implementation plans as necessary;
- (d) Evaluating the performance of these programs, including of PR/SRs in implementing a program, and submit a request for continued funding prior to the end of the two years of initially approved financing from the Global Fund; and
- (e) Ensuring linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities, such as PRS or SWAps.

50. OIG noted varying levels of CCMs meeting the Global Fund defined roles. In the India, Ukraine, Uganda, Zimbabwe, Kenya, Indonesia, Bolivia, Tanzania and Sierra Leone audits, it was noted that the CCM's execution of its defined roles over Global Fund programs was ineffective. Oversight by most CCMs was weak with no mechanisms in place to oversee implementation of Global Fund programs as required. In other instances, it was noted that CCMs spent a lot of time on operational matters and this was at the expense of its oversight /policy setting/strategic role. Such involvement in the day to day management of grants affected CCMs' objectivity and independence and compromised their ability to provide effective oversight management of grants. By virtue of the way the CCMs are created, most CCMs are not accountable to anyone, their performance is rarely assessed and this impacts effectiveness as there is no defined mechanism that provides feedback to CCMs on the execution of their defined roles.

51. The Global Fund architecture places responsibility for oversight at country level with the CCMs. Oversight of Global Fund programs at country level was found to be weak as characterized by failure by the CCM to identify and rectify key issues that

affected Global Fund programs. Oversight by CCMs at best was characterized by PRs reporting to the CCMs. The timeliness and content of PR reports was inadequate as in most cases it did not highlight impediments to Global Fund programs. CCMs did not have mechanisms to verify and/or monitor the performance/results reported by PRs. LFA reports that cover the assessment of PR performance against targets were not shared with the CCMs. As a result information required by the CCMs to effectively undertake their oversight role was sometimes absent. The Secretariat is in the final stages of a pilot study to test a CCM oversight tool and educational materials that will guide the CCMs in focusing their attention on oversight.

52. The 9<sup>th</sup> Board meeting decided that the CCMs of all countries applying for funding must meet six eligibility criteria before their proposals were considered. Because this requirement is tied to funding, CCMs needed to demonstrate compliance to the 6 eligibility criteria at the time proposals were submitted. However, over the life time of the grants, cases of non compliance with the eligibility criteria were noted. The Global Fund does not have a mechanism in place to follow up on CCMs after grant approval to ensure compliance to the set eligibility criteria that were notified during proposal submission stage.

### ***Recommendation 2 (High)***

*Country Programs should put in place a mechanism to ensure compliance to the 6 eligibility criteria throughout the entire grant cycle and not only at the time of proposal submission. One of the ways to achieve this would be to mandate the LFA to review the operation of the CCM and ensure compliance to grant agreement requirements and CCM guidelines by attending some CCM meetings and quickly flagging CCM operation bottlenecks.*

53. The CCMs reviewed had not been able to create synergies between the different Global Fund grants and interventions for the three diseases. This was particularly so where PRs were different for the three diseases/grants. This is also aggravated by the Global Fund treating different proposals in isolation as opposed to building on earlier grants. As the oversight body, the CCM should devise a mechanism to define how the PRs should work together and how their activities can be better coordinated. This is important for interlinked activities e.g. HIV and TB interventions and in areas where the PRs may face a common problem e.g. managing the storage, issuance and distribution of drugs, monitoring and evaluation etc. Whilst a section on coordination and synergies between the different disease components are documented in the proposal document, these are not implemented. Such synergies would ensure greater impact of the Global Fund programs.

### ***Recommendation 3 (Significant)***

*The Global Fund should work towards building on earlier grant proposals as opposed to treating the different grants in isolation. CCMs as part of their oversight role should be encouraged to work towards creating synergies between disease interventions and related grants.*

54. The composition of the CCM as defined by the Global Fund brings together people from different backgrounds with limited or no clear understanding of what their role is. This is evidenced by the caliber of people that are sent to CCM meetings as well as some of the deliberations at CCM meetings. Because of the way CCMs are set up, they are rarely accountable to anyone in country and therefore their performance is not assessed. The Global Fund provides training and support to CCMs although only upon request. CCMs are covered at the annual regional meetings agendas held by Country Programs although representation at these meetings is limited to one or two CCM members.

### ***Recommendation 4 (Significant)***

*Assessments of CCM capacity should be undertaken as part of the LFA assessment of grant preparedness. Measures should then be put in place to address capacity gaps identified.*

## **Principal Recipient**

### Compliance with grant agreement clauses

PRs in the countries audited did not fully comply with the Global Fund grant agreement and applicable country laws. Such compliance would ensure that the conditions put in place to safeguard the Global Fund assets are operational and reduce the risks that Global Fund money is exposed to.

55. PRs are the entities legally responsible to the Global Fund, under a written Grant Agreement, to implement the proposal submitted and approved by the Board. The PR is obliged to comply with the signed grant agreement since the conditions stipulated therein mitigate risks identified as being inherent to Global Fund grants. In all the countries audited, there were instances of non compliance noted with grant agreements. The PRs are also obliged by the signed grant agreements to comply with the laws of the country which did not happen.

56. The common areas of non compliance by the PRs with the grant agreement were:

- (a) PRs are required to ensure that the purchase of any goods or service using the grant shall be free from taxes and duties imposed under laws in effect in the Host Country. OIG observed that PRs in India, Ukraine, Bolivia, Tanzania, Kenya and Sierra Leone failed to secure tax exemption on all goods and services purchased with Global Fund resources. Given that quite a significant proportion of the program funds go towards procurement of health and non health products, failure of countries to obtain tax exemption means that less money is available to fight the three diseases.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (b) PRs are required to appoint independent auditors and have them approved by the sixth month into project implementation. The external audit reports must be submitted to the Global Fund not later than six months after the period to be audited. The PR must also ensure that the financial statements of the SRs are subject to external audit. Under the same clause, the PR is required to maintain accounting books, records, documents and other evidence relating to the Program and the Agreement. Audits of PRs had not been undertaken in some countries like Zimbabwe. The PRs in Indonesia, Bolivia, Sierra Leone, Tanzania and Uganda had no audit arrangements in place for the SRs. PRs in Kenya, Bolivia and Chad did not keep proper books of accounts.
- (c) The Global Fund grants are meant to be additional to the resources that the Host Country receives from external and domestic sources to fight the three diseases. It is the PR's responsibility to ensure that this happens throughout the grant's life. There was no evidence seen in all the countries audited that the funds were additional. In addition, there were no mechanisms in place at country level to measure additionality of Global Fund monies.
- (d) The reporting dates by PRs to the Global Fund are determined and included in the grant agreement. The periodic reports were submitted late to the Global Fund in all countries audited. None of the PRs audited submitted annual reports to the Global Fund as required in the grant agreement. The delay in submitting reports inevitably affected disbursements by the Global Fund Secretariat and impacted on the results achieved.
- (e) In regard to PR management of SRs, the country audits i.e. Zimbabwe, Uganda, Indonesia, Chad, Bolivia, Zambia, Ukraine, Tanzania and Sierra Leone established the following:
- The agreements signed between the PRs and SRs were not adequate to safeguard Global Fund resources;
  - PRs did not assess selected SRs to determine if they had the required capacities to implement grant activities;
  - SRs selection processes were not properly defined and in some instances SRs were not selected in a transparent and fair manner;
  - Most PRs did not maintain proper systems to monitor the performance of SRs and ensure regular reporting from them in accordance with the grant agreement.
- (f) Most PRs did not comply with local laws especially in regard to deducting and remitting Pay As You Earn and National Social Security monies as required. This raised the risk of penalties.

57. The conditions set out in the grant agreements are meant to safeguard Global Fund assets and reduce the risks that the Global Fund monies are exposed to. The failure by PRs to comply with the conditions in the grant agreements leaves the Global Fund grants and assets exposed to the risk of loss. As the old adage goes

“what does not get measured, does not get done”. There is currently no mechanism at the Global Fund to ‘police’ and enforce compliance with grant agreements. Moreover, there are currently no sanctions imposed on PRs who fail to comply with grant agreements.

### ***Recommendation 5 (High)***

*The Global Fund should institute measures where compliance of the PR with grant conditions and applicable country laws is closely monitored and sanctions imposed for continued failure to meet conditions. This will ensure that the conditions put in place to safeguard the Global Fund assets are operational and therefore reduce the risks that Global Fund money is exposed to.*

### ***Recommendation 6 (High)***

*The conditions in grant agreements relating to additionality and payment of taxes may not be within the authority of the PR to enforce. PRs should report to the Global Fund cases where they have failed to comply with these conditions and the Global Fund Secretariat need to assess what measures can be put in place to dialogue with governments in order to ensure that they are enforced.*

### ***Recommendation 7 (Significant)***

*While additionality is one of Global Fund’s core principles, its compliance cannot be easily verified since there are no mechanisms at country level to measure it. The Global Fund should revisit the application of this principle at country level and define what it will accept as evidence of its application. Otherwise this principle will remain irrelevant and not operational at country level.*

58. Conditions precedent to disbursement are meant to address capacity gaps identified during the assessment of PRs. Conditions precedent have been set up for all the grants audited. However, OIG noted in Zimbabwe, Uganda, Kenya, Sierra Leone and Bolivia that disbursements had been made without meeting some of the conditions precedent. No evidence was seen of alternative measures being put in place to address the assessed risks that the conditions precedent were aimed at. The LFA is meant to alert the Secretariat about the conditions precedent that have not been met. OIG noted that LFAs did not alert the Secretariat of conditions not met and where they did, there was no evidence that this was taken into consideration in the grant making decision process.

### ***Recommendation 8 (High)***

*Country Programs should strengthen the process through which conditions precedent are complied with. This will strengthen the control environment within which disbursements are made and ensure that Global Fund grants are safeguarded. Areas that need to be considered are:*

- (a) What measures are in place to ensure that CPs are met before disbursement is effected;*
- (b) Who checks and clears the fulfillment of a CP;*
- (c) When can CPs be waived;*

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (d) *What controls are in place to ensure that once CPs are waived, other mitigating factors are put in place to address the initial risks identified; and*
- (e) *Who would authorize the waiving of a CP.*

### Procurement and logistics management of pharmaceutical products

Procurement has been identified in the five year evaluation as one of the key risk areas that can compromise the successful implementation of Global Fund grants. Instances were noted in OIG audits where the procurement process did not result in value for money. Logistics management was found to be ineffective in most countries audited resulting in stock outs and/or expired drugs.

59. The Global Fund requires that the PR's procurement and supply management capacity be assessed before grant disbursements related to procurement of health products are undertaken. Once the procurement plans are approved by the Global Fund, the PR implements the plan. A review of a sample of procurements in Kenya, Uganda, Bolivia, Sierra Leone, Tanzania and Zimbabwe revealed instances where the procurement process did not result in value for money.

60. OIG observed instances where the Global Fund policy on procurement as well as best practice was not followed. Instances were noted where the lowest bidder was not awarded the contract. In Sierra Leone, the contract to import LLINs was awarded to middle men and not directly to manufacturers resulting in higher prices. In Zimbabwe, all the procurements were made using restricted bidding i.e. bids were sought from a selected number of suppliers without taking into consideration the value of the procurement. In Bolivia, the procurement procedures did not comply with best practice as several exceptions were noted with the procurement method used, evaluation processes and eventual award of contracts.

61. There is no mechanism in place to verify the PR's compliance with the procurement plan. Oversight over the procurement process has been restricted to assessment of procurement plans with hardly any monitoring of PRs being undertaken after the approval of the plan. It is estimated that procurement of drugs and other commodities represents approximately 50% of total grant funds. Emphasis has only been placed on health products leaving oversight over non health products inadequate although a lot of procurement is in this area.

#### ***Recommendation 9 (High)***

*The Global Fund should increase its procurement oversight over the procurement and supply management process after the approval of the PSM plan. This can be either by the LFA or an independent evaluator to ensure proper utilization of guidelines and funds. This can include procurement audits to determine that proper procurement processes have been followed and that value for money is obtained. LFAs should be required to report on procurement and logistics management as part of the Phase 2 process.*

62. OIG noted in all the countries audited that there were either stock outs and or expired drugs. The underlying reason for this was usually weak forecasting and poor quantification of drugs required for the program. The linkages between forecasting, purchase of drugs and reporting for decision making were also weak. Country systems to ensure effective delivery of drugs to where they are needed were also found to be weak. An example is Uganda where drugs worth over US\$ 2 million were about to expire at the time of the review. There were no mechanisms in the stores to warn about the likelihood of stock outs/expired drugs and these were only noted after the event.

### ***Recommendation 10 (High)***

*The Global Fund should ensure that as part of its capacity building drives, PRs get the requisite training in forecasting drug requirements. This can be undertaken in conjunction with other technical partners in the regions.*

### ***Recommendation 11 (High)***

*The procurement specialist and health specialists that form part of the LFA team should periodically advise on the reasonableness of purchased drug quantities.*

### ***Recommendation 12 (Requires attention)***

*Country Programs should consider devising a mechanism where countries within regions are able to share information and seek solutions to stock outs (actual or imminent) and expired drugs since in some cases, drugs that are about to expire in one country are in short supply in a neighboring country.*

63. LFA procurement assessments usually identify the lack of capacity to procure as an impediment to implementation. In these instances, the option taken is usually to recruit a third party procurement agent to assist with the procurement. There were procurement agents noted in India, Kenya, Uganda and Zimbabwe. There have been weaknesses identified with the third party agents from the points of contracting with the agent to management of the procurement process by the PRs. This in most cases has resulted in the inefficient running of the procurement process.

64. Although agents are supposed to be a 'stop gap measure', most PRs did not have plans to take over the procurement from the agents. This works counter to the Global Fund principle of not building parallel structures. At the time of the Kenya audit, OIG noted that contracts had been placed for US\$ 11m under Round 2 Phase 1 for which funds had not been disbursed by the Global Fund. This indicated a failure in controls at the PC and at the MOH. There is no guidance from the Global Fund about how PRs can better manage procurement agents. In the spirit of not building parallel systems, these agents should also not take over but work with PRs to build country structures and systems.

### ***Recommendation 13 (Significant)***

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

*The Global Fund should develop a policy to guide PRs on the contracting and management of procurement agents. As is the case where countries cannot find a suitable PR and a UN agency is asked to assist for a limited time, agents should also be used for an agreed time so that PRs are encouraged to build their own capacity.*

65. During country audits, OIG visited a sample of stores and reviewed the controls over inventory management. OIG notes that the following exceptions were common to Bolivia, Sierra Leone, India, and Zimbabwe:

- (a) The stores for drugs were poorly organized with drugs strewn on the floor and in conditions that were not ideal. There was a lack of cold chain facilities for drugs and test kits that should be stored under such conditions;
- (b) Expired drugs were still on the shelves raising the risk of issuing expired drugs;
- (c) More recently procured drugs were distributed before older supplies in stock, increasing the risk of expired drugs;
- (d) Some stocks counted could not be agreed to stock cards;
- (e) The lead time between request of drugs and the delivery of drugs was long; and
- (f) There were stock outs.

### ***Recommendation 14 (High)***

*The appropriateness of storage facilities is part of the LFA assessment. LFAs do not usually highlight this as a serious capacity issue that needs addressing and should do so where appropriate in future. This aspect usually would need to be addressed in conjunction with Governments and other donors. Linkages therefore with other stakeholders need to be built by the CCM to address identified storage related issues.*

### **Salaries and allowances paid out of Global Fund grants**

Salaries and allowances paid for under Global Fund programs are not in line with those paid by other development partners and these are often excessive and prone to abuse.

66. OIG noted that irregular and/or excessive payments were common to all the countries audited. Concerns were raised by development partners about some allowances paid specifically under the Global Fund programs being very high and not sustainable. Development partners felt that this resulted in program officials showing less commitment to non Global Fund health programs that do not pay these allowances.

67. The basis on which these allowances are paid was compared with the rates across different organizations and funders and the following issues were noted:

- (a) There was no harmonization of rates paid by the PRs and SRs. Each implementing entity usually determined and paid different rates even under the same grants;

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (b) The rates differed from the established organization rates and rates paid by other donors i.e. PRs paid higher rates under the Global Fund programs than the ones established for the PR and/or paid by other donors;
- (c) The rates paid were not consistent e.g. honorarium and facilitation rates paid differed by meeting /workshop;
- (d) Daily subsistence allowances were sometimes paid to people that were accommodated on a full board basis;
- (e) In some instances the incentives that were paid to staff as a motivation for undertaking Global Fund activities exceeded the salaries that staff earn. Cases were noted where they were twice or three times the rates paid by their primary employers;
- (f) Allowances were paid to staff for undertaking work that was part of their normal job description e.g. staff that received allowance to attend meetings yet they were required to attend meetings as part of their mandate;
- (g) Allowances provided to staff for incidental costs when staff are travelling were usually not accounted for or returned; and
- (h) Top up allowances were paid whereby officers received an allowance for travel abroad from their primary sponsor and they received an additional allowance from the Global Fund.

68. Salaries and allowances are one of the areas most prone to abuse. Despite this, the Global Fund does not have a policy that provides guidance on what is acceptable as payment for allowances and “top up” salaries. This has resulted in the abuse of allowances and salaries paid in Global Fund programs. The Global Fund has been accused of destabilizing the health sector in some countries due to the payment of high allowances that were seen as not being sustainable.

### ***Recommendation 15 (Significant)***

*The Global Fund should develop a policy to guide the payment of salaries and allowances by PRs and SRs at country level.*

### **Financial management systems**

The audits revealed weak financial management and internal control systems characterized by lack of segregation of duties, insufficient policies and procedures, lack of budgeting and budgetary control, weak controls over advances to SRs, insufficient third party supporting documents for transactions that have been executed and inaccurate books of account.

69. OIG noted that most of the PRs lacked proper financial management systems and internal controls to safeguard Global Fund assets. These included:

- (a) The failure to maintain proper books of account by some PRs.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (b) Budgetary control was not seen. There were neither documented procedures nor evidence that the PRs in Zimbabwe, Kenya, Sierra Leone and Bolivia monitored actual expenditures against budget. As a result, variances i.e. under or over expenditures could not be analyzed and corrective action taken. There were also instances where unbudgeted activities were financed without prior approval of the CCM or the Global Fund.
- (c) From this review, there were weak controls over management and accountability for advances. PRs disbursed funds to the SRs in the form of advances and these were either not accounted for after SRs had implemented program activities or accountabilities provided were inadequate. In Zimbabwe, the Ministry of Health had several provinces with outstanding advances. In Uganda, advances totaling to US\$ 4,939,497 had not been accounted for. This was also the case in Sierra Leone, Kenya, Bolivia and Chad. Lack of proper accountabilities raises the risk that funds may have been misappropriated.
- (d) Best practice requires that all transactions incurred should be appropriately supported by adequate third party documents confirming that the transactions had actually occurred. However, several transactions effected by PRs and SRs in Sierra Leone, Bolivia, Myanmar, Kenya, Ukraine, Bolivia and Zimbabwe, did not have adequate supporting documents. Without sufficient supporting third party documentation, it is hard to confirm that the resources have been put to proper use and that the objectives of the Global Fund have been addressed and promoted.

70. The weak financial capacity of PRs should have been identified through the LFA assessments. Failure by LFAs to identify these areas as part of the assessment process reflects a failure of the process to identify risk factors and shows that this process needs to be further strengthened. Audit reports (where available) also did not highlight the weaknesses in financial management reported on in the OIG reports.

### ***Recommendation 16 (Significant)***

*Since the Global Fund fiduciary arrangements require the LFA to assess and monitor the adequacy of the PR's financial management systems, the Secretariat should review the adequacy of the PR assessment and verification of implementation tools currently in use so that the LFAs are required to undertake more depth reviews with the aim of identifying risks.*

### **Monitoring and evaluation**

Parallel systems for the collection and analysis of data are being established alongside the already existent Health Management Information Systems (HMIS). The systems are not adequate in monitoring, measuring results and reporting to the Global Fund.
---

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

71. The effectiveness of the monitoring and evaluation framework of Global Fund programs in Kenya, Sierra Leone, Bolivia, Zimbabwe, India, Tanzania and Uganda was hampered by the following aspects.

- (a) Parallel M&E Systems are often developed alongside systems in country and this affected the PR's ability to strengthen old systems and creates extra work loads for implementers.
- (b) Some of the indicators were found not appropriate in reporting performance. In some cases, countries did not have systems in place to monitor the indicators.
- (c) Targets were unrealistic in some cases mainly due to delays in starting programs or delays in program implementation.
- (d) Some PRs did not establish a systematic way of collecting and verifying financial and programmatic data at SR level for monitoring purposes and reporting to the Global Fund. In other cases there was no verification of programmatic results that are reported to the Global Fund at PR and SR level. This allowed erroneous results to be reported to the Global Fund.
- (e) Programmatic results were not aligned to financial results to establish whether value for money was obtained. Effectiveness of Global Fund programs can only be assured by linking financial and programmatic results.
- (f) Some of the indicators and targets could not be measured on a quarterly basis as stipulated in grant agreement.
- (g) Some PRs did not draw up M&E plans showing when, how and by whom monitoring would be undertaken. As a result, people undertook monitoring visits without proper terms of reference being drawn up and often no reports were produced after the exercise.
- (h) Mapping of donors and SRs to activities within countries was not undertaken in some cases and it was difficult to identify cases where duplications of funding could occur.
- (i) Tools to assist SRs in reporting results were not developed. In some cases feedback was not provided to SRs. In cases where this was done, reports were written but recommendations were not followed up.

72. The Global Fund is built on the core principle of performance based funding. The need to have results to inform the disbursement making process is therefore dependent on the Global Fund receiving accurate and timely results. In most cases, results reported to the Global Fund could not be traced to SR reports. LFAs are required to assess and report on the effectiveness of the M&E systems in country but the findings reveal that such reviews have not been adequate and have not identified the issues raised in the OIG audits.

73. It was noted in some country audits e.g. Kenya, Uganda and Sierra Leone that disbursements continued to be made despite the fact that countries had not met their agreed upon targets. Justifications for these decisions were not readily available. This was contrary to the Global Fund principle of performance based funding and demonstrates fully that the structures in place to support performance based funding are not operational.

### *Recommendation 17 (High)*

(a) *In order to ensure that performance based funding is effective in Global Fund grants, Country Programs should work with the Monitoring and Evaluation team to strengthen the policy on monitoring and evaluation and its operationalization. PRs should have approved M&E plans that cover as a minimum:*

- *Defined responsibility for monitoring at PR, SR and PI level;*
- *Well defined indicators and targets;*
- *Methods of data collection for reporting;*
- *Accumulation of data for reporting;*
- *Verification of data reported;*
- *Comparison of programmatic and financial data; and*
- *Site visits to the SRs and PIs.*

(b) *The involvement of public health specialists during LFA verification of implementation should be mandatory with LFAs providing comments not only on the quantitative but also qualitative aspects of the results reported by the LFA.*

(c) *The policy on disbursements by the Global Fund where results have not been met should be strengthened. It should clearly cover when and how exceptions can be made in the light of poor performance.*

### Pass through PRs

Nominated PRs sometimes do not carry out program implementation. These PRs are usually "pass through" PRs with program implementation being carried out by another Ministry or a dedicated management unit. This has created confusion over which entity should be assessed and in some cases over the roles of the PRs and substantive SRs.

74. OIG observed pass through PRs in Kenya, Uganda and Tanzania where the PR is the Ministry of Finance and constitutionally responsible for receiving grant funds but is not responsible for program implementation. Program implementation is undertaken by units in the Ministry of Health and other Ministries e.g. Office of the President. The LFAs assessed PRs in most cases while clearly all Global Fund activity was below the PR level and so decisions made were against incomplete information. In these cases, PRs often delegated most of their roles without establishing mechanisms for accountability resulting in weaknesses in overall program management. The Global Fund does not have policy guidelines to address how challenges unique to pass through PRs can be addressed.

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

75. Additionally, since the “pass through” PR is not the executing body, the rate at which funds are disbursed to SRs tends to be slow. This is contrary to the Global Fund principle of rapid disbursement. This was as a result of the creation of an additional layer through which funding had to pass without creating any value added to country internal control environments. Systems for reporting results by “pass through” PRs were also noted to be weak. For example, in Kenya, the Round 2, Phase 2 funds disbursed to the PR by the Global Fund on April 4, 2007 had not reached the implementing organizations bank accounts on 13 July 2007 and in Uganda, it took a year for the Round 5 TB grants to get to the TB program. This affects the rate of program implementation, the ability to meet objectives and save lives.

76. In cases where a ministry reported to an NGO as PR, the relationship was sometimes noted as being strained e.g. in Zimbabwe where the TB program had to report to ZACH. This is a very sensitive scenario where the Ministry as the policy/strategy arm at country level does not like to be assessed as a SR of an NGO let alone report to an NGO. This is also because government departments see themselves as the authorities for the disease interventions. This complicates PR/SR relationships and affected program implementation in Bolivia, Sierra Leone and Zimbabwe.

### ***Recommendation 18 (Significant)***

- (a) Country Programs should put in place guidelines about assessments and oversight management of pass through PRs as is the case when Multilateral Organizations are PRs.*
- (b) In cases where a ministry or ministry department is a SR of an NGO, Country Programs should require the LFAs to undertake such SR assessments and also assess how the relationship will be managed.*
- (c) During assessments of “pass through” PRs, LFAs should be required to provide detailed process flow of funds and operations of other in country processes through which Global Fund programs are going to be implemented. Extra layers that do not add value in the funding process should be eliminated. Roles and responsibilities of PRs and SRs should be clearly defined and assessed by the LFA for effectiveness. In this way, bottlenecks will be identified and solutions sought before grant signing.*

### **Slow program implementation**

Most of the countries audited had slow program implementation when reviewed against their work plans.

77. All the countries audited had slow program implementation when assessed against the work plans approved at the start of each grant. This was generally a result of:

- (a) Weak PR capacity to manage Global Fund programs;

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

- (b) Delays in preparing and approval of plans for the Global Fund programs;
- (c) Lack of timely disbursements which was usually as a result of late reporting;
- (d) Delays in procurement of key grant inputs;
- (e) Slow movement of funds from PRs to SRs;
- (f) Weak capacity at SR level to implement and report on Global Fund activities etc.

78. PRs are nominated by the CCM and each PR will be subject to a capacity assessment by the LFA to confirm whether it has the requisite capacity to manage implementation of the activities funded under the grant. The PR will in turn select SRs through which to implement the activities set out in the proposals. A substantial portion of the program is implemented through SRs and the success of the program therefore depends heavily on the ability of the SRs to successfully implement program activities. Additionally, given the materiality of the amount of money spent at the SR level, Global Fund grants are exposed to a substantial risk yet the LFA is not obliged to perform capacity assessments of SRs nor review SR results in the grant making process.

79. In most of the OIG country audits, the capacity assessments of SRs were not undertaken. In cases where they were undertaken, capacity building efforts were lacking. SRs were found to be lacking in financial management capacities, capacities to carry out procurement and monitoring and evaluation activities. As a result, the SRs were not able to submit timely and accurate performance reports, properly supported accountabilities, carry out timely procurements etc.

80. Basic financial management controls and procedures to safeguard grant funds from misuse, loss and misappropriation were not in place at some of the SRs. In Indonesia and Zambia for example, there was a lack of segregation of duties over the accounting for cash imprests; proper books of account were not being maintained; policies and procedures in place were not adequate and the quality and level of leadership of the accounting unit was low. In India, there was a lack of capacity at all levels with several vacant posts at central, state and district levels. None of the sub recipients audited had adequate capacities to carry out M&E and procurement activities related to the Global Fund program.

81. If sub recipients do not possess adequate capacities to implement program activities, this will affect program implementation and since the Global Fund follows performance based funding, the PRs will not qualify for disbursements at the due dates and intended objectives of the program will not be achieved. This lack of adequate capacities also exposes Global Fund grants to the risk of misuse and or misappropriation of Global Fund resources and creates an environment susceptible to fraud.

82. During the grant making process, the LFA is not expected to undertake capacity assessments of SRs nor visit SRs as part of its verification of results except in special

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

cases when it is contracted to do so. LFAs are therefore not in position to provide the Global Fund with assurance about anything that happens below the PR level.

### ***Recommendation 19 (High)***

*Country Programs should consider setting a criteria to determine SR materiality and require LFAs to assess capacities and monitor their performance e.g. If a SR was responsible for say 30% of program implementation in a particular program, it would be critical that the SR has the necessary capacity to implement program activities. Such an SR would have to be subjected to an LFA assessment to determine its capacity to implement. Country Programs should develop more detailed guidelines on SR assessment to guide PRs in assessing SRs in sufficient depth.*

83. In most of the countries audited, PRs were found to lack capacity to effectively undertake program procurement activities. This resulted in delays in preparation and approval of plans, disbursement of funds to SRs, procurement etc. PR bank accounts contained large bank balances while program implementation was held up. For example, procurement delays in Ukraine, Uganda, Tanzania and India also accounted for the relatively slow program implementation rate.

84. The Global Fund principle is to use in country structures and not create parallel structures. However, these structures have been found to be slow and bureaucratic especially in transferring funds from PRs to SRs. For example in Kenya, the financial management processes were so lengthy that in some cases funds disbursed by the Global Fund would take more than three months to reach the implementing organizations. In Tanzania, the approval process was very lengthy and it resulted into delays in disbursing funds to the implementing organizations. Governments argue that these processes are necessary since they underpin effective internal control at country level.

85. In other countries, PRs have created parallel structures to those already existing in country structures. For example, in Uganda, Sierra Leone and Bolivia, project management units were set up to manage grant programs. These were found to lack capacity, needed quite some time to develop the requisite capacity to manage Global Fund programs and if not well defined resulted in role confusion. This affected program implementation. Country Programs should discourage establishment of parallel systems in grant recipient countries. Where these have to be developed, Country Programs should ensure that there are adequate plans to build the capacity of such structures in collaboration with the DPs.

### **The Local Fund Agents (LFAs)**

#### **Adequacy and quality of the work done by the LFAs**

<p>The work done by the LFAs was in some cases found to be inadequate given the country context. This is a result of inappropriate TORs provided by the Secretariat and inadequate staffing by the LFAs.</p>
--

86. The role of the LFA is defined in the LFA manual and guidelines. The principal role of the LFAs is to provide informed and independent professional advice about the (i) capacity of PRs to manage the implementation of activities funded under grants, (ii) to make recommendations concerning periodic disbursement of grant funds, (iii) to review grant performance when a grant is being considered for renewal, and to provide the Secretariat on an ongoing basis with relevant information on issues or risks which might affect grant performance. The Regional Teams have the primary responsibility for overseeing grants in the country. They are the main users of LFA services and manage the Global Fund relationship with LFAs at the country level. Regional Teams manage the LFA budget for their respective countries; determine the scope and depth of LFA deliverables, approve payment for LFA services as well as any staff changes in LFA country teams.

87. LFAs in some countries audited have been identified to lack the skills mix to execute their roles effectively. Development partners and PRs in Bolivia and Zimbabwe expressed concern about the calibre of staff that was fielded by the LFA. This affected the quality of work undertaken by the LFA. Staff contracted to undertake Global Fund work were different from those that undertook the work. There is no mechanism in place at the Global Fund to ensure that LFAs do not substitute staff proposed without the requisite approval of the Global Fund. In other cases, LFA teams were not trained and thus lacked a good understanding of the Global Fund's mode of operation.

88. The findings in many of the country audits reflected a lack of effective execution of their role by LFAs. Weaknesses noted in the internal control structure of the PRs were sometimes very obvious and should have been picked up as part of the assessments or verification of implementation. Substandard work by the LFAs meant that Global Fund was not getting the level of assurance it contracted for. Substandard work was also a reflection that quality assurance by LFA teams was lacking. Examples are countries where key documents e.g. PSM and M&E plans were not approved and CPs remained outstanding without the LFA highlighting this. The Global Fund has now instituted measures for evaluating the performance of LFAs.

89. The role of the LFA should be driven by the country context. Different challenges in the country environment imply that different levels of assurance should be provided by the LFAs to the Global Fund. This would affect the LFA scope and level of work. However, work done by the LFAs in most countries was the same without taking into consideration the specific risks associated with Global Fund grants in the different countries. The country teams using the assessments and verifications should ideally have identified the risks inherent in the Global Fund grants and tailored LFA work to provide assurance on risky areas such as weak PR financial management and PSM.

90. OIG further noted cases where the LFA carried out work that resulted in conflicts of interest with its defined role. In Bolivia, the LFA assisted the PR in the

preparation of the reports that were submitted to the Global Fund. This was outside the scope of the verification of implementation work. The LFA explained that this was done so that the PR could report to the Global Fund. The LFA was also named in one instance as an arbitrator in the contracts between the PR and the SRs.

91. The Global Fund policy requires LFAs to demonstrate their professionalism, objectivity and independence. LFAs are expected to take responsibility for ensuring that they are free from conflict of interest or the appearance thereof and to propose realistic and effective mitigating measures in cases where potential conflicts cannot reasonably be avoided. The LFA is required to submit a conflict of interest declaration form in the process of agreeing a work order.

### ***Recommendation 20 (High)***

- (a) LFA TORs should reflect the risks identified at country level. In this way, the reviews of the LFA will be relevant and help identify critical issues, and help inform, as a starting point, further LFA country and grant specific works.*
- (b) LFAs should not change proposed staff without the requisite approval by the Global Fund. In cases where staffs are to be replaced, they should be of equal or better experience.*
- (c) As far as practical, Country Programs should not contract LFAs to undertake work that results in a conflict of interest. In cases where this cannot be avoided, measures should be instituted to mitigate risks arising from conflict of interest.*

## **Secretariat oversight**

### **Risk identification and mitigation procedure**

The risk and oversight management mechanisms in place do not adequately identify, mitigate and prevent risks from materializing. The Secretariat therefore reacts to risks instead of proactively avoiding them.

92. Best practice requires that an organization establishes a risk management framework to proactively identify risks before they occur and put in place controls to mitigate the identified risks. This involves identifying events that may lead to risk, determining which control measures will deter these risks from materializing, communicating the control measures and enforcing compliance. The process of

## **Lessons learnt from the country audits and reviews undertaken by OIG**

---

identifying events that are likely to put at risk the achievement of Global Fund objectives can be informed by the observations of and lessons learnt from the OIG audits/reviews.

93. Country Programs is in the process of putting in place a risk management framework. In this framework, the risk status of a country is obtained by considering a combination of five risk factors i.e. (a) Country Governance; (b) Crisis related risk; (c) Performance risk; (d) Capacity/infrastructure risk; and (e) size related risk. Based on these factors, the countries are then categorized into low, medium and high risk. The Secretariat will then focus on mitigating risks in the medium and high risk countries.

94. The risk management framework under development by Country Programs, however, only identifies and categorizes levels of risk by country and not at the level of individual grants in that country. Identification of risks by grant would enable FPMs identify the critical success factors for the grant in order to achieve the results planned.

95. Oversight by the Secretariat over programs has, in most countries audited, been sub optimal. Barriers to program implementation remained unresolved for long periods of time. In some cases, in country stake holders complained about having raised issues with the Secretariat and not having received adequate responses.

### ***Recommendation 21 (High)***

- (a) Country Programs should expand the scope of the risk management framework to include identification of likely events in country (i.e. at grant level) that are likely to affect Global Fund Investments. LFAs would be well placed to help identify such risks. The impact of these likely events should be assessed and mitigating measures put in place.*
- (b) FPMs should determine the critical success factors at grant level to identify areas that need remedial action in order for the grants to succeed and to guide the level of effort required in oversight and risk management.*

## **Implementation status of audit recommendations**

96. In reviewing the implementation status of audit recommendations, OIG considered audits undertaken prior to 2008 i.e. Indonesia, Zambia, Sierra Leone, Bolivia and Kenya. To determine the implementation status, OIG developed an implementation status template showing the audit recommendation, management response, and implementation target date and required the respective FPMs to update the status of implementation. These were then validated by OIG and where implementation was verified, the audit status was considered closed. Where audit recommendations were partially implemented or not implemented at all, the audit

## Lessons learnt from the country audits and reviews undertaken by OIG

status has been considered to be open. There were a few cases where it was not feasible to implement the audit recommendation. Here, OIG gave the reason and considered the audit status as closed.

### Process to implement audit recommendations

No formal process exists for ensuring that the audit recommendations are implemented

97. OIG observed that the responsible party for taking action and to what timeline were identified and included in the report together with the management comments. OIG further observed that there was no clearly defined process laid down to communicate recommendations to the concerned stakeholders and follow up and monitor them to ensure that the audit recommendations have been implemented. Each unit communicated the audit findings and recommendations differently.

98. Whilst the audit reports for Bolivia, Indonesia, Sierra Leone and Zambia were not sent to the PR, the audit recommendations, except for Indonesia, were communicated through the normal grant management process. For Indonesia, a 21 time bound action plan was developed and immediately communicated to the PR. This formed part of the activities to be implemented before the suspension was lifted. In all cases an action plan was obtained which clearly identified the party responsible for taking action and to what timeline.

99. The follow up, by the Secretariat, on the implementation of audit recommendations also varied. This was rigorous in the case of Indonesia. In all the other cases, documentation of follow up action was not easily accessible. This was partly explained by the high staff turn over at the time in Country Programs and also lack of guidance on how audit recommendations are to be followed up. OIG made 66 recommendations in the audits of Indonesia, Zambia, Sierra Leone, Bolivia and Kenya. Only 33 of these recommendations had been fully implemented, 17 had been partially implemented and 16 had not been implemented at all as shown in the table below:

	Indonesia	Zambia	Sierra Leone	Bolivia	Kenya	Total	%age
Implemented	8	5	4	15	0	32	48%
Partially	1	0	7	3	7	18	27%
Not implemented	0	1	4	1	10	16	24%
<b>Total</b>	<b>9</b>	<b>6</b>	<b>15</b>	<b>19</b>	<b>17</b>	<b>66</b>	<b>100%</b>

*Table 3 Audit recommendations Implementation Status*

100. There was poor documentation of audit recommendation implementation status. To validate many of the assertions that the audit recommendations were implemented, the FPMs had to request the LFAs to send an independent confirmation. The LFAs of Zambia and Sierra Leone were seeing these recommendations for the first time, proving the point that follow up by the Secretariat was poor. Implementation target dates were not met for all country action plans by the Secretariat.

## Lessons learnt from the country audits and reviews undertaken by OIG

### Recommendation 22 (High)

*The responsibility for actioning the recommendations lie with the Secretariat. The Secretariat should develop a defined process to manage the receipt of the draft report, processing of Secretariat and country recommendations, development of an action plan and follow up of the implementation of audit recommendations.*

### Indonesia

101. A summary of the audit implementation status for Indonesia is provided in the table below:

Implementation Status	No	%age	Comments
Fully implemented	8	89%	Audit status "Closed"
Partially implemented	1	1%	The non implemented part of the recommendation relates to an NGO that ceased to be an SR. Implementation became impractical. The audit status has been categorized as closed.
Not implemented	0	0%	
Total	9	100%	

*Table 4 Summary of the audit recommendations status for Indonesia*

### Zambia

102. A summary of the audit implementation status for Zambia is provided in the table below:

Implementation Status	No	%age	Comments
Fully implemented	5	83%	Audit status "Closed"
Partially implemented	0	0%	
Not implemented	1	17%	Implementation of this recommendation is not feasible. OIG has considered it closed.
Total	6	100%	

*Table 5 Summary of audit recommendations implementation status for Zambia*

### Sierra Leone

103. A summary of the audit implementation status for Sierra Leone is provided in the table below:

Implementation Status	No	%age	Comments
Fully implemented	4	27%	Audit status "Closed"
Partially implemented	7	46%	Out of the seven partially implemented, two related to a PR that was terminated and could not be implemented and their audit status has been considered closed.

## Lessons learnt from the country audits and reviews undertaken by OIG

			Only five recommendations have to be followed up by Country Programs to completion.
Not implemented	4	27%	One recommendation related to the CCM. For the remaining three, OIG did not get supporting documents to validate implementation.
Total	15	100%	

*Table 6 Summary of audit recommendations implementation status for Sierra Leone*

### Bolivia

104. A summary of the audit implementation status for Bolivia is provided in the table below:

Implementation Status	No	%age	Comments
Fully implemented	15	79%	Audit status "Closed"
Partially implemented	3	16%	These are in progress and being followed up by the FPM.
Not implemented	1	5%	This recommendation was reported as implemented but OIG did not get supporting documents to validate implementation.
Total	19	100%	

*Table 7 Summary of audit implementation status for Bolivia*

### Kenya

105. A summary of the audit implementation status for Kenya is provided in the table below:

Implementation Status	No	%age	Comments
Fully implemented	0	0%	
Partially implemented	7	41%	These are in progress and being followed up by the FPM.
Not implemented	10	59%	These recommendations were reported as implemented but the FPM failed to provide supporting documents to validate implementation.
Total	17	100%	

*Table 8 Summary of audit recommendations implementation status for Kenya*

**Indonesia**

**Conflict of interest involving PR management**

	Recommendation	Management comment	Completion date	Audit Implementation Status	OIG comments
1	The Director of Operations should ensure that the CCM adopts a conflicts of interest policy with the necessary disclosure statements signed annually by key PR and SR management.	We agree with this recommendation although the Global Fund Board's policy does not include SRs. Update on action taken as of June 30, 2007 The COI policy has been endorsed by the CCM in May 2007. CCM and PRs have reported that the declarations have been made in April 2007.	Refinements to the policy are to be submitted on or before 30 September 2007. Operations will ask the LFA to verify this on or before end of July 2007.	Completed and monitored by the LFA as an extra task. This corresponds to immediate actions 1, 2, 3 and 6. CCM oversight Committee formed and creation of a Financial Task Team within the CCM. See tables attached for precise timing and deadlines. Management letters encompassing systematically LFA findings after each LFA PU-DR review shared with CCM members and members of the CCM oversight committee.	Implemented; CCM manual submitted and LFA reviewed June 2007.  <b>Audit status: Closed</b>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
2	<p>(a) The Director of Operations should engage the CCM to ensure that corrective measures have been taken to eliminate the conflict of interest situation involving the above PR management.</p> <p>(b) The Director of Operations should ensure that the CCM and the LFA review the selection of all NGO SRs to verify that there are no additional conflicts of interest issues involving PR management.</p>	<p>(a) We agree with this recommendation.</p> <p><b>Update on action taken as of June 30, 2007</b></p> <p>The LFA has reported that the sub-grants with YSA have been terminated as follows: TB on 10 May 2007 and HIV/AIDS on 30 May 2007.</p> <p>Dr Rosmini Day, the former PR authorized representative who had conflicts of interest due to her links with the YSA, has been replaced in March 2007.</p> <p>(b) We have carried out this recommendation. The LFA report confirmed that there was conflict of interest in the two sub grants with Yayasan Syahrullah Afiat for TB (US\$1,792,672); and for HIV/AIDS (US\$186,460). Potential conflicts of interest for sub-agreements with 9 other NGOs were also reported, with the sub-grants having a total value of Rupiah 25,748,719,794 (US\$2,742,142).</p> <p><b>Update on action taken as of June 30, 2007</b></p> <p>Upon the request of the cluster, the LFA conducted a</p>	Completed	<p>Completed.</p> <p>Corresponds to time-bound actions 10, 11, 12 and 13. The agreement with YSA was terminated on 30 June 2007 and funds returned on 22 June 2007.</p> <p>LFA conducted a review of YSA accounts and the 2007 audit report contains an audit of YSA account as an extra task to the original terms of reference for the external audit.</p>	<p>Implemented; sub grants with YASA were terminated, Dr Rosmini Day was replaced as the PR authorized representative, a review of potential COIs was commissioned.</p> <p><b>Audit status:</b> Closed</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		<p>review in March 2007, covering all NGOs/SRs that were directly engaged by the Project Management Unit (“PMU”) or PR at Central level and all NGOs/SRs that received funds exceeding USD20,000 in 2006 (all NGOs and SRs at the central level and at provincial and district levels). Arising from this review, the LFA identified 12 out of 50 NGOs and SRs as having potential conflict of interest issues.</p> <p>The Director of Operations has asked the CCM and the PRs to provide the measures intended to mitigate such potential conflicts of interest and to proceed with the declarations of potential conflicts of interest.</p> <p>The CCM and PRs reported that the declarations of potential conflict of interest were completed in April 2007. Operations have asked the CCM to submit the supporting documentation. Operations will ask the LFA to verify the information in July 2007.</p>			

**Governance of country programs**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
3	<p>The Director of Operations should engage the CCM to adopt transparent policies and guidelines for selection of NGO sub-recipients. The policy guidelines should cover the following areas:</p> <ul style="list-style-type: none"> <li>▪ Communication of request for proposals to the NGO community with clearly spelt-out eligibility criteria;</li> <li>▪ Due diligence and capacity assessment;</li> <li>▪ Review and evaluation of proposals by a PR team for technical and financial competencies.</li> </ul>	<p>We agree with this recommendation. In relation to the last bullet point under recommendation 3, it is to be noted that according to the LFA, "The general process involves a period of negotiation between NGOs/SRs and the PR followed by an invitation by the PR for the NGO/SR to submit a proposal and budget. The PR then reviews the proposal and specifies any required changes. Once the proposal is approved an agreement document is signed that specifies general conditions relating to the funding."</p> <p><b>Update on action taken as of June 30, 2007</b></p> <p>Relevant provisions have been incorporated into the draft Governance manual which was submitted to the Global Fund in May 2007 and the Program Implementation Manual which was submitted in June 2007.</p>	<p>Refinements to both manuals are expected to be made by the CCM on or before the 30th of September 2007.</p>	<p>Completed as planned. CCM Governance Manual and Program Implementation Manual (PIM) were updated in that connection. Both manuals contained provisions to address these issues. A transparent process for selecting SRs and SSRs was designed by the CCM.</p> <p>Time-bound actions 15, 16, 17 and 18 reflect the fulfillment of the OIG recommendation number 3.</p> <p>The overall process was completed and reviewed by the LFA in August 2007.</p> <p>The PIM was reviewed by the Global Fund Legal Unit in October 2007.</p>	<p>Implemented; the PIM and CCM manual in place in August 2007.</p> <p><b>Audit status:</b>  <b>Closed</b></p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
4	The Director of Operations should engage the CCM to increase its oversight of the PR and this should include requesting copies of all external and LFA audit reports; and ensuring that the PR has a management action plan to address all audit findings.	We agree with this recommendation and will work with the PR and LFA to ensure this. <b>Update on action taken as of June 30, 2007</b> Relevant provisions been incorporated into the draft Governance manual which was submitted in to the Global Fund in May 2007 and the draft Program Implementation Manual which was submitted in June 2007.	Operations has arranged with the LFA to provide a summarized version of the audit reports to the CCM and PRs on an ongoing basis. Refinements to both manuals are expected to be made by the CCM and PRs on or before the 30th of September 2007.	Completed in August 2007 with the support of OGAC and UNDP.  Corresponds to immediate actions 1, 2 and 3.	Implemented. Manuals completed and reports are given to CCM and PRs. <b>Audit status:</b> Closed
5	The Director of Operations should engage the CCM on ways of strengthening its governance and oversight role which should include adoption of a policy for correction of the inherent conflict of interest situation in its current leadership.	We agree with this recommendation and will work with the CCM to ensure this. <b>Update on action taken as of June 30, 2007</b> Relevant provisions have been incorporated into the draft Governance manual which was submitted to the Global Fund in May 2007. The LFA has verified that the two Chairs who received salary incentives have returned the funds to the PR in May 2007. An election was held by the CCM in May 2007, resulting in the appointment of a new Chair, Dr Arum Atmawikarta,	Refinements to Governance manual are expected to be made by the CCM on or before the 30th of September 2007.	Completed in August 2007 as the CCM Governance Manual was refine. Embezzled funds were returned as confirmed by the World Bank and a Conflict of Interest Policy was introduced in both manuals (CCM and PIM).	Implemented; CCM GM and PIM in place, embezzled funds were returned (see bank pay in slip)  <b>Audit status:</b> Closed

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		who replaced Dr Nyoman Kandun.			

**Incentive allowances or salary supplements**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
6	<p>(a) The Director of Operations should ensure that the CCM adopts general policy guidelines to eliminate abuses in the payment of salary supplements charged to the grant. The policy guidelines should cover the following areas:</p> <p>Maximum percentage rates for the incentive allowances or salary supplements chargeable to the grant;</p> <p>Categories of staff eligible to be paid such incentive allowances</p> <p>(b) The Director of Operations should ensure that there is increased scrutiny of grant budgets by team members and the</p>	<p>(a) We agree that it is unreasonable and excessive to provide incentive allowances as stated.</p> <p>It is to be noted that the payment of salary supplements is an accepted practice across the Global Fund and also among the Global Fund's donor partners. The risks that are perceived to emanate from the practice appear minimal. Nevertheless, we have informally approached a number of its donor partners in Indonesia on the possibility of harmonizing the rate of incentives and they have been receptive to the idea.</p> <p>While the concern over the sustainability of the grants is</p>	<p>(a) Operations will ensure that relevant provisions are incorporated into the Governance manual and the Program Implementation Manual, both of which are expected to be finalized on or before the 30th of September 2007. These provisions will aim to ensure incentive allowances are in line with internationally accepted standards in Indonesia.</p>	<p>Completed. The PIM contains provisions on salary, salary supplements, salary scales and compensation (pages 24 to 27). The PIM was reviewed by the legal team of the Global Fund and endorsed by the Global Fund. The PIM is not a document produced by the Global Fund but a managerial tool supporting the PRs and the CCM on how to manage Global Fund programs.</p> <p>The PIM was finalized in October 2007 and trainings for relevant staff were organized</p>	<p>Implemented; salary provisions included in PIM.</p> <p><b>Audit status:</b>  <b>Closed</b></p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	<p>LFA in order to identify excessive allowances or salary supplements that need to be rectified.</p>	<p>appreciated, there is also in fact a possibility that without competitive supplements, the development workers who are engaged in Global Fund grants might be attracted to leave the Global Fund grants in favor of other tasks that have higher remuneration scales. Such incidents have been pointed out to the Cluster.</p> <p>Based on the findings reported by the OIG, we agree with the conclusion.</p> <p>(b) We agree with this recommendation and will work with the LFA to ensure this.</p> <p><b>Update on action taken as of June 30, 2007</b>          Increased scrutiny of grant budgets is already in place at the LFA and Cluster levels</p>	<p>(b) Completed</p>	<p>nation wide during the last quarter of 2007. This related to time-bound action 4, 5 and 6.</p>	
--	---	---	----------------------	---	--

**Financial management weaknesses**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
7	<p>The Director of Operations should ensure that the PR complies with the requirement that capacity assessments of sub-recipients are carried out</p>	<p>We agree with this recommendation. We have put on hold remittances until further notice</p>	<p>Operations will ensure that the relevant provisions are incorporated into the Governance manual and the</p>	<p>Completed. Corresponded to time-bound actions 14, 15, 16 and 17</p>	<p>Implemented.</p> <p><b>Audit status: Closed</b></p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	by the PR and any weaknesses are rectified before disbursements of funds		Program Management Manual, both of which are expected to be finalized on or before the 30 <sup>th</sup> of September 2007		
8	The Director of Operations should ensure that audits of SRs are carried out by the PR as specified in the grant agreements.	We agree with this recommendation and will work with the PR to ensure this.  Update on action taken as of June 30, 2007  Relevant provisions been incorporated into the draft Governance manual which was submitted to the Global Fund in May 2007 and the draft Program Management Manual which was submitted in June 2007.	Refinements to both manuals are expected to be made on or before the 30 <sup>th</sup> of September 2007	Completed and corresponds to time-bound actions 18	Implemented.  Audit status: Closed
9	(a) The Director of Operations should ensure that the LFA receives a copy of the investigation report of Bersama NGO. Subsequently, the LFA should review the work done and confirm the amount of loss which should be recovered from the PR.  (b) The Director of Operations should engage the LFA to compare October 2005 prevailing market prices of the	(a) We agree with this recommendation. The LFA reported that according to the PR, the Inspectorate General of the Indonesian Ministry of Health has completed the review of Bersama in January 2007. However, due to funding issues over the cost of the audit, the submission of the report has been pending.  (b) We agree with this recommendation. The LFA has followed up with a reputable supplier in order	(a) Operations will require the Ministry to submit the report not later than 15 August 2007  (b) The Principal Recipient's guidelines will form part of the Program Implementation Manual	Completed. The report was submitted by the MOH in August 2007.  Funds were returned. Strict guidelines for procurement of good and services were introduced in the PIM (pages 72 to 79).	Bersama Foundation no longer exists and the report from the Inspectorate General of the Indonesian Ministry of Health has never been submitted. However, the \$60,000 was refunded.  The comparison of prevailing computer market prices with those at which the PR procured to determine the price differential and how much if any should be recovered was not feasible.  Audit status: Closed

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	computers with prices obtained by the PR. Any material price differential should be recovered from the PR.	to determine the approximate pricing of the relevant computers in October 2005. As anticipated, this information was challenging to find due to the complexity of pricing the exact configurations ordered based on the individual component prices in October 2005. This issue was discussed with the OIG in August 2006 and a decision was made to require the PRs to strengthen their procurement processes (for non-health products in particular). The PRs have been revising their guidelines for the procurement of non-health products and the Global Fund and the LFA will review these to determine their appropriateness.			

**Zambia**

**Abuse of training allowances**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
1	<p>(a) The Director of Operations should request the CCM to adopt general policy guidelines to eliminate abuses in the payment of allowances charged to the grant. The policy guidelines should cover the following areas:</p> <ul style="list-style-type: none"> <li>• Types of allowances chargeable to the Global Fund grants;</li> <li>• Maximum rates for the various types allowances chargeable to the grant;</li> <li>• Conditions or circumstances during which allowances may be paid; and</li> <li>• Categories of staff eligible to be paid such allowances;</li> </ul> <p>(b) The Director of</p>	<p>Management concurs with the findings and recommendations of the OIG. The Global Fund would review its policy on per diems utilized by grant recipients and hopes to move towards a unified approach. The Director of Operations is presently overseeing ongoing work on reviewing initial budgets and continues to work closely with the LFA on this issue. The CCM will be requested to address this issue.</p> <p>The Director of Operations is presently overseeing ongoing work with other partners in Zambia to have a unified approach to this.</p>	November 2007	Done and verified by LFA. CCM agreed on the system to be used.	<p>Implemented; based on LFA verification.</p> <p><b>Audit status:</b>                      Closed</p>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	<p>Operations should ensure that its team increases scrutiny of projected grant expenditures during budget reviews with increased focus on following budgeted items/areas:</p> <ul style="list-style-type: none"> <li>• Relevance or appropriateness of training activities, workshops and supervisory trips to achievement of program objectives;</li> <li>• Justification for number of days budgeted for training activities, workshops and supervisory visits; and</li> </ul> <p>Rationale for planned number of facilitators and participants as well as the types of allowances and the budgeted rates.</p>				

**Basic financial management controls lacking at the National Malaria Control Center**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
2	<p>The Director of Operations should ensure the following:</p> <p>(a) Make further funding to the NMCC conditional on management improving its control environment and its internal control system, with focus on the following areas, among others:</p> <ul style="list-style-type: none"> <li>• Institution of basic financial management controls, including management monitoring controls, over use of cash imprests for program implementation activities. This should include segregation of responsibilities for program implementation and control/ accounting for cash imprests;</li> <li>• Upgrading the quality and the level</li> </ul>	<p>Management concurs with this recommendation. Presently, work is ongoing with the LFA to ensure that certain conditions are applied and met in order to continue with program implementation.</p> <p>The Director of Operations is presently overseeing ongoing work with other partners in Zambia to have a unified approach to this.</p>	November 2007	Done in collaboration with partners	<p>Implemented; based on LFA verification.</p> <p><b>Audit status:</b> Closed</p>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	<p>of leadership of the accounting unit;</p> <ul style="list-style-type: none"> <li>• Improved oversight of the PR over the NMCC.</li> </ul> <p>(b) That the PR conducts regular audits of its sub recipients;</p> <p>(c) That the MOH carries out capacity assessments of government sub-recipients before disbursements of funds as specified in the grant agreement;</p> <p>(d) That the PR enters into Memorandums of Understanding with its sub-recipients that state the conditions of the sub-grant and the responsibilities of the sub-recipient management with regard to the grant.</p>				

Cases of uneconomical use of grant funds

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
3	<p>The Director of Operations should ensure that there is increased scrutiny of projected grant expenditures during budget review, with increased focus on the following budgeted items:</p> <ul style="list-style-type: none"> <li>• High value equipment and vehicles;</li> <li>• Staff training; and</li> </ul> <p>Staff travels.</p>	<p>Management concurs with this recommendation. The LFA was alerted in mid 2006 about Global Fund concerns with the expenditure of some grants. Presently, the Secretariat is working with the LFA to ensure an in depth review of several high cost budget lines in the work plans and budgets. Ongoing continuous improvements are underway.</p>	Completed	Already implemented and continuous improvements are being made.	<p>Implemented.</p> <p><b>Audit status: Closed</b></p>

Lack of mid-term program evaluation

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
4	<p>The Director of Operations should discuss with the CCM the need to incorporating mid-term program evaluation in the country program.</p>	<p>While it may be standard practice to have a mid-term review, management is of the opinion that it should be programmatic or financial factors which are</p>	December 2007	Already implemented and continuous improvements are being made.	<p>Implemented; seen national mid term and annual review reports.</p> <p><b>Audit status: Closed</b></p>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		reviewed and clearly defined in consultation with partners/stakeholders. In moving towards a SWAp approach in Zambia, the Director of Operations is overseeing ongoing work with partners to have a single review that will benefit all.			

**Governance of country programs**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
5	The Director of Operations should engage the CCM on ways of strengthening its governance and oversight role which could include making the PR representatives ex-officio members of the CCM with no voting rights.	The Global Fund has ensured through recent rounds that CCM eligibility was met with reference to conflict of interest. The Cluster confirms that a document is now in place which mitigates any potential conflict of interest as described by the OIG.	Completed	This has already been done. Improvements being made as appropriate.	Implemented; met the 6 eligibility criteria.  Audit status: Closed

Large number of program bank accounts

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
6	The Director of Operations should review the rationale and the need for the PRs operating several grant bank accounts.	Management believes the opening of several bank accounts stems from the provision in the grant agreement that each grant should maintain one bank account. In this case, Zambia is unique due to the fact there are four PRs with grants. The Cluster is presently working with the Project Manager for Grant Consolidation. It is anticipated that Zambia will be part of the pilot program. Once implemented, the consolidation of grants will enable the number of bank accounts to be reduced substantially.	This is an ongoing process and a pilot project is scheduled as Zambia is part of the grant consolidation project.		Not implemented Implementation of this recommendation is not feasible. OIG has considered it closed. <b>Audit status:</b> Closed

**Sierra Leone**

**Country Coordinating Mechanism**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
1	In order to improve the effectiveness of the CCM's operations, the planned CCM restructuring should as a minimum address: a. CCM membership i.e. numbers, caliber of members, selection of NGO members on accordance with the Global Fund guidelines, etc; b. Conflict of interest. i.e. in the event that it arises measures to remove and/or mitigate the risk should be instituted; c. Omissions in the bylaws; and d. Strengthening of the CCM Secretariat.	We agree with the findings and recommendations. Within seven days of clearance of the audit report, the Director of Operations will communicate findings and recommendations to the CCM to obtain their commitment to develop and submit to the Global Fund a plan to reform its composition, organization & functioning. The Cluster will work with CCM and potential Technical Assistance providers to ensure the change process is rapidly launched. All CCM related issues will be dealt with and the monitored by the LFA.	31 December 2007	In progress- Issues on Governance and oversight of the CCM have been clarified in the CCM by-laws and SOP. Policy on incentives yet to be addressed. The CCM is yet to submit the request of fund for CCM support. The request will be submitted by end of February. The GMS will carry out a follow up mission in April 2009.	Implemented; confirmed by LFA  <b>Audit status: Closed</b>
2	The CCM should develop policies as a guide to	We agree with the findings and recommendations	31 December 2007	In progress - CCM has been able to finalize	Partially implemented; the CCM has not yet developed the

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	implementation. The policies should include but not be limited to a transparent, documented process to solicit and review submissions for possible integration into the proposal, criteria and selection process for PRs and SRs, policy on allowances, financial management, monitoring and evaluation etc. This will strengthen structures and systems in place to safeguard the Global Fund resources against misuse and/or abuse, ensure consistency and establish minimum acceptable standards for the two PRs. Measures to ensure compliance with established policies should also be instituted			its bye-laws and Standard Operating Procedures to address the issues raised by the OIG report. The documents were the products a technical support provided by the Global Fund to strengthen the CCM, the recent one being the mission of GMS. Copies of the bye-laws and SOP had been forwarded to the Global Fund by the CCM. The GMS will carry out a follow up mission in March 2009. The CCM is yet to mobilize funds for the functioning of the CCM. A request for funds will be submitted to the Global Fund by end of February 2009.	policy on allowances, financial management, monitoring and evaluation etc for the PRs and SRs.  <b>Audit status:</b> Open
3	The roles and responsibilities of the CCM technical committees should be defined. These committees are sub committees of the CCM and	We agree with the findings and recommendations.	31 December 2007	Implemented - Under the bye-laws and SOP, this role will be performed by the Management committee. Its terms	Implemented; confirmed by LFA  <b>Audit status:</b> Closed

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	should not be involved in the day to day running of the grants. Committee composition and terms of reference should be in accordance with the bylaws.			of reference are clearly defined in the bye-laws.	
4	The CCM should strengthen its oversight role. This will involve the development of an oversight plan in accordance with the Global Fund guidelines. The CCM may consider including in the plan aspects like tracking implementation against approved plans, undertaking site visits and reviewing PR quarterly reports. The identification and monitoring of critical success factors, e.g. procurement and performance of the three programs in the Ministry of Health would also ensure that the CCM quickly addresses any impediments to the successful implementation of the grants.	We agree with the findings and recommendations.	31 December 2007	In progress- Issues on Governance and oversight of the CCM have been clarified in the CCM by-laws and SOP. Policy on incentives yet to be addressed. The CCM is yet to submit the request of fund for CCM support. The request will be submitted by end of February. The GMS will carry out a follow up mission in March 2009.	Partially implemented. Country Programs to ensure that audit recommendation is implemented.  <b>Audit status:</b> <b>Open</b>

Principal Recipients

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
5	<p>PRs should comply with the conditions set out in the grant agreements especially the following:</p> <p>a. written tax exemption from customs and administrative levies;</p> <p>b. SLRCS establishing an internal audit function;</p> <p>c. Compliance with country laws specifically registration with the relevant authorities and deduction and remittance of PAYE, NASSIT and withholding tax; and</p> <p>d. Audit of PRs should also cover the significant SRs.</p> <p>This will strengthen controls over the Global Fund resources.</p>	<p>We agree with the findings and recommendations. We will ensure that the tax exemption is received. The findings and recommendations regarding the point b, c and d of the recommendations will be communicated to the PRs within 7 days of clearance of the audit report. The PRs will be provided a deadline of 8 weeks to communicate their implementation plan and timelines. The implementation will be monitored by the LFA and the LFA will provide a final report.</p>	30 September 2007	<p>a) Partially implemented - the Global Fund grants are exempted from custom duties. However there an administrative levy of 5% which the PR's are required to pay for goods imported into the country through the ports.</p> <p>b) Not implemented- The tenure of SLRCS as a PR ended effectively on 31 December 2008 ( end date of the TB RD2 grant)</p> <p>c) Implemented- The key SRs were covered in the recent audit of the TB RD2 and HIV RD 4 grants. We noted that this audits were restricted to their accountability with regards to disbursement to these SRs under the GLOBAL FUND</p>	<p>Partially implemented; LFA confirmed that for the TB grant, SRs were covered by the PR external audit and that under the HIV grants, arrangements were in place to have the key SRs audited separately form the PR. The remaining audit recommendations have not been implemented.</p> <p><b>Audit status:</b> Open</p>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
				d) Partially implemented - PAYE and WHT deductions on staff allowances are being made and remitted to NRA by NAS. We did not observe same with the PR for the round 7 grants, MOHS. Registration with NASSIT is still outstanding. The constraining factor is the 5% employer contribution which was not budgeted for under the Global Fund grant.	
6	PRs should ensure that proper supporting documentation is provided for expenditure incurred. These documents should be original documents and in cases where receipts are not available in form of acknowledgement of receipt. PRs are responsible for	We agree with the findings and recommendations. Within seven days of clearance of the audit report, the Director of Operations will communicate findings and recommendations to the relevant stakeholders in	30 September 2007	Partially implemented - Some International NGOs that operates on shared cost accounting, such as CARE Int. are by internal policy, submitting photocopies of original invoices to liquidate funds received. The original	Not implemented; OIG could not get supporting evidence to confirm following refunds : 1. allowances paid to the SLRCS governance team; 2. Unsupported SLRCS workshop costs; 3. Payments made

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	<p>comprehensively verifying the accountabilities provided and where support is not adequate recovering funds. PRs should be held responsible for accountabilities that are incomplete or not well supported.</p> <p>the Global Fund should institute measures to recover the following funds from the PRs:</p> <ul style="list-style-type: none"> <li>a. Allowances paid to the SLRCS governance team;</li> <li>b. Unsupported workshop costs under SLRCS; and</li> <li>c. Costs paid to KPMG for services that were not rendered for two months.</li> </ul>	<p>country to obtain their commitment and implementation time lines, for which the deadline will be eight weeks.</p> <p>Implementation will be monitored by the LFA. The LFA will provide a final implementation report</p>		<p>copies of the support documents that generally relate to more than one project are maintained at its office. As a result, it is difficult to release the original supporting documents on shared-cost transaction to a particular project. Most local NGOs however submit original supporting documents.</p> <p>-</p>	<p>to KPMG for services that were not rendered for two months.</p> <p><b>Audit status:</b> Open</p>
7	<p>SLRCS should institute measures to strengthen its finance function. This should include utilization of the accounting package and maintaining financial records that are up to date. All accountabilities</p>	<p>We agree with the findings and recommendations. Within seven days of clearance of the audit report, the Director of Operations will communicate findings and recommendations to the</p>	30 September 2007	<p>a) Not implemented - There were a number of test runs on this software; however it was not fully operationalized by the end of the TB grant on 31 December 2008.</p>	<p>Not implemented; project closed making implementation of this recommendation difficult.</p> <p><b>Audit status:</b> Closed</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	that have been received from SRs should be reviewed with immediate effect to establish whether the funds were used in accordance with program objectives and establish any balances that remain unaccounted for.	PR to obtain their implementation time lines, for which the deadline will be eight weeks. Implementation will be monitored by the LFA. The LFA will provide a final implementation report.		b,c,d) Implemented - NAS conducts financial monitoring of SRs using standardized checklist. We sighted reports on monitoring activities conducted in July 2008. SLRCS did carry out financial monitoring of SRs. However, the PR did not prepare reports on these activities despite repeated reminders	
8	<p>The CCM should regulate the payment of allowances at PR and SR level. The type of allowances and amounts payable under the Global Fund program should be defined. These should be harmonized with what other funders are paying in the health sector. Rates that are payable to staff as incentives for undertaking</p> <p>The Global Fund activities should also be defined. This will ensure that T GLOBAL FUND does not substitute the</p>	We agree with the findings and recommendations. However 'consistent rates' may not be always coherent with GLOBAL FUND policy of letting recipients institutions apply their systems (unless there are strong reasons for not doing so). Within seven days of clearance of the audit report, the Director of Operations will communicate findings and recommendations to the relevant stakeholders in country to obtain their commitment and implementation time lines,	30 September 2007	In progress - The CCM tasked a committee to standardize Per diem rates and DSA allowances paid across the Global Fund grants last year. The report of this committee was however never ratified by the CCM for it to become effective under the Global Fund grants. The harmonization of Salaries and Incentive is still outstanding.	<p>Not implemented based on LFA's confirmation.</p> <p>Country Programs should ensure that this recommendation is implemented expeditiously.</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG  
AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	responsibility of employers in meeting employment costs. These rates should be consistently applied across PRs and SRs.	for which the deadline will be eight weeks. Implementation will be monitored by the LFA. The LFA will provide a final implementation report.			
9	<p>SLRCS should strengthen its procurement function by revising its procurement procedures to ensure that they meet the minimum standards that are established by the SL Procurement Agency and the Global Fund guidelines. An agent should be hired in accordance with the procurement plan in order to strengthen SLRCS' capacity to procure.</p> <p>NAS procurement officials should provide justification and seek approval from management for the use of the direct procurement method.</p>	We agree with the findings and recommendations. However, clearance from program management is not enough. Direct procurement should be discouraged, and its utilization strictly limited. PRs should have written processes in case direct procurement is to be used.	31 October 2007	<p>a) Being complied with -Procurement processes were generally open, transparent, fair and competitive. These processes are in compliance with the standard terms and conditions of the grant agreement and also with relevant regulatory guidance.</p> <p>b) We noted that in situations where NAS had to use a direct procurement method (e.g. emergency procurement of test kits), it first obtained a non-objection from the FPM.</p> <p>c) This is being complied with by NAS</p>	<p>Partially implemented; NAS has now outsourced its procurement function and the LFA confirms that the procurement practices are in compliance with grant agreement and national laws. However, the audit recommendations were not implemented in the case of SLRCS up to the time the TB round 2 grant closed on 31 December 2008.</p> <p><b>Audit status: Closed</b></p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
10	The Global Fund through its LFA should institute a capacity audit to ascertain whether SLRCS has capacity to manage the two grants. This should cover staff numbers and skills required to manage the grants. It should also cover the critical functional areas, i.e. procurement, finance and monitoring and evaluation. It should also cover a comprehensive review of the internal control environment. An action plan should be developed showing timelines in which recommendations will be implemented.	We agree with the findings and recommendations. Within seven days of clearance of the audit report the Director of Operation will communicate findings and recommendations to the LFA for appropriate action.	31 October 2007	Not implemented - It became unnecessary to conduct the assessment when the Global Fund cancelled one of the grants (Malaria Grant) being managed by SLRCS. SLRCS had at the time, adequate functional capacity to manage the TB grant	Not implemented; the Global Fund communicated to the CCM cancellation of the Malaria grant on 30 September 2007. It was therefore not necessary to implement this recommendation.  <b>Audit status:</b> Closed
11	Operations should follow up with the PR on the issues identified that relate to storage of the health products. Particular attention should be paid to the quantification of drugs, and improved storage. This will ensure that the risk of over/under stocking and/or loss and expiry of stocks is minimized.	We agree with the findings and recommendations. This can be managed by FPM in close cooperation with PSM team. Within seven days of clearance of the audit report, the Director of Operations will communicate findings and recommendations to the PR to obtain their implementation time lines.	30 September 2007	In progress - Under a USAID funded Deliver project, NAS benefited from a technical support to strengthen its inventory management system. This is to ensure among others that, risk of over/under stocking or loss and expiry of stocks is minimized.	Implemented; LFA confirms that NAS received technical support to address quantification problems and has installed a pre fabricated cold storage facility with Global Fund funding.  <b>Audit status:</b> Closed

**Sub-recipients and grant management**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
12	The PR should follow the criteria and process developed by the CCM in identifying SRs. SR contracts should be comprehensive to ensure that the Global Fund resources are safeguarded	We agree with the findings and recommendations. The Director of Operations will ensure a systematic introduction of Conditions Precedent regarding SR selection, management and monitoring/audit.	To be applied on all future grants signed	The PRs complied with this requirement with the recently signed MoUs with SRs under round 6 grant.	Partially implemented; the MoUs did not address a) the retention period for records, b) financial and administrative guidelines for SRs and, c) SRs need to comply with legal/statutory obligations.  <b>Audit status:</b> Open
13	Once selected, all SRs should be assessed for capacity and capacity built where gaps are identified.	We agree with the findings and recommendations. The Director of Operations will ensure a systematic introduction of Conditions Precedent regarding SR selection, management and monitoring/audit.	To be applied on all future grants signed	These are being complied with	Implemented  <b>Audit status:</b> Closed
14	PRs should have a proper monitoring framework that covers: a. Well defined indicators and targets. SRs should be provided with their own targets; b. Plans detailing when,	We agree with the findings and recommendations. The Director of Operations will ensure a systematic introduction of Conditions Precedent regarding SR selection, management and monitoring/audit.	To be applied on all future grants signed	Partially implemented - NAS has complied. MOHS is currently developing a SRs management framework document to guide its oversight over SRs	Partially implemented; plans detailing when, how and for whom monitoring will be undertaken and methods of collecting and verifying data for reporting have not been completely developed.  <b>Audit status:</b>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	<p>how and for whom monitoring will be undertaken;</p> <p>c. Methods of data collection and verification for reporting;</p> <p>d. Site visits to the SRs covering financial and programmatic aspects; and</p> <p>Follow-up of findings and provision of feedback to SRs</p>				Open

**The Local Fund Agent**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
15	<p>the Global Fund (Cluster) should consider reviewing the scope of work undertaken by the LFA for the Malaria and TB grants in order that the work undertaken can provide assurance to the Global Fund. This will also ensure SLRCS strengthens its internal control and ability</p>	<p>We agree with the findings and recommendations. Within seven days of clearance of the audit report the Director of Operation will communicate findings and recommendations to the LFA for appropriate action. It was planned to augment the scope of work for the</p>	30 September 2007	<p>West and Central Team is currently negotiating the Work Order for the LFA for 2009 and the augmented scope of work will be included in that budget.</p>	<p>To be monitored</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	to manage the Global Fund grants.	LFA in Sierra Leone to cover SR assessments, and SR monitoring during VOIs. This was not carried out in 2008 due to budgetary constraints.			

**Bolivia**

Country Coordinating Mechanism

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
1	<p>The Director of Operations should ensure that the CCM executes its roles in accordance with the Global Fund guidelines. Specifically:</p> <p>a. The CCM should document the proposal writing process that incorporates controls which will ensure the process is transparent and consultative as required by the Global Fund.</p> <p>b. The CCM should revise the criteria and selection process for PRs to ensure that selected PRs have the capacity to implement the Global Fund programs.</p> <p>c. The CCM should strengthen its oversight role. An oversight plan should be developed that guides this important role. This plan should cover how the CCM will track</p>	<p>The implementation of the CCM's restructuring was closely monitored in late 2006 and early 2007 and we provided detailed feedback on the proposed restructuring to ensure its compliance with Ninth Board requirements. Operations unit reviews the Bolivian's CCM compliance with Ninth Board requirement each time it makes an application to the Global Fund, including its process for selecting PR, its proposal preparation methodology and its oversight plan. In July 2007 we requested the CCM to accelerate its restructuring due to the delays in the implementation of the process.</p>	<p>Operations will continue on an ongoing basis to monitor, and support where necessary, the Bolivian CCM's restructuring process along the principles of country ownership, and the Ninth Board CCM Requirements</p> <p>31 December 2007</p>	<p>The Bolivian CCM had been successfully restructured and their workings have significantly improved. A successful application was submitted to Round 8, and the CCM was in full compliance with CCM eligibility requirements</p> <p>Completed</p>	<p>Implemented. Met eligibility criteria.</p> <p><b>Audit status:</b> Closed</p>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	implementation against approved plans, undertake site visits and review PR quarterly reports. Critical success factors of the Bolivia grants, for example procurement and implementation by the Ministry of Health may also be identified for close monitoring by the CCM.				
2	The Director of Operations should ensure that the CCM restructuring process is defined clearly laying out objectives, activities, timeframe and milestones for monitoring purposes. This plan should be periodically monitored to ensure that it stays on track and addresses the Global Fund concerns about the CCM.	The Board-approved Phase 2 Conditions for all three grants require the CCM to demonstrate its fulfillment with the Ninth Board Requirements and to restructure its SR membership as proposed by the CCM in its Phase 2 application. This has been ensured. The restructuring process of the CCM currently underway in Bolivia is being supported in-country by the Pan American Health Organization (PAHO) and other in country partners. In July 2007 the Cluster requested the CCM accelerate its restructuring due to the delays in the	Operations will continue on an ongoing basis to monitor, and support where necessary, the Bolivian CCM's restructuring process along the principles of country ownership, and the Ninth Board CCM Requirements  31 December 2007	The Bolivian CCM had been successfully restructured and their workings have significantly improved. A successful application was submitted to Round 8, and the CCM was in full compliance with CCM eligibility requirements  Completed	Implemented. Met eligibility criteria.  <b>Audit status:</b> Closed

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		implementation of the process.			
3	The Director of Operations should ensure that the CCM as the oversight body devises a mechanism on how the three PRs will work together and how their activities will be coordinated. This is important for interlinked activities and in areas where the PRs may face a common problem, e.g. issues of con-infection between HIV and TB. The CCM should also coordinate the handover process between UNDP and the two new PRs to ensure that there is minimum disruption of program activities between Phase 1 and 2.	Phase 2 conditions on the TB project require the CCM to ensure tighter co-ordination of co-infection activities across the TB and HIV project. To fulfill these conditions an action plan was produced. Operations will continue to monitor its implementation. More thorough co-ordination activities by the CCM may have to wait until the CCM restructuring process is complete and can work with its PR's more effectively. Operations will continue to engage the CCM top ensure project activities are co-ordinated. The handover between the PRs between Phase 1 and Phase 2 was coordinated by the CCM. Given the sub-optimal working relationships between CIES and the CCM detailed coordination of the	Completed. There will be on going monitoring		Implemented; action plan to improve coordination of co infection activities between HIV and TB is in place.  <b>Audit status:</b> <b>Closed</b>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		handover process from CIES to UNDP (during Phase 1) by the CCM was not possible			
4	The Director of Operations should engage the CCM in developing policies that guide implementation. This will ensure consistency and meeting of the minimum acceptable standards across the three PRs. The policies should cover areas like reporting, criteria and processes for the selection of sub-recipients, procurement, financial management, monitoring and evaluation, and staffing levels.	While the OIG's report recognizes the problems caused by the Bolivian CCM's excessive involvement in grant implementation during Phase 1, it is also recommending that the CCM provide more precise guidelines on how the PR's should implement the grants. Given the country context, it would be difficult to ensure such guidelines do not over ride the PR's institutional norms. If the Secretariat were to issue this recommendation, there is a risk that the PR could not be held accountable by the Global Fund for its execution. A PR can voluntarily review its procedures in consultation with the CCM. Such a recommendation should only be made on the basis	To be defined. This will be acted upon after the CCM restructuring process is completed.  31 December 2007	The Regional Team is working with the CCM on this recommendation following the completion of the CCM restructuring. TA is being mobilized for the CCM to ensure consistency between PRs on reporting. The fact that we have two very different PRs in Bolivia (UNDP and an international NGO), makes consistency in procurement, financial management, monitoring and evaluation, difficult to achieve	Partially implemented; TA mobilized. Country Programs to ensure CCM develops policies that will guide implementation  <b>Audit status:</b> <b>Open</b>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		of coordination and agreement with the PRs. The recommendation may have to wait until the CCM restructuring process is complete and can work with its PR's more effectively.			
5	The Director of Operations should institute measures to recover the money that was lost. All ineligible costs should be recovered. In the case of unsupported costs, justification should be provided by CIES that the costs were incurred for the benefit of the Global Fund program. All unjustified costs should be refunded.	Operations have started procedures for the return of ineligible and unaccounted expenditure. CIES has committed to return these funds by 30th September 2007.	30th September 2007	All ineligible and unused funds returned to the Global Fund. Completed	Implemented; all refunds confirmed.  <b>Audit status:</b> Closed
6	The Director of Operations should engage PRs to comply with the conditions laid out in the grant agreements. This will ensure that the conditions put in place to safeguard the Global Fund assets are operational and therefore reduce the risks that	Operations engaged with CIES in Bolivia in an attempt to ensure conditions were met. Technical assistance was mobilized to ensure fulfillment of these conditions. Disbursements were either not made or reduced due to lack of	Completed		Partially implemented  Although the CIES has since ceased to be a PR, Country Programs should ensure that the current PRs do comply with the conditions laid out in the grant agreements.  Tax exemption is partially

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	Global Fund money is exposed to.	compliance of certain conditions. Further measures were deployed to improve internal control procedures when initial technical assistance was not successful. Operations engaged continuously with the CIES to ensure conditions were met, although such efforts were in many areas unsuccessful during 2005. Ongoing monitoring of Conditions will continue.			completed; only UNDP has been granted tax exemption. HIVOS-IVIS have not received tax exemption. Country Programs should follow this up with the CCM and ensure that tax exemption is obtained.  <b>Audit status:</b> Open
7	The Director of Operations should follow up with the PR on the issues identified that relate to procurement and supply management. Particular attention should be paid to the quantification of drugs, procurement processes, timely distribution of drugs and improved storage. This will ensure that drugs are procured at reasonable prices, stored properly, that they reach their intended recipients and minimize the risk of over/under stocking and expiry of drugs.	Operations ensured that the LFA's assessment findings from the procurement assessment on CIES were followed up and technical assistance was mobilized. A procurement agent was secured and all ARVs were purchased by a procurement agent (UNICEF). This however did not prevent serious forecasting issues emerging.  A detailed assessment of PSM was undertaken for the Phase 2 PRs to ensure that the Phase 2 PRs had	Completed		Partially implemented; PHPM plan approved. Country Programs to continue monitoring to ensure improved forecasting.  <b>Audit status:</b> Open

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		adequate forecasting capacity. A condition was imposed on the Phase grants to ensure that they used an external distribution agent to ensure the correct distribution of drugs. Operations will continue to monitor the measures put in place at the beginning of Phase 2 to ensure improved forecasting and drugs distribution			

**Sub-recipients and grant management**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
8	The Director of Operations should ensure that the CCM develops criteria and processes to be followed by the PR in identifying sub-recipients. The CCM should not be involved in the selection process but oversee it in order to ensure that procedure is followed and the process remains transparent.	The Bolivian CCM has worked with the Phase 2 PR in Bolivia to ensure that clear procedures are defined for selecting SRs in Phase 2. The process has been overseen by the CCM. This has been largely accomplished.	Completed.		Implemented.  <b>Audit status: Closed</b>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
9	The Director of Operations should encourage PRs to periodically review their performance against work plans, procurement plans and budgets. This will ensure that grants remain on track and grants experiencing problems are identified early enough and measures taken to address challenges. This can be part of the annual reporting and can be used to complement the quarterly reports submitted to the Global Fund.	Quarterly and annual reporting ensures that the PR evaluates its performance against work plans and an agreed monitoring framework. A summary of findings in each quarterly report is now systematically shared with the PR and CCM by Operations. This has been largely accomplished. Monitoring will continue.	Completed		Implemented  Reports on existing grants. (available on shared point)  <b>Audit status:</b> <b>Closed</b>
10	The Director of Operations should follow up with the Bolivia PRs to ensure that they have a proper monitoring framework that covers: <ul style="list-style-type: none"> <li>• Well defined indicators and targets;</li> <li>• Methods of data collection for reporting;</li> <li>• Accumulation of data for reporting;</li> <li>• Verification of data reported; and</li> </ul>	Operations worked with partners to mobilize technical assistance in relation to monitoring and evaluation for CIES, and with CIES to ensure it increased its M&E staff. These measures were however ultimately unsuccessful. Both Phase 2 PR's in Bolivia have prepared M&E plans approved by the Global Fund	Completed		Implemented; M&E plans approved.  <b>Audit status:</b> <b>Closed</b>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	<ul style="list-style-type: none"> <li>Site visits to the SRs.</li> </ul>				
11	The Director of Operations should engage the PRs in Bolivia about undertaking an assessment of the Ministry of Health to ascertain whether it has capacity to manage its own funds and implement all the activities that have been allocated to it. Where capacity gaps are identified, capacity building should be planned.	Operations have ensured that the Phase 2 PRs in Bolivia conduct an assessment of the MoH for any activities it implements in Phase 2. This has been difficult in the local context given the sensitivity that the MoH feels when it is being evaluated by an outside agency. Capacity building for the MoH has been mobilized date in particular in the Phase 2 TB grant. This has been largely accomplished. Monitoring will continue.	Completed.		Not implemented; OIG could not validate implementation status.  <b>Audit status:</b> Open
12	The Director of Operations should follow up with the PRs in Bolivia regarding an evaluation of Phase 1 grants in order to assess the impact of the programs. The results of this evaluation can be used as baseline information for future programs and also for better planning for the grants in Bolivia.	UNDP was asked to prepare and provided an annual report covering all the activities in Phase 1. This has been widely shared with the CCM and partners to improve the implementation of Phase 2. The CCM is also doing a separate impact evaluation. This has been largely accomplished.	Completed		Implemented.  <b>Audit status:</b> Closed

**The Local Fund Agent**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
13	As far as is practical, the Director of Operations should ensure that LFAs do not undertake work that results in conflict of interest. In cases where this cannot be avoided, measures to mitigate the risk arising from such work should be implemented.	As mentioned by the IG's report, this recommendation should be implemented as far as practically possible. This has been the case to date in Bolivia, with clarification provided to the LFA when the situations identified were observed by Operations.	Noted for future LFA work		Implemented LFA guidelines, LFA training etc <b>Audit status:</b> Closed
14	Where appropriate, the Director of Operations should ensure that the feedback is provided to in-country stakeholders on the findings and recommendations from the quarterly LFA verification work.	The following communications were sent to the country by Operations based on feedback provided by the LFA (the list is not exhaustive in terms of communication sent to country related to project implementation difficulties in relation to the grant): <ul style="list-style-type: none"> <li>• Email to PR and CCM expressing concerns about slow delivery of reports and lack of fulfillment of conditions - April 2005</li> <li>• Email giving feedback from quarterly reports to CCM - June 2005</li> </ul>	In country communication protocols for LFAs are currently being developed and will accompany LFA re-tender process.  31 December 2007	In-country communication protocols now developed and shared with LFAs	Implemented. LFA communication protocol in place <b>Audit status:</b> Closed

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		<ul style="list-style-type: none"> <li>• Letter giving feedback from quarterly reports to CCM - November 2005</li> <li>• Email to CIES Director expressing serious concern about the capacity of the Project Management Unit and requesting plan of action - June 2005</li> <li>• Early warning letter sent to PR, coordinated with OPCS - August 2005</li> <li>• Early warning letter sent to CCM, coordinated with OPCS - November 2005</li> <li>• Presentations by FPM to CCM in April 2005, July 2005 and December 2005 reviewing project implementation and warning of the possibility of No Go Phase 2 decision</li> <li>• Email to CCM urging focus on project activities and warning of possible No Go decision - September 2005</li> <li>• Email to CIES Director giving feedback from quarterly report,</li> </ul>			

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		<p>expressing serious concerns and communicating a no disbursement decision, November 2005 and January 2006</p> <p>Nonetheless Operations now has more systemized policy of providing feedback to country stakeholders. A communication protocol for LFA work in country is being developed.</p>			
15	<p>The Director of Operations should ensure that only staff approved in the LFA work order undertake the work. In the event that staff changes occur, this should be with the prior approval of the Global Fund.</p>	<p>All LFA staff changes were approved by Operations although is same cases work orders were not updated. Operations have been engaged in a constant dialogue with the LFA to improve the quality of its staff (including training on the Global Fund procedures) and bring in specific medical expertise. Operations will continue to monitor the performance of its LFAs, ensuring approval of all staff</p>	Completed		<p>OIG comment:  <b>Audit status:</b>  <b>Closed</b></p>

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
		changes, and measures to improve the quality of their work.			
16	The Director of Operations should ensure that LFA assessments are undertaken on prospective PRs in order to provide the Global Fund with assurance required about the PR's capacity and also provide the Global Fund with the opportunity to institute any measures that may mitigate risks arising from the capacity gaps identified before any commitments are made.	Grant signing processes have been improved since the first years of the Global Fund. Under current arrangements the contracting of a PR without full assessment of the prospective implementations systems would not occur.	Completed		Implemented Audit status: Closed
17	In cases where the Global Fund is to work through country partners to provide technical assistance, the Director of Operations should ensure that an analysis is undertaken of the country problem, the type of assistance required is identified as well as the	Technical assistance to the Bolivia grants was coordinated through the GIST network. Extensive work was undertaken with the PR to ensure its consensus in relation to the TA provided during a mission to Bolivia in June 2005. Nonetheless its buy	31 December 2007	Country Programs has framework contract to mobilize consultants to undertake diagnosis and specify TA (ICQ Contract). Completed	Implemented Audit status: Closed

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	best placed partners to offer that assistance. It is also important to include the PR in this process in order to get buy in and cooperation once the assistance is underway	in was lacking. At the time no mechanism was available to mobilize consultancy support to undertake a detailed analysis of the situation. A RFP is currently underway to ensure such consultants are available in the future Operations will use a pool of consultants in future to do detailed assessment studies that will form the basis of request for TA to partners.			

**The Secretariat**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
17	In cases where the Global Fund is to work through country partners to provide technical assistance, the Director of Operations should ensure that an analysis is undertaken of the country problem, the type of assistance required is identified as well as the best placed partners to	. Technical assistance to the Bolivia grants was coordinated through the GIST network. Extensive work was undertaken with the PR to ensure its consensus in relation to the TA provided during a mission to Bolivia in June 2005. Nonetheless its buy in was lacking. At the time	31 December 2007	Country Programs has framework contract to mobilize consultants to undertake diagnosis and specify TA (ICQ Contract). Completed	Implemented <b>Audit status: Closed</b>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Audit Implementation Status	OIG comments
	offer that assistance. It is also important to include the PR in this process in order to get buy in and cooperation once the assistance is underway	no mechanism was available to mobilize consultancy support to undertake a detailed analysis of the situation. A RFP is currently underway to ensure such consultants are available in the future Operations will use a pool of consultants in future to do detailed assessment studies that will form the basis of request for TA to partners.			
18	The Director of Operations should prepare guidelines on the closure and handover processes of a PR. This will ensure that this closure process is undertaken expeditiously so that no resources are lost in the process and that this happens with minimal disturbance to other Global Fund programs.	Detailed guidelines were given to UNDP and CIES for the closure of its grants with the Global Fund, based on the latest guidelines and policies within the Secretariat including a draft OPN on grant closure. The final OPN on grant closure is currently in preparation. Operations will finalize the OPN on grant closure	31 December 2007	OPN On Grant Closure finalized. Completed	Implemented <b>Audit status Closed</b>

**Kenya**

**In-country grant management and operational structures**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
1	<p>The Director of Operations should engage the CCM to ensure the following:</p> <p>(a) Memoranda of Understanding among key stakeholders are signed clearly defining among others:</p> <ul style="list-style-type: none"> <li>• Roles and responsibilities as well as linkages with stakeholders;</li> <li>• Grant reporting responsibilities and timelines for reporting;</li> <li>• Conflicts of interest issues;</li> <li>• Monitoring and performance review of implementing organizations against agreed upon roles;</li> <li>• Program and grant budget modifications procedures and responsibilities;</li> <li>• Regular audits of implementing units.</li> </ul>	<p>We agree with the findings and recommendations. The Director of Operations will communicate the findings and recommendations to the CCM within seven days of receipt of the final report. The Cluster will work closely with the CCM and other stakeholders to ensure the recommendations of the Rapid Needs Assessment and the OIG Audit are implemented.</p> <p>Implemented in July 2007, with a clear separation of functions between the CCM Secretariat and the central coordination unit for MOH Program Managers, headed by the Senior Program Manager for three disease control programs. The maintenance of this arrangement is being reinforced by a special condition in the Round 6</p>	31 December 2007	<p>All the SRs under round2 are government agencies. The relationship between the SRs and the treasury already defined within the government role and regulations hence no need for Mou. The gap However all the points raised here have been addressed through:</p> <p>i) The CCM Governance Manual also defines the roles and responsibilities between the key players under global fund program implementation finalized and distributed to all CCM members in April 2008. Issues of conflict of interest have been addressed in this manual, though its application needs to be enforced.</p>	<p>Not implemented. LFA to confirm if the GOK treasury rules and regulations together with the CCM governance manual do address each of the Global Fund concerns as laid down in recommendation a). If these are not fully addressed, then the MOUs between the PR and the SRs have to be put in place.</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	<p>(b) Separation of the CCM Secretariat from grant operations and expediting the activation of the Grant Coordination Unit to take up the operations role undertaken by the former ASU at the MOH.</p>	<p>TB grant agreement. The Cluster would continue to monitor this activity.</p>		<p>ii) The Global Fund grants operations manual developed by the PR which further clarify the role and responsibilities of stakeholders during grant implementation and provide clear guidance to SRs and implementers during the grant implementation</p> <p>The CCM secretariat is now separated from the MoH grant operations</p> <p>A program co-ordination unit has been created at the ministry of Public Health and sanitation to carry out program coordination role at the SR level. It is expected that this will improve GM implementation and accountability at that level.</p>	

**In-country financial processes and procedures**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
2	<p>The Director of Operations should engage the CCM and the PR on ways of making existing in-country financial management processes more efficient while maintaining key management monitoring controls for accountability. This should include and not be limited to:</p> <p>(a) Review the rationale for:</p> <ul style="list-style-type: none"> <li>• Maintenance of the Global Fund money on offshore accounts; and</li> <li>• Disbursement of funds through multiple bank accounts as opposed to direct disbursement to implementers.</li> </ul> <p>(b) Review of the existing payment procedures to make them more efficient.</p>	<p>Recommendations implemented as part of the conditions for the Round 6 TB grant. Cluster will continue to monitor the implementation.</p>		<p>The Ministry of finance has commissioned a study which is currently ongoing and which is expected to propose concrete ways and structures to streamline the implementation of the Global Fund grants in Kenya.</p> <p>The Global Fund operations manual which will be launched very soon, has adopted a new Fond flow process.</p> <ul style="list-style-type: none"> <li>- Funds for the procurement to be disbursed directly to the PSMC</li> <li>- Funds for CSOs to be disbursed directly to the FMA</li> <li>- Funds for program activities to be disbursed directly to program accounts</li> </ul>	<p>Not implemented. Country Programs should follow up and ensure that these recommendations are implemented</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
				The PR has started to apply these measures with TB R6 and will extend it to all new grants (TB R5 P2, Mal. R4P2, HIV R7)	
3	The Director of Operations should ensure that the CCM strengthens its oversight over the Global Fund grants in Kenya. This oversight should cover but not be limited to the CCM tracking implementation against approved plans, undertaking site visits and reviewing PR quarterly reports. Critical success factors of the Kenya grants for example procurement should be identified for better monitoring by the CCM. The role of the CCM should also be more at a policy level allowing other stakeholders in the Global Fund architecture to take up their respective roles.	We agree with the findings and recommendations. The Director of Operations will follow up implementation of the recommendations.	31 October 2007	The PR has been providing a regular update on project implementation to the CCM.  The CCM oversight committee is in place. Members were recently trained on their oversight role and responsibilities  The CCM has applied for funding which will enable them to undertake the oversight role.	OIG could not validate implementation of this recommendation.  <b>Audit status:</b> Open
4	The Director of Operations should engage the CCM to strengthen the conflict of	We agree with the findings and recommendation. The Director of Operations will	31 October 2007.	The conflict of interest policy was developed by the CCM. But the	Not implemented. OIG could validate existence of COI policy.

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	interest policy provisions in its manual to address how potential and real conflicts of interest will be managed. The manual should also be implemented to ensure the effective operation of the CCM.	communicate these findings and recommendations within a week of finalization of this report		implementation need to the enforced  The CCM governance manual is being implemented The code of conduct document has already been developed and consulted whenever there's a breach of this code.	<b>Audit status:</b> Open
5	The Director of Operations should engage the CCM to develop policy guidelines that establish minimum acceptable standards for implementers to facilitate program implementation. Once developed, measures to ensure compliance with established policies should also be instituted.	We agree with the findings and recommendations. The Director of Operations will communicate the findings to the CCM within one week of finalization of this report.	31 October 2007	Most of these recommendations were addressed by the Global Fund operations manual, which include management, coordination, and communication, programmatic and financial procedures. CCM has planned for a retreat early next year and the issues of communication strategy and work plan will be addressed in the retreat.	Partially implemented; OIG requested for and did not receive LFA confirmation that the operational manual addresses: <ul style="list-style-type: none"> <li>• The criteria for the nomination of PRs and SRs;</li> <li>• Communication strategy for the dissemination of CCM related information to relevant stakeholders;</li> <li>• Development of a CCM oversight work plan;</li> <li>• Process of obtaining technical assistance from partners</li> </ul> <b>Audit status:</b> Open

**Lessons learnt from the country audits and reviews undertaken by OIG  
AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
6	The Director of the Operations should engage with the Kenya PR to get a firm commitment on how program management of the Global Fund grants at PR level will be strengthened. This commitment should be monitored by the CCM.	<p>We agree with the findings and recommendations. The Director of Operations will communicate the findings and recommendations to the CCM and PR within seven days of receipt of the finalized audit report.</p> <p>The Cluster will work with the LFA to monitor implementation of the recommendations</p>	31 October 2007	<p>The PR team (The coordinator and the accountants) were trained (By TSF) on the Global Fund financial and programmatic requirements and they are now familiar with their responsibilities</p> <p>A monthly Global Fund implementers meeting was instituted with programs, FMA, PSMC and PR to discuss all matters related to grants implementation and to streamline coordination and communication.</p> <p>An International technical expert is now employed by the PR to strengthen the M and E and to provide technical support to PR and SRs on matters related to grants implementation.</p> <p>The Country's M&amp;E systems were assessed in May 2008 using the MESST tools. The outcomes were the</p>	<p>OIG did not get sufficient evidence to confirm implementation.</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
				<p>actions plans (for TB, HIV and Malaria components) which are being implemented</p> <p>Grants reporting tools were designed and are part of the Global Fund operations manual</p> <p>The PR is being supported by USAID (Capacity project) to organized trainings at the national level and decentralized levels on the Global Fund financial and programmatic procedures and reporting requirements.</p> <p>The first training targeting program focal persons, M&amp;E officers and accountants will be organized in early next year.</p> <p>The PR has been working with programs to make sure they provide detailed budget assumptions and district work plans. This will enable an easy follow up of</p>	

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
				<p>expenditures at the program level and at the district level.</p> <p>The PR is also developing a work plan for Monitoring financial expenditures at the SR level. This will be implemented from January 2009.</p>	
7	<p>The Director of Operations should ensure that Kenya’s criteria and process of selection as well as allocation of funds among CSOs is documented and transparent.</p> <p>Assessments should be undertaken with the objective of identifying CSOs with and without capacity to implement. For CSOs without capacity, the assessments should isolate those that can benefit from capacity building and those that should be discontinued altogether. In the former case, decisions to contract these CSOs should be documented as well as what measures will be put</p>	<p>We agree with the findings and recommendations. The FMA has been requested to conduct assessments of potential implementers prior to disbursements of funds. The Director of Operations will communicate the findings and recommendations to the relevant stakeholders within the country.</p>	31 October 2007	<p>The CCM has developed a GLOBAL FUND application processes document which includes the selection process for selection of CSOs</p> <p>The FMA, the PR and the program (TB program) have team up to revise and assessment tool and have assessed the CSOs pre-selected to implement TB Round6. The same exercise will be carried out with all the new grants.</p>	<p>OIG did not get sufficient supporting evidence to confirm implementation status.</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	in place to strengthen capacity.				
8	<p>The Director of Operations should ensure that the PR establishes a proper monitoring framework that covers:</p> <ul style="list-style-type: none"> <li>• Defined responsibilities for monitoring at PR, SR and PI level;</li> <li>• Well defined indicators and targets;</li> <li>• Methods of data collection for reporting;</li> <li>• Accumulation of data for reporting;</li> <li>• Verification of data reported;</li> <li>• Comparison of programmatic and financial data; and</li> <li>• Site visits to the SRs and PIs.</li> </ul>	<p>We agree with the findings and recommendations. The Director of Operations will communicate the findings to the CCM within seven days of receipt of the final Audit Report.</p>	31 October 2007	<p>Most of these were addressed in the Operations Manual.</p> <p>During the MESST workshop in May these were also discussed and actions included in the actions plans for each of the three programs. This is being implemented. However the main challenge remains the disconnection between the reporting channels for financial and programmatic results. This will be addressed by the establishment of the Global Fund coordination unit which is being spearhead by the PS Public Health and his colleague from medical service</p> <p>A new HIV M&amp;E framework will be developed from December 2008. It will address all the shortfalls in the</p>	<p>Not implemented; Country Programs to continue monitoring to ensure that the recommendations in the OIG audit report are adequately addressed in the proposed new M&amp;E frame work.</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
				current M&E framework. It is now clear that the programmatic M&E is to be done by the disease program while financial M&E is to be done by FMA. Both program on FMA have been taking joint M & E visits.	
9	The Director of Operations should ensure that the PR strengthens its reporting mechanism and it should consider having the country report quarterly instead of semi-annually.	We recommend that semi-annual reporting be maintained to avoid overburdening the PR. Reporting deadlines will be strictly enforced, and the Cluster will work closely with the LFA to monitor the timeliness of reporting.	31 October 2007	Grant reporting timelines has been developed by the PR and disseminated to all implementers.  The timeliness for the submission of reports to PR has improved. However the submission of reports from the PR to the LFA and to the Global Fund has continued to delay due to the long time taken by the PR and the LFA to verify the SRs programmatic results and financial expenses. The situation is being addressed through; - The Financial and programmatic monitoring plan for SRs	Partially implemented; reporting to the Global Fund has not been done in a timely manner.  <b>Audit status:</b> Open

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
				<p>which is being developed. SRs expenses will be monitored on a monthly basis</p> <ul style="list-style-type: none"> <li>- The PR will be strengthened with two accountant one at senior level to be in-charge of the unit.</li> <li>- The Coordination unit at the MoH, will help to reduce bureaucracy</li> </ul>	
10	<p>The Director of Operations should engage the PR to direct the FMA and NACC to strengthen their oversight of civil society organizations through:</p> <ul style="list-style-type: none"> <li>• Improvement of their existing framework and tools for capacity assessment taking into consideration additional requirements for lead CSOs;</li> <li>• Coordination of their financial and programmatic assessments including review of work plans, budgets and improved planning of CSO program activities;</li> </ul>	<p>We agree with the findings and recommendations. The Cluster will continue to work with the LFA to monitor implementation of these recommendations.</p>	31 October 2007	<p>This is being implemented.</p> <p>The coordination between the PR, the FMA and NACC in regards to the CSOs management has really improved.</p> <p>NACC and FMA have been conducting joint M&amp;E visits. NACC, FMA and PR have been participating in the development of CSOs work plans as well as CSOs meetings related to GLOBAL FUND issues.</p> <p>The FMA contract was reviewed and issues</p>	<p>Partially implemented; Country Programs to continue engaging the PR to have the audit recommendations fully implemented.</p> <p><b>Audit status:</b> Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	<ul style="list-style-type: none"> <li>Review of existing CSO contract format to include provisions for eventuality of non-receipt of funds from the Global Fund;</li> <li>Establishing an objective, transparent and policy-based process for decision-making regarding CSOs.</li> </ul>			<p>raised here were taken into consideration in the new contract.</p> <p>Reports submitted by the FMA have been reviewed by the PR's accountant and comments/queries submitted to the FMA. However, due to the workload, the review has not been consistent. This will be consistently implemented after the PR received a second accountant to strengthen its operations.</p> <p>The PR closely involved in program implementation and the issue of compressed work plans will no arise in the future grants</p>	
11	<p>The Director of Operations should engage the PR to establish policy guidelines regarding:</p> <ul style="list-style-type: none"> <li>Overheads, allowances and per diem for</li> </ul>	<p>We agree with the findings and recommendations. The Director of Operations will communicate the findings to the CCM and PR within seven days of receipt of the finalized Audit Report</p>	31 October 2007	<p>These issues have been addressed by the Global Fund operations manual. The PR have been participating to CSOs meetings organized by the three</p>	<p>Not implemented                      OIG did not get sufficient evidence to confirm implementation status.</p> <p><b>Audit status:</b></p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	meetings; • Procurement of goods and services from related entities; Budget modifications and reallocations	.		programs and has been using the opportunity to clarify some issues (tax exemptions process, Budget modification...) and to provide feedback on CSOs reports	Open
12	Director of Operations should engage the PR to: • Clarify roles, responsibilities and relationships between the PC, MOH and itself through the establishment of agreed working protocols or a tripartite MOU. that provides adequate checks and balances; • Resolve the outstanding obligations under Phase 1.	We agree with the findings and recommendations. The Director of Operations will communicate the findings and recommendations within seven days of receipt of the final report.	31 October 2007	This was also clarified in the operations manual  The monthly Global Fund implementers meeting has been also a good forum to address all issues related to communication, conflict of responsibilities and to resolve some bottleneck and misunderstanding.	Not implemented OIG did not get sufficient evidence to confirm implementation status.  <b>Audit status:</b> Open
13	The Director of Operations should engage the PR to: • Direct the PC to maintain proper books; • Regularly review the PC's books of account and annually audit the	We agree with the findings and recommendations. The Cluster will communicate the findings and recommendations to the PR and engage the LFA to monitor implementation of the recommendations.	31 October 2007	The Procurement officer at the PR level has been working with the PC to make sure they implement these recommendations.	Not implemented OIG did not get sufficient evidence to confirm implementation status.  <b>Audit status:</b> Open

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	<p>PC;</p> <ul style="list-style-type: none"> <li>Undertake a technical review, of the PC, as recommended by the CCM, in order to confirm the effectiveness of the procurement process and remove any bottlenecks.</li> </ul>	<p>The Cluster will provide a report to the Director of Operations on/before 31 October 2007.</p>			
14	<p>The Director of Operations should engage the CCM and the PR to:</p> <ul style="list-style-type: none"> <li>Formulate policies and procedures for use of interest income;</li> <li>Direct the PC to periodically report all income that is incidental to its operations;</li> <li>Direct the PC to seek PR approval for the payment of its invoices.</li> </ul>	<p>We agree with the findings and recommendations. The Director of Operations will communicate the findings and recommendations to the CCM and PR within seven days of receipt of the final report.</p>		<p>The PR has been following the Global Fund policy for use of the interest.</p> <p>The PR has been tracing the interest generated by the PC' accounts and these were reprogrammed for procurements (with the LFA approval)</p> <p>The PR has not been monitoring the use of the money generated by the PC from the bidding process. The PR will ensure the PC reports on these funds.</p> <p>According to new rules set in the Global Fund operations manuals, funds will be transferred from PR to PC upon request by the</p>	<p>Not implemented                      OIG did not get sufficient evidence to confirm implementation status.</p> <p><b>Audit status:</b>                      Open</p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
				programs, and after verification of all invoices.	
15	<p>The Director of Operations should engage both the CCM and PR management to:</p> <ul style="list-style-type: none"> <li>• Improve the level and capacity of the PR's financial management function to provide the necessary overall financial management leadership, direction as well as financial monitoring and accountability for all the grants in Kenya;</li> <li>• Adopt a policy and process for closing the dormant bank accounts for expired grants in seventy eight districts of the MOH and other SRs;</li> <li>• Develop an up-to-date and comprehensive financial Manual.</li> </ul>	<p>We agree with the findings and recommendations. The Director of Operations will notify the CCM and PR of these findings and request that appropriate actions be taken to address the issues rose. The LFA will be requested to conduct a review of the issues raised and to monitor implementation of the recommendations.</p>	31 October 2007	<p>A work plan for Monitoring financial expenses is being developed</p> <p>The PR will be strengthened with a senior accountant to assist in SRs financial monitoring</p> <p>The Districts dormant accounts have been closed. Funds were transferred into program accounts and have been reprogrammed for grants activities.</p> <p>the Global Fund operations manual developed is programmatic and financial</p>	<p>Partially implemented; Country Programs to continue monitoring to ensure full implementation of audit recommendation.</p> <p>Once implemented, Country Programs to engage LFA to verify/confirm full implementation of the audit recommendation.</p> <p><b>Audit status:</b> Open</p>
16	<p>The Director of Operations should engage the CCM to undertake bench-marking of incentive allowances to</p>	<p>We agree with the findings and recommendations, The Director of Operations will communicate the findings</p>	31 October 2007.	<p>After discussions with the FPM and the LFA, a reasonably level of top-up was approved</p>	<p>Not implemented.</p> <p><b>Audit status:</b></p>

**Lessons learnt from the country audits and reviews undertaken by OIG**  
**AUDIT IMPLEMENTATION STATUS**

**ANNEX 1**

	Recommendation	Management comment	Target date for implementation	Implementation status	OIG comments
	ensure that current rates being paid are not excessive.	to the CCM and PR within seven days of receipt of the finalized Audit Report		and the budget submitted to the GLOBAL FUND secretariat by the PR (with the PR administrative budget). Unfortunately, the GLOBAL FUND secretariat has not disbursed this money. This situation has led to a low moral and staff demotivation with a negative impact on their performance	Open
17	The Director of Operations should engage the PR and the CCM to review the need for continued engagement under the grant of the MOH district accountants.	We agree with the findings and recommendations, The Director of Operations will communicate the findings to the CCM and PR within seven days of receipt of the finalized Audit Report	31 October 2007.	These accountants are being absorbed by the government and will be trained to undertake more extensive responsibilities.	Not implemented OIG did not get sufficient evidence to confirm implementation status.  <b>Audit status:</b> Open

**Annex 2  
Global Fund Secretariat’s Response to Recommendations and Management Action Plan**

**Prioritization of recommendations**

- a. **High priority:** Material concern, fundamental control weakness or non compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization’s interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management.
- b. **Significant priority:** There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization’s interests, weaken internal control, or undermine achievement of aims and objectives.
- c. **Requires attention:** There is a minor control weakness or noncompliance within systems and proportional remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the organization’s benefit.

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
CCM Conflict of interest	<i>Recommendation 1 (Significant) The Global Fund policy should be extended to address the full range of conflicts of interest that arise at CCM level. The Global Fund should put also in place mechanisms to ensure that the policy is implemented e.g. having a mechanism to confirm that this policy is complied with. This will ensure that the CCM remains independent and objective in undertaking its various roles</i>	Agreed.  <b>General</b> - CCM screening in recent funding rounds shows that CCMs are on a learning curve for these policies, and their understanding and management of conflict of interest (COI) has improved. - While the Global Fund does not have sufficient resources for continuous in-depth monitoring of CCMs, the regional teams receive frequent input on CCM functioning from partners and their own exposure to CCMs during in-country travel.		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p><b>Existing mitigation</b></p> <ul style="list-style-type: none"> <li>- When it appears that a CCM is not complying with Global Fund policies on COI for example, the CCM team is called on for focused technical support.</li> <li>- In addition, the CCM team conducts analyses of CCM function on an ongoing basis to inform the development of CCM support plans, including on issues related to COI.</li> <li>- These measures would ensure regular assessment of CCM implementation of guidelines related to conflict of interest at country level.</li> </ul> <p><b>Proposed additional measures</b></p> <ul style="list-style-type: none"> <li>- The Global Fund’s current oversight of CCM COI management, as well as the policies themselves, will be strengthened further. Global Fund policies on COI management are defined by the Board in the CCM Guidelines document. The CCM team is proposing a number of changes to this document to the 2009 September PIC and November Board. These changes will include an extension of the CCM COI policy to apply to all members, and not only Chair or Vice-Chair positions held by a PR, as currently defined.</li> <li>- Furthermore, as part of the architecture review, the CCM team is proposing that implementation of the COI policy is monitored throughout the life of the grant, and not only at the time of funding requests (during eligibility screening by the Screening Review Panel (SRP)). The OPC has approved in principle this operational change.</li> </ul>	<p>CCM Manager</p>	<p>Dec 2009</p>

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>- In the meantime, the SRP will screen CCMs more rigorously on COI management, searching for documented examples of COI management, as opposed to only paper plans for COI management by CCMs.</p> <p>- This will be implemented and enforced as follows: Following the Round 9 SRP (completed August 6 2009) a review of lessons learned is being conducted, led by CCM, and country proposals teams. The review will explore SRP improvements along three dimensions: Structure, Process, and Practice. Among the structural weaknesses identified in SRP R9, is the language of the requirement on COI, which does not mandate that CCMs demonstrate COI management: they are only required to have a policy in place. The CCM team will work with the OPC/Board to revise this requirement, so that the SRP can demand that CCMs demonstrate COI management in practice and not only on paper. As mentioned above, the requirement may also be expanded beyond Chair and Vice-Chair, and may be monitored throughout the grant lifetime, and not only at the time of funding requests (see additional measures c in response to recommendation 2).</p> <p>- In addition, the CCM team is producing a guidance note on COI in 2009, to enhance CCM partner understanding of COI policies.</p> <p>- <b>CCM monitoring and support:</b> the CCM is elaborating a plan to involve regional team staff more closely in CCM monitoring and</p>	SRP	Dec 2009

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		support. - Currently, a process is being initiated to periodically perform a systematic review the minutes of the CCMs, to draw lessons.		
	<p><i>Recommendation 2 (High)</i>  <i>Country Programs should put in place a mechanism to ensure compliance to the 6 eligibility criteria throughout the entire grant cycle and not only at the time of proposal submission. One of the ways to achieve this would be to mandate the LFA to review the operation of the CCM and ensure compliance to grant agreement requirements and CCM guidelines by attending some CCM meetings and quickly flagging CCM operation bottlenecks</i></p>	<p>Agreed, with comment on LFA role (below).</p> <p><b>General</b>                      The option to involve LFAs in CCM compliance with eligibility requirements has been explored extensively in 2009. While valuable in principle, it met with numerous operational challenges including complexities of defining scope of LFA involvement, limited screening timelines, potential LFA conflicts of interest and large cost implications.</p> <p><b>Proposed additional measures</b>                      - As part of the architecture review, the CCM Team and Country Proposals team have proposed that CCM requirements are divided into three groups, and that screening is applied differently for each group:</p> <ul style="list-style-type: none"> <li>a) Compliance with the requirements on proposal development and PR selection processes would continue to be assessed at the time of funding requests as is the current practice</li> <li>b) Compliance with the two requirements on CCM non-government member selection processes, and membership of people living with disease would be assessed periodically, on a biennial basis for example</li> <li>c) Compliance with requirements on</li> </ul>	<p>CCM                      Manager</p>	<p>Dec 2009</p>

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>oversight and COI management would be monitored throughout the lifetime of grants awarded to the CCM, and non-compliance would trigger CCM technical support as opposed to exclusion from access to funding.</p> <p>- In addition, as mentioned above the Country Programs Cluster has decided that FPMs and the Team Leaders will take a more proactive role in collaboration with in-country partners to regularly monitor as well as support CCMs to play their oversight function. The proposed enhanced funding policy, approved by the Board in principle, is likely to facilitate the above mentioned role of the FPMs and Team Leaders, by providing clear and specific information on CCM performance. How this will be communicated to FPMs and be enforced is not yet fully defined. There is agreement among Country Programs Directors that CCM support by regional team staff (FPMs and POs) during country visits, can be systematized and standardized. Ideas have been proposed, such as the development of a country visit checklist, which would include an item on CCM support. However, before any measures are implemented, consultations must be conducted with regional teams' staff to ensure feasibility and acceptability of planned actions. Preparations are underway by CCM team to ensure coherence of proposed support measures with all other CCM support activities. Once consultations are completed, and a clear action plan is developed, it will be communicated to</p>	<p>CCM Manager and CP Unit Directors for each Unit (with coordination of the Office of the Directors)</p>	<p>Dec 2009</p>

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>Country Programs regional staff through the standard Country Programs cluster channels (ie. CPDO); and targets, roles and accountable actors will be clear, such that implementation can be monitored.</p> <p>- In addition, the Secretariat is currently evaluating measures for LFA to systematically screen (e.g. on an annual basis) certain CCM eligibility criteria. LFA involvement may be piloted in RCC wave 8.</p>		
	<p><i>Recommendation 3 (Significant)</i>  <i>The Global Fund should work towards building on earlier grant proposals as opposed to treating the different grants in isolation. CCMs as part of their oversight role should be encouraged to work towards creating synergies between disease interventions and related grants</i></p>	<p>Agreed.</p> <p><b>General</b></p> <p>- The measures suggested above will support CCMs to achieve this, and allow the CCM team to monitor progress. For example, the CCM eligibility oversight requirement insists that every CCM should develop and present an oversight plan that should explain how the CCM will oversee its grant portfolio, and should address potential efficiencies and synergies to be achieved across grants and PRs. Similarly, the CCM oversight dashboard and new funding policy aim to strengthen CCM performance on oversight functions. Finally, the greater involvement of regional team staff in CCM support, will promote coordinated and holistic oversight of the CCMs grant portfolio with all of its constituent grants and interventions.</p> <p>- Perhaps more importantly however, individual grant programs should not be</p>	<p><b>CCM Manager</b></p>	<p><b>Dec 2009</b></p>

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>structured in isolation, without reference to pre-existing grants and interventions, whether these are financed by the Global Fund or through alternative sources. This is a point that the CCM must address at the stage of proposal development and program design. The Global Fund can give guidance on proposal development through its funding application forms, form guidelines, and through road shows conducted by the Secretariat when new funding rounds are launched. There is also a role for technical partners who support proposal development, in providing guidance on this point.</p>		
	<p><i>Recommendation 4 (Significant) Assessments of CCM capacity should be undertaken as part of the LFA assessment of grant preparedness. Measures should then be put in place to address capacity gaps identified</i></p>	<p>Agreed in principle: there is certainly a need to assess CCM capacities, and respond accordingly.</p> <p><b>General</b></p> <ul style="list-style-type: none"> <li>- A formal initial assessment may not be the best way to contribute to capacity development of CCMs however. Rather, enhancing the Secretariat’s capacity to be even more active in working with the CCM during the grant’s life is the preferred approach that allows CCMs to help develop themselves, in a dynamics of genuine country ownership.</li> <li>- The CCM is a political and intersectorial coordination body tasked with program oversight - not a managerial entity. Its role is mainly a political/institutional one, articulating different (sometimes</li> </ul>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>antagonistic) sectors, aiming to reach consensus in the definition of the proposal, and oversee programs financed by the Fund.</p> <p><b>Existing Mitigation</b>                      - CCM capacity is in general developed through a process in which the CCM identifies its own weaknesses. In the spirit of country ownership, the Secretariat helps and supports the CCM, but does not interfere or impose strengthening plans (unless the situation is such that it could jeopardize the program).</p> <p><b>Proposed additional measures</b>                      - A number of CCM team activities will help enhance CCM support and capacity development through this approach:                      a) The existing CCM self-assessment tool is being revised and strengthened.                      b) The new CCM funding policy will help monitor CCM performance, allowing the clear identification of CCM performance weaknesses and capacity needs                      c) CCM minutes are being collected and analyzed for additional information on CCM performance and capacities                      d) Regional team staff is being engaged more in CCM monitoring and support.                      e) A coordinated approach using all of the above measures (a to d) is being defined by the CCM team, to ensure that support of CCM capacity development is evidence-informed and strategic.</p>	<p>CCM Manager</p>	<p>Dec 2009</p>

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
<p>PRs Compliance with Grant agreement clauses</p>	<p><i>Recommendation 5 (High)</i> <i>The Global Fund should institute measures where compliance of the PR with grant conditions and applicable country laws is closely monitored and sanctions imposed for continued failure to meet conditions. This will ensure that the conditions put in place to safeguard the Global Fund assets are operational and therefore reduce the risks that Global Fund money is exposed to</i></p>	<p><b>General</b> We recognize that at times some conditions and Grant Agreement terms have not been complied with, as detailed in the OIG report.</p> <p><b>Existing Mitigation</b> In general, the assessments and procedures put in place by the Global Fund (assessments, verifications, etc.) allow the Secretariat to monitor and act on the vast majority of non-compliance events by Principal Recipients. But again, we agree that some important gaps remain.</p> <p><b>Proposed additional Measures</b> - Some teams have begun briefing PRs in more detail and more explicitly than in the past on all of the reporting and compliance requirements they are committing to by signing the grant agreement. This may be a useful practice for all teams to adopt. The Cluster Director will be exploring the generalization of this practice by the end of 2009 as part of work on the Country Programs Action Plan.</p> <p>- It is also important for the Country Programs Cluster to work to systematically determine whether the PR is in a position to fulfill all of the grant agreement requirements. This will be taken in the same exercise mentioned above, before end 2009.</p> <p>- An area in need of improvement is the timely submission of, and follow-up on, audit reports. We are about to submit to the OIG a</p>	<p>Country Programs - Cluster Director and Unit Directors for all Units (with coordination of the Office of the Directors)</p>	<p>Dec 2009</p>



Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>Recommendation 7 (Significant)</i>  <i>While additionality is one of Global Fund’s core principles, its compliance cannot be easily verified since there are no mechanisms at country level to measure it. The Global Fund should revisit the application of this principle at country level and define what it will accept as evidence of its application. Otherwise this principle will remain irrelevant and not operational at country level.</i></p>	<p><b>General</b>                      We recognize that the Secretariat has yet to define a way to assess the additionality of Global Fund grants. At the moment this is done through a series of actions including conversations between the Regional Team and the Principal Recipient, and information from partners and Ministries of Finance.</p> <p><b>Proposed additional Measures</b>                      - Clarity around additionality of funding is one of the priorities that Country Programs has set itself in the recent (July 2, 2009) 2009-2010 Action Plan, which reads: “<i>Agree on common approach, procedures, and documentation, across all Regional teams, for the following: (...) 7. Clarity on additionality of funds for each country/disease</i>”                      - The Country Programs Cluster Director will work with the SPE Cluster Director to define roles and responsibilities in leading the development of an evaluation methodology and framework.</p>	<p>Country Programs - Unit Directors (with coordination of the Office of the Directors)</p>	<p>Dec 2009</p>
	<p><i>Recommendation 8 (High)</i>  <i>Country Programs should strengthen the process through which conditions precedent are complied with. This will strengthen the control environment within which disbursements are made and ensure that Global Fund grants are safeguarded. Areas that need to be considered are:</i>  <i>(a) What measures are in place to ensure that CPs are met before disbursement is effected;</i>  <i>(b) Who checks and clears the fulfillment of</i></p>	<p>We agree with the recommendation.</p> <p><b>Proposed additional Measures</b>                      An OPN on Conditions Precedent has been in the works for over two years, and could be finalized shortly. It addresses the points raised in the report.</p>	<p>Country Programs - Cluster Director</p>	<p>Dec 2009</p>

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>a CP;</i>  <i>(c) When can CPs be waived;</i>  <i>(d) What controls are in place to ensure that once CPs are waived, other mitigating factors are put in place to address the initial risks identified; and</i>  <i>(e) Who would authorize the waiving of a CP.</i></p>			
<p><b>Procurement and logistics management of pharmaceutical products</b></p>	<p><b>Recommendation 9 (High)</b>  <i>The Global Fund should increase its procurement oversight over the procurement and supply management process after the approval of the PSM plan. This can be done either by the LFA or an independent evaluator to ensure proper utilization of guidelines and funds. This can include procurement audits to determine that proper procurement processes have been followed and that value for money is obtained. LFAs should be required to report on procurement and logistics management as part of the Phase 2 process.</i></p>	<p><b>Proposed additional Measures</b>                      - The revision of the Progress Update and Disbursement Request (PU/DR) template (both the PR and LFA reporting sections) is currently underway. In the revised form the PR will be asked to:                      1) state whether there are any risks of drug stock-outs;                      2) state whether there are any forthcoming drug expiry issues; and                      3) Comment on any issues related to the procurement and supply management of health and non-health products.                       - The LFA will verify the PR’s explanations and provide analysis on any PSM issues to the Global Fund. Moreover, in a new section in the PU/DR the LFA is asked to state and describe any management issues relating to Pharmaceutical and Health Products Management. Therefore, with the revised PU/DR reporting template, both the PR and LFA will be required to provide detailed information and analysis on procurement issues on a periodic basis.                       - The LFA reporting tools and guidelines for</p>	<p>Secretariat                      PU/DR                      revision                      working                      group</p> <p>Country                      Programs -                      LFA Manager</p> <p>Same</p>	<p>May 2010</p> <p>May 2010</p> <p>Dec 2009</p>

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>the Phase 2 process will be revised in 2009 to review the scope and compliance of the existing LFA focus on procurement and logistics management.</p> <ul style="list-style-type: none"> <li>- The Country Programs Cluster is considering making annual audits include a review of procurement activities. However, this would only address the procurement aspect of pharmaceutical management.</li> <li>- A comprehensive review of how health products have been procured during Phase 1 should be part of the Phase 2 evaluation. The Procurement Team in the SPE Cluster is currently working on this, and should be able to present early results before the end of 2009.</li> <li>- The Country Profiles currently under development will help assess any improvements made on the overall systems used for the management of health products. (Expected completion and roll-out: May 2010).</li> </ul>	<p>Country Programs Cluster Director</p> <p>SPE - PMU Manger</p> <p>Same</p>	<p>Dec 2009</p> <p>May 2010</p>
	<p><i>Recommendation 10 (High)</i> <i>The Global Fund should ensure that as part of its capacity building drives, PRs get the requisite training in forecasting drug requirements. This can be undertaken in conjunction with other technical partners in the regions.</i></p>	<p><b>Proposed additional Measures</b></p> <ul style="list-style-type: none"> <li>- The Secretariat is in the process of drafting a paper to the PIC and the 20<sup>th</sup> meeting of the Board on <i>preventing stock-out and treatment disruptions</i>. The paper will be reviewed by the EMT in Aug 2009.</li> <li>- We propose to wait for the paper and its proposed way forward, as this would directly and comprehensively address this recommendation.</li> </ul>	<p>Country Programs - Office of the Directors</p>	

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>Recommendation 11 (High)</i>  <i>The procurement specialist and health specialists that form part of the LFA team should periodically advise on the reasonableness of purchased drug quantities.</i></p>	<p><b>Proposed additional Measures</b>                      - The above-mentioned paper discusses the monitoring the risks of stock-outs by routinely adding an indicator on stock levels in all Performance Frameworks (to be monitored through disbursement requests).</p> <p>- As mentioned above, the PU/DR template is going through a thorough review and the final version for field testing is ready. At the request of Country Programs, the template now includes a section for describing potential risks of stock-out for key health products and any forthcoming drug expiry issues.</p>	<p>Country Programs (see above)</p> <p>Country Programs</p>	<p>May 2010</p> <p>May 2010</p>
	<p><i>Recommendation 12 (Requires attention)</i>  <i>Country Programs should consider devising a mechanism where countries within regions are able to share information and seek solutions to stock outs (actual or imminent) and expired drugs since in some cases, drugs that are about to expire in one country are in short supply in a neighboring country.</i></p>	<p><b>General</b>                      - This recommendation in some cases would contradict the interagency guidelines for drug donations (WHO document) and raises serious quality assurance issues: <i>“After arrival in the recipient country, all donated drugs should have a remaining shelf live of at least one year.”</i> It would also run the risk of interrupting the supplier-users liability chain.</p> <p>- The Secretariat has been approached on several occasions regarding this issue, and has for the moment taken the position that transfers of drugs were not permissible.</p> <p><b>Proposed additional Measures</b>                      - The VPP would ensure that countries get staggered deliveries, for example on a quarterly basis. If only few countries sign up</p>	<p>VPP/PHPM Manager</p>	

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>to the VPP, then this measure would of course not be relevant.</p> <ul style="list-style-type: none"> <li>- As mentioned, the paper currently under EMT review addresses a number of ways to deal with stock-outs.</li> </ul>	<p>Country Programs Office of the Directors</p>	
	<p><b>Recommendation 13 (Significant)</b>  <i>The Global Fund should develop a policy to guide PRs on the contracting and management of procurement agents. As is the case where countries cannot find a suitable PR and a UN agency is asked to assist for a limited time, agents should also be used for an agreed time so that PRs are encouraged to build their own capacity</i></p>	<p><b>Proposed additional Measures</b></p> <ul style="list-style-type: none"> <li>- The VPP service will address this issue by offering the use of a procurement agent and the necessary assistance to build capacity (CBS). However, since a number of PRs use procurement agents and may not opt to join the VPP, we believe that some guidance on the contracting of a PA (and suppliers) would be useful. The Procurement Unit will be working on this issue and will share an approach before the end of 2009.</li> <li>- The Procurement Unit will also revive work on a list of standard contract clauses for PRs to consider and/or build upon (without any requirement to actually use them) when contracting procurement agents. <i>Proposed completion: end of 2009.</i></li> </ul>	<p>VPP/PHPM manager</p>	<p>Dec 2009</p>
	<p><b>Recommendation 14 (High)</b>  <i>The appropriateness of storage facilities is part of the LFA assessment. LFAs do not usually highlight this as a serious capacity issue that needs addressing and should do so where appropriate in future. This aspect usually would need to be addressed in conjunction with Governments and other donors. Linkages therefore with other stake holders need to be built by the CCM to address identified storage related issues.</i></p>	<p><b>Existing mitigation</b></p> <ul style="list-style-type: none"> <li>- The LFA PR Assessment tools and templates include specific questions on storage facilities which the LFA has to address in its assessment.</li> <li>- The Pharmaceutical and Health Products Management (PHPM) assessment tool which guides the LFA's assessment of the PR has a specific section (F), which includes 12 questions on receipt and storage. LFAs are, therefore, requested to assess storage</li> </ul>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>facilities as part of the PHPM assessment.</p> <ul style="list-style-type: none"> <li>- The revised QA Policy makes reference to the Interagency Guidelines titled "Model QA for procurement agencies" that includes a module on "receipt and storage of purchase products" and "Guidelines for good storage practices".</li> </ul> <p><b>Proposed additional Measures</b></p> <p>Moving forward, the PHPM Team has indicated it would reject any LFA Report not including an adequate assessment of the storage facilities; it will also ensure, together with FPMs, that any issues affecting storage facilities are treated as a high priority. For now this will not be implemented through an OPN but through an improved procedure (systematic attention to the issue) by the PHPM team. Based on future results, the Secretariat will consider alternative measures if this proves to be insufficient.</p>	<p>PHPM Manager</p>	<p>Ongoing, starting immediately</p>
<p>Salaries and allowances paid out of Global Fund grants</p>	<p><i>Recommendation 15 (Significant)</i> <i>The Global Fund should develop a policy to guide the payment of salaries and allowances by PRs and SRs at country level</i></p>	<p><b>Existing mitigation</b></p> <ul style="list-style-type: none"> <li>- In January 2009, the Operational Policy Committee approved an approach document on Coordination of Salaries and Compensation. It aims to make the PSC endorsed approach to salaries and compensation operational.</li> <li>- According to the adopted approach, countries should provide evidence on how the salary levels proposed by the grant are harmonized nationally or based on an interagency framework.</li> </ul>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p><b>Proposed additional Measures</b>                      - The roll-out of the policy will take place at the time of grant renewal reviews and through negotiations of new grants. It is therefore staggered and - taking into account the 2+3 years current grant lifecycle - will be fully in place, for all grants, in a maximum of three years.</p>	<p><b>Country Programs - Office of the Directors</b></p>	<p><b>Dec 2012</b></p>
<p><b>Financial Management Systems</b></p>	<p><i>Recommendation 16 (Significant)</i>                      Since the Global Fund fiduciary arrangements require the LFA to assess and monitor the adequacy of the PR's financial management systems, the Secretariat should review the adequacy of the PR assessment and verification of implementation tools currently in use so that the LFAs are required to undertake more depth reviews with the aim of identifying risks</p>	<p><b>General</b>                      As part of the Country Team approach for grant negotiations, there is already significant interaction between the Secretariat's Program Finance team, regional teams and the LFA in generating further in-depth information and analysis on top of the LFA PR FPM assessment and specific to the implementation context and perceived risks for each grant.</p> <p><b>Existing mitigation</b>                      Given the LFA's central role in alerting the Global Fund on key issues/risks that may impact grant performance, the Global Fund has improved the way in which it is (i) ensuring that LFAs have the required financial expert skills; (ii) evaluating the performance of LFAs through the newly developed LFA Performance Evaluation Tool and through in-country evaluations and case studies; and (iii) providing LFAs with guidelines and training</p> <p><b>Proposed additional Measures</b>                      A number of measures are underway to</p>	<p><b>Country Programs - LFA Manger</b></p>	<p><b>Ongoing</b></p>

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p>ensure the improvement and depth of LFA reviews:</p> <ul style="list-style-type: none"> <li>- As discussed above, the LFA and PR sections of the PU/DR tools are being strengthened, including references to the PRs Financial Management Systems (FMS).</li> <li>- The FMS component of the PR assessment tool was comprehensively updated in December 2007. It will be reviewed again in preparation for Round 9.</li> <li>- The reporting tools and guidelines for the LFA Phase 2 process are planned for revision in 2009.</li> </ul>	Country Programs - LFA Manager	Dec 2009
Monitoring and Evaluation	<p><b>Recommendation 17 (High)</b></p> <p><i>(a) In order to ensure that performance based funding is effective in Global Fund grants, Country Programs should work with the Monitoring and Evaluation team to strengthen the policy on monitoring and evaluation and its operationalization. PRs should have approved M&amp;E plans that cover as a minimum:</i></p> <ul style="list-style-type: none"> <li>• <i>Defined responsibility for monitoring at PR, SR and PI level;</i></li> <li>• <i>Well defined indicators and targets;</i></li> <li>• <i>Methods of data collection for reporting;</i></li> <li>• <i>Accumulation of data for reporting;</i></li> <li>• <i>Verification of data reported;</i></li> <li>• <i>Comparison of programmatic and financial data; and</i></li> <li>• <i>Site visits to the SRs and PIs.</i></li> </ul> <p><i>(b) The involvement of public health specialists during LFA verification of</i></p>	<p><b>General</b></p> <p>(a) - M&amp;E plans are a prerequisite to signing grant with the Global Fund. In exceptional cases this requirement is included as a condition precedent before second disbursement. Work is continuously being done in cooperation with partners to improve the quality of these M&amp;E plans.</p> <ul style="list-style-type: none"> <li>- Country Programs and the M&amp;E team constantly work together in the Country Team to ensure that PRs have M&amp;E plans that will allow them to effectively carry out monitoring and evaluation activities.</li> <li>- This work is guided by Global Fund M&amp;E Plan Guidelines which describe the minimum requirements for M&amp;E plans.</li> <li>- Among others aspects, these requirements include well defined indicators and targets, a description of data collection, analysis and reporting systems, data quality assurance mechanisms and M&amp;E budgets. The M&amp;E Plan</li> </ul>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>implementation should be mandatory with LFAs providing comments not only on the quantitative but also qualitative aspects of the results reported by the LFA.</i></p> <p><i>(c) The policy on disbursements by the Global Fund where results have not been met should be strengthened. It should clearly cover when and how exceptions can be made in the light of poor performance.</i></p>	<p>Guidelines are available in the Operational Policy e-Manual.</p> <ul style="list-style-type: none"> <li>- Indicators in grants are primarily defined using the M&amp;E Toolkit which encompasses a wide range of standard indicators selected and agreed upon by technical partners (UNAIDS, RBM-MERG, and STOP TB).</li> <li>- The process of site visits to SRs is generally described in M&amp;E plans. Furthermore, LFAs are responsible for conducting on-site data verifications of reported results for both SRs and PRs as described in the OPN on On-Site Data Verification available in the Operational Policy e-Manual. These OSDVs also provide insights into operationalization of the M&amp;E plan by assessing compliance in reporting with respect to the operational definition of the indicators.</li> </ul> <p><b>Existing mitigation</b></p> <ul style="list-style-type: none"> <li>(b) - As part of the latest tender for LFAs, it is a requirement that all LFA teams have an M&amp;E specialist as well as specialists in public health.</li> <li>- Furthermore, these LFA have all been recently trained by Global Fund M&amp;E Officers in Global Fund M&amp;E standards, policies and practices using a standard developed curriculum.</li> <li>- The LFA and PR sections of the PU/DR tools are being updated and revised. The new PU/DR draft requires LFA health experts to provide greater inputs on qualitative aspects related to the progress reported by the PR.</li> </ul>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
		<p><b>Proposed additional Measures</b> (c) - The SPE Cluster is currently drafting guidelines on PBF, for completion before the end of the year.</p> <p>- We recognize that although the OPN on Grant Rating Methodology clearly describes how the performance based funding mechanism needs to deal with poor performing grants, the OPN has not always been complied with. The Country Programs Cluster will liaise with SPE to ensure full compliance with the OPN. <i>Expected completion: Q1 of 2010.</i></p>	<p>SPE - PIE Manager</p> <p>SPE - PIE Manager and Country Programs Office of the Directors</p>	<p>Apr 2010</p> <p>Apr 2010</p>
<p>Pass through PRs</p>	<p><b>Recommendation 18 (Significant)</b> <i>(a) Country Programs should put in place guidelines about assessments and oversight management of pass through PRs as is the case when Multilateral Organizations are PRs.</i> <i>(b) In cases where a ministry or ministry department is a SR of an NGO, Country Programs should require the LFAs to undertake such SR assessments and also assess how the relationship will be managed.</i> <i>(c) During assessments of "pass through" PRs, LFAs should be required to provide</i></p>	<p><b>General</b></p> <p>- We agree with the need to better assess the added value of pass-through PRs and processes surrounding them.</p> <p>- We also agree that LFA assessments of SRs need to be better tailored to the level of risk or funding, and (thus tailored) need to happen more often than they do at the moment.</p> <p><b>Proposed additional Measures</b> - The Secretariat will continue to review its</p>	<p>Country Programs -</p>	<p>Ongoing</p>

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>detailed process flow of funds and operations of other in country processes through which Global Fund programs are going to be implemented. Extra layers that do not add value in the funding process should be eliminated. Roles and responsibilities of PRs and SRs should be clearly defined and assessed by the LFA for effectiveness. In this way, bottlenecks will be identified and solutions sought before grant signing.</i></p>	<p>policies related to SR assessment and oversight, and the OPC will discuss again the issue of LFAs assessments of SRs (and decide whether to bring it back to the Board) in the beginning of 2010.</p> <p>- The Secretariat will work towards ensuring that FPMs and the Country Teams are more proactive in asking LFAs to tailor their assessments to specific situations. This will start with a communication from the Director of Country Programs to Team Leaders and FPMs in the third Quarter of 2009.</p> <p>- Regarding pass-through PRs (recommendation 18.c), the LFA team will be communicating with Regional Teams and LFAs to explore how to take the OIG's recommendation forward. We will have an update on this by November 2009.</p>	<p>OPC Secretariat</p> <p>Country Programs - Team Leaders with support from Directors Office</p> <p>LFA manager</p>	<p>Dec 2009</p> <p>Dec 2009</p>
<p><b>Slow Program implementation</b></p>	<p><i><b>Recommendation 19 (High)</b> Country Programs should consider setting criteria to determine SR materiality and require LFAs to assess capacities and monitor their performance e.g. if a SR was responsible for say 30% of program implementation in a particular program, it would be critical that the SR has the necessary capacity to implement program activities. Such an SR would have to be subject to an LFA assessment to determine</i></p>	<p><b>General</b></p> <p>- See comments on Recommendation 18, including our general agreement with the need for more work in this area and our commitment to take this issue forward.</p> <p>- In April 2007, the Board recognized that the primary responsibility for SR oversight resides with the PR (decision point GF/B15/DP50).</p> <p>- During implementation, on-going LFA verification through ad-hoc site-visits and</p>	<p>Country Programs</p>	<p>Ongoing</p>

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>its capacity to implement. Country Programs should develop more detailed guidelines on SR assessment to guide PRs in assessing SRs in sufficient depth</i></p>	<p>structured on-site data verifications help verify the quality of data at service delivery points that is reported by SRs and PRs. Depending on the risk profile of the country/grant the Secretariat can request the LFA to exercise a more prominent oversight role vis-à-vis the SRs.</p> <p>- This is, for instance, applied in all Additional Safeguard countries (including LFA assessment of SRs).</p> <p><b>Existing Mitigation</b></p> <p>- To ensure that PRs have adequate capacity and systems for SR oversight, the Secretariat updated the standard PR assessment tools in December 2007 to include a more comprehensive and prominent assessment by the LFA of the PR's management and oversight of SRs.</p>		
<p><b>Adequacy and quality of the work done by the LFAs</b></p>	<p><b>Recommendation 20 (High)</b></p> <p><i>(a) LFA TORs should reflect the risks identified at country level. In this way, the reviews of the LFA will be relevant and help identify critical issues, and help inform, as a starting point, further LFA country and grant specific works.</i></p> <p><i>(b) LFAs should not change proposed staff without the requisite approval by the Global Fund. In cases where staffs are to be replaced, they should be of equal or better experience.</i></p> <p><i>(c) As far as practical, Country Programs should not contract LFAs to</i></p>	<p><b>General</b></p> <p>- There is significant scope for FPMs and LFAs agreeing to tailor/customize the LFA reviews and ad hoc services, to match the specific grant environment and country level risks.</p> <p><b>Existing mitigation</b></p> <p>- Under the new LFA work order contracts, LFAs are required to alert the FPM to any staff changes in country and to submit the CV of any proposed new key staff member for prior approval by the FPM. LFAs are required to submit CVs that meet the set qualifications and experience required for the position.</p> <p>- Conflict of Interest (CoI) guidelines and</p>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>undertake work that results in a conflict of interest. In cases where this cannot be avoided, measures should be instituted to mitigate risks arising from conflict of interest.</i></p>	<p>contractual provisions require LFAs to avoid any Col situations and to alert the Global Fund of any potential or real Col. Training was provided on this topic to all LFAs in 2008/2009, with plans to renew such training in 2010, at a minimum for newly appointed LFAs.</p> <p>- Since 2006, the LFA Management Team has been coordinating the decisions on each Col query raised by the LFAs through an internal Col group (composed of Legal, Program Finance, Corporate Procurement and FPM) and, in complex cases, through the Best Value Group.</p> <p><b>Proposed additional Measures</b></p> <p>- We view this issue as linked to Recommendation 18 (broadly: adapting LFA work to different grant and risk environments) and will deal with the two along the same timeline to come up with an improved process.</p>		
<p>Secretariat oversight</p> <p>Risk identification and mitigation procedure</p>	<p><b>Recommendation 21 (High)</b></p> <p><i>(a) Country Programs should expand the scope of the risk management framework to include identification of likely events in country (i.e. at grant level) that are likely to affect Global Fund Investments. LFAs would be well placed to help identify such risks. The impact of these likely events should be assessed and mitigating measures put in place.</i></p> <p><i>(b) FPMs should determine the critical success factors at grant level to identify</i></p>	<p><b>Existing mitigation</b></p> <p>- Country Programs risk management already includes identification of likely events that may affect Global Fund investments, which includes work of the LFA. The LFA's PR Assessment includes identification of risks at grant level.</p> <p>- The Disbursement Decision Making Form (DDMFs) allows FPMs to document ongoing issues which may present risk areas in M&amp;E, Finance, Procurement and other from external factors.</p>		

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
	<p><i>areas that need remedial action in order for the grants to succeed and to guide the level of effort required in oversight and risk management.</i></p>	<p>- As part of the 2009-2010 Action Plan, Country Programs has rolled out a system of regular management letters to address remedial actions. Through these letters, Country Programs documents recommendations and follow up through LFA reports. ,</p> <p>- Countries with a high level of risk are subject to the Additional Safeguard Policy.</p> <p><b>Proposed additional measures</b></p> <p>- New forms for the PR and LFA (PU/DRs) are being elaborated to increase further the information available to FPMs for DDMFs (see above).</p> <p>- The Secretariat has a special working group on risk management, developing a matrix to identify risks in a systematic way at country level. The work is ongoing and will lead to further risk mitigating measures being developed, based on the capacity of the country, the nature of grants, and the national geo-political context.</p> <p>- The risk management tool developed by the Director of Country Programs office is used periodically by each geographic unit and remedial actions decided. Overall monitoring is done by the Cluster Director to ensure the timeliness of assessment as well as impact mitigation measures.</p>	<p>Country Programs Cluster Director with the PU/DR review Group</p> <p>Country Programs Cluster Director with support from Office of the Directors</p>	<p>Ongoing</p>

**Lessons learnt from the country audits and reviews undertaken by OIG  
RECOMMENDATIONS & ACTION PLAN**

**ANNEX 2**

Audit Area	Recommendation	Response and action	Responsible official	Completion Date
Process to implement audit recommendations	<p><i>Recommendation 22 (High)</i>  <i>The responsibility for actioning the recommendations lie with the Secretariat. The Secretariat should develop a defined process to manage the receipt of the draft report, processing of Secretariat and country recommendations, development of an action plan and follow up of the implementation of audit recommendations</i></p>	<p>Agreed. The Secretariat will develop a process for response to OIG reports by Q1 of 2010 - with support from the Operational Risk Officer (joining 1 September 2009). In the meantime Unit Directors, with support from the Country Programs Support Team (Directors' Office) will continue to coordinate responses to audits and recommendations.</p>	<p>Country Programs - Office of the Directors</p>	<p>Mar 2010</p>