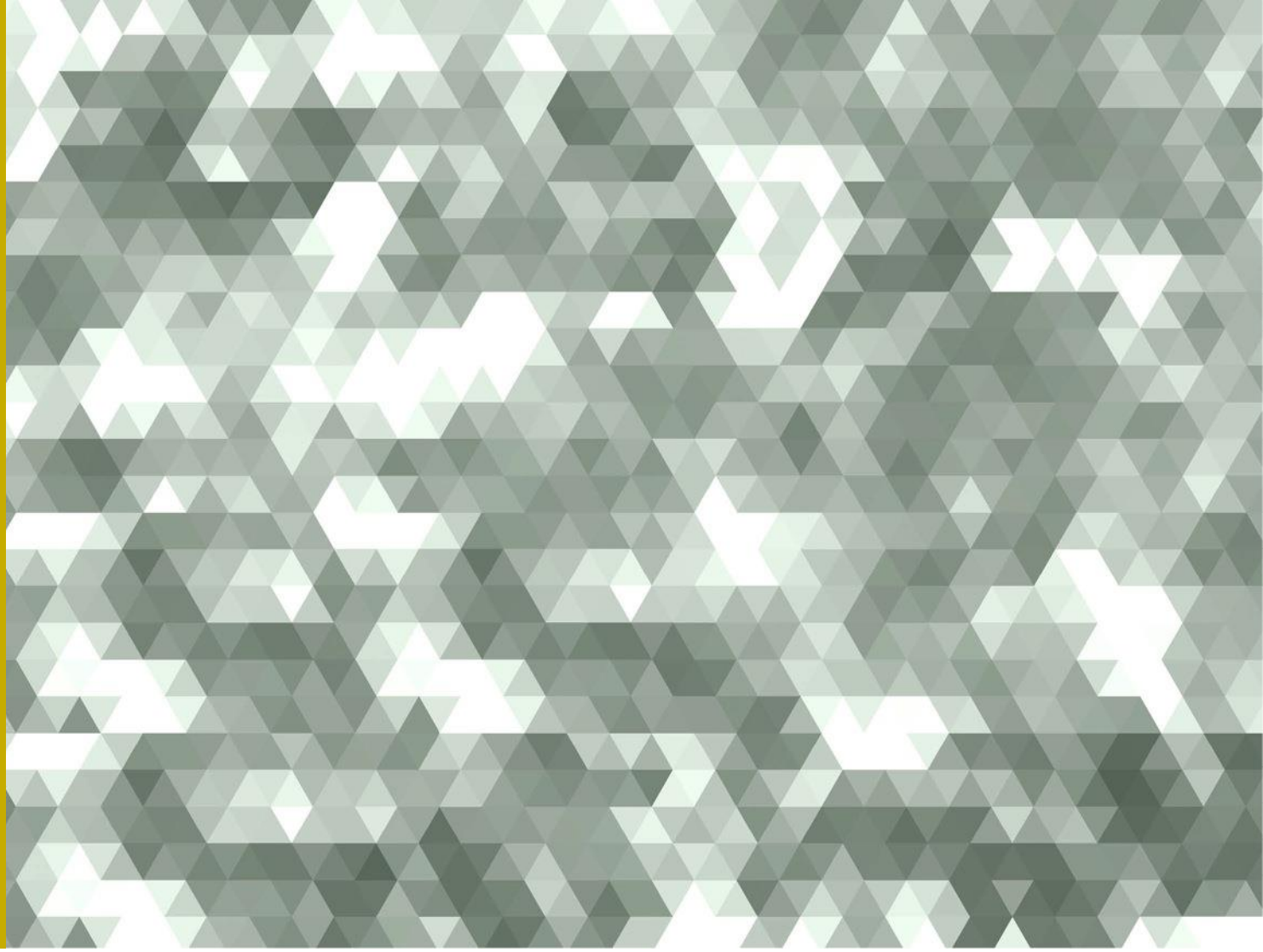

Audit Report

# Global Fund Grants to the Republic of Indonesia

GF-OIG-15-021
1 December 2015
Geneva, Switzerland

The Global Fund
Office of the Inspector General

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# I. Background

## Country context

Indonesia is the world's largest archipelago with more than 17,000 islands. The country has 34 provinces with 514 districts and an estimated population of 255 million, making it the 4th most populous country in the world. Java island, constituting five provinces, accounts for 57% of the country's population.[1]

The World Bank classified Indonesia as a lower middle income country with a gross national income of USD 3,650 per capita in 2014.[2] Income levels have risen steadily for the last 15 years, suggesting that the country may reach upper middle income status within a few years.[3] The country is ranked 108th out of 187 countries in the United Nations Development Program's Human Development Index. Disparity exists between developed urban and resource-rich areas and the less developed eastern provinces. Transparency International's 2014 Corruption Perception Index ranks Indonesia as number 107 out of 175.

Indonesia's total health expenditure is around 3.1% of the gross domestic product.[4] Since 2001 and as part of the wider power decentralization in Indonesia, the health system has been decentralized with responsibility for the provision of health services vested in provinces and districts. Considerable disparities exist in the quality and coverage of health services across provinces and districts.

## Disease context

*Tuberculosis*

The WHO classifies Indonesia as a high burden country in terms of tuberculosis (TB), TB/HIV co-infection and high multi-drug resistant TB (MDR-TB).

According to a 2013-14 TB prevalence survey, Indonesia has one of the world's highest TB burdens with a prevalence of 1.6 million cases (representing 15% of the global burden).[5] The estimated annual prevalence is 660 cases of all TB forms per 100,000 people and annual incidence of 407 new cases per 100,000 people. In 2013, approximately 32% of the estimated TB cases in the country were detected. Among those detected in 2012, 86% were treated successfully.[6,7] Java and Bali islands account for 57% of the TB prevalence in Indonesia.[8]

According to the same survey, the MDR-TB annual incidence is estimated at 15,000 cases in the country.[9] A TB drug resistance survey to establish up-to-date MDR-TB baselines is planned for 2015/16.

*HIV/AIDS*

In 2012, UNAIDS listed Indonesia as one of the nine countries in Asia and the Pacific where the number of HIV infections continues to rise (approximately 67,000 new infections per year).[10] In 2013, it was estimated that 640,000 people were living with HIV in Indonesia (representing 1.8% of

[1] http://www.indonesia.go.id/in/sekilas-indonesia/geografi-indonesia ; Indonesia Statistics: http://www.bps.go.id/linkTabelStatis/view/id/1274 ; https://en.wikipedia.org/wiki/Provinces_of_Indonesia
[2] http://data.worldbank.org/country/indonesia
[3] World Bank Country Data - Indonesia
[4] World Bank Country Data - Indonesia
[5] Ministry's of Health presentation on the national 2013-14 TB prevalence survey (3 October 2014); WHO Global TB Report 2014
[6] Based on the analysis of the national 2013-14 TB prevalence survey data
[7] WHO Global TB Report 2014, Annex 2 Country Profiles, page 133
[8] TB/HIV concept note (20 April 2015)
[9] WHO Global TB Report 2014, Annex 2 Country Profiles, page 133
[10] HIV in Asia and the Pacific, UNAIDS Report, 2013

the global HIV burden).[11] The HIV burden in most provinces is concentrated in "most at risk" populations and is generalized in Papua and West Papua provinces. In 2014, the HIV prevalence rate was estimated at 0.41% among people aged 15-49 years and ranged from 0.1% or less to over 3% between provinces.[12] Approximately 41,000 people received antiretroviral therapy (ART) in 2014, covering only 33% of those eligible for treatment. A 2014 survey showed poor retention on ART (67%).

*Malaria*

In 2012, Indonesia had an estimated 5.5 million malaria cases (representing 2.7% of the global burden) and 8,600 estimated malaria deaths. Out of the estimated cases, 1.3 million probable and confirmed malaria cases were reported.[13]

Indonesia's five easternmost provinces have only 4% of the country's population but 70% of its malaria cases. The national malaria strategy is focused on malaria control in these provinces and elimination or pre-elimination in provinces with lower disease burden.[14]

Indonesia has been successful in reducing malaria mortality by 25% in adults and by 40% in children under five years between 2000 and 2015; this is in part due to expanding improved diagnosis through laboratory testing, introducing the Artemisinin-based Combination Therapy (ACT), and expanding the coverage of long-lasting insecticide treated nets (LLIN) in Eastern Indonesia since 2004.[15]

## Global Fund investments in Indonesia

Between 2003 and 2015, the Global Fund signed 24 grants with Indonesia totaling USD 729 million, of which USD 617 million has been disbursed to date. The current grant allocation for 2014-2017 totals USD 302 million (USD 113 million for HIV, USD 104 million for TB, USD 75 million for malaria and USD 10 million for Health Systems Strengthening). Approximately 55% of the funding to fight the three diseases in Indonesia is provided by the national and local governments, and private contributions. The Global Fund is the largest external donor (approximately 27% of the funding), with significant funding and technical assistance provided by the United States and Australian governments (approximately 8% and 7% of the funding, respectively).[16]

In 2014, the Global Fund Board approved the country's concept note for malaria that resulted in one grant signed and one under negotiation, while an earlier grant has been extended until March 2016. In April 2015, the country submitted a joint concept note for HIV and TB, currently in grant making process between the country and the Global Fund. At the same time, a separate concept note was submitted for Health Systems Strengthening, in response to which a revised concept note has been requested by the Global Fund.

[11] http://apps.who.int/gho/data/node.main.620
[12] Estimation and Projection of HIV/AIDS in Indonesia 2011 – 2016; Ministry's of Health Report 2012; www.who.int/gho/hiv/en
[13] Malaria concept note (15 May 2014), WHO World Malaria Report 2013
[14] https://en.wikipedia.org/wiki/Provinces_of_Indonesia ; Malaria concept note (15 May 2014)
[15] National Malaria Strategy Plan 2015-2019
[16] Malaria concept note (15 May 2014), TB/HIV concept note (20 April 2015)

# II. Scope and Rating

## 01 Audit Objective

The Office of the Inspector General (OIG) audit objective was to assess the Secretariat's management of risks, and in particular programmatic and data management, procurement and supply chain management, and financial and fiduciary risks in a large portfolio with significant regional variations like Indonesia.

## 02 Audit Scope

The audit mainly focused on the period from 2013 to 2015 and four ongoing grants (representing 86% of the value of all ongoing grants) implemented by the following Principal Recipients:

- IND-H-MOH, IND-T-MOH and IND-M-MOH, implemented by the Ministry of Health; and
- IND-H-NAC, implemented by the National AIDS Commission.

The audit work included interviews with the Global Fund Secretariat, Principal Recipients and sub-recipients (at both national and provincial levels). Additionally, the OIG engaged with various in-country development and implementing partners, the Country Coordinating Mechanism members and Secretariat, the Local Fund Agent and the external auditors during the audit.

The audit teams visited approximately 60 program sites in five (out of 34) provinces including hospitals, health centers and facilities, warehouses and stores. The selected provinces together represent approximately 45% of the country's population, have high/medium populations of patients, and manage approximately 20% of grant expenditure as well as commodities received from the national level. They also represent regional variations of disease burden, expenditure and program quality. The selected provinces were Jakarta, East Jawa, West Jawa, South Sulawesi and East Nusa Tenggara.

## 03 Rating[17]

| Operational Risks | Rating | Reference to findings |
|---|---|---|
| Programmatic and Performance | Full plan to become effective | IV.1, IV.2 |
| Financial and Fiduciary | Generally effective | IV.1 |
| Health Services and Products | Partial plan to become effective | IV.1 |
| Governance, Oversight and Management | Partial plan to become effective | IV.1, IV.2 |

[17] See Annex A for the rating definition

# III. Executive Summary

Indonesia, with a total population of 255 million inhabitants, has one of the world's largest burdens of TB in the world, accounting for 15% of worldwide cases.[18] In 2012, Indonesia had an estimated 5.5 million malaria cases, representing 2.5% of the global malaria burden; and the country has approximately 67,000 new HIV infections per year.[19]

From 2003 to 2015, the Global Fund has signed 24 grants with Indonesia totaling USD 729 million to help fight the three diseases. The Global Fund allocation for 2014-2016 is USD 302 million, making it the largest source of external funding in the country. Indonesia has also demonstrated its strong commitment to fighting the three diseases with domestic expenditure as the primary funding source for the disease programs. This includes fully financing first line HIV and TB drugs, and malaria medications. Nevertheless, the country's large TB burden, increasing HIV infections and high malaria prevalence in endemic areas make Indonesia one of the Global Fund's high impact countries with the 13th largest funding allocation worldwide.

Governance, oversight and management risks

Indonesia demonstrates large regional diversity in population, disease burden and ensuing Global Fund investments. There is also significant variation in the quality of overall grant implementation across different regions, including the quality of health services, data, financial management controls, and supply chain management. Additionally, the overall effectiveness of different functions is also significantly different, ranging from partially effective supply chain management to generally effective financial management (detailed below).

Legal agreements exist between the Ministry of Health, the Principal Recipient for the three main Global Fund grants, and the provincial health offices, the Ministry's sub-recipients. Nevertheless, the provincial health offices as well as the district health authorities are largely autonomous from the Ministry's administrative control. Due to this, varying degrees of compliance by these sub-national implementers was noted in addressing the issues identified by the Global Fund Country Team and the Principal Recipients. This contributes to the high regional variation of grant implementation issues.

In this context, the OIG audit focused on the Secretariat's management of risks in this varied environment. The Secretariat has effective mechanisms to identify, assess and report on material risks, and takes into account risk ratings from the Global Fund's operational risk framework and their materiality during grant management. However, grant and risk management need to be further tailored to the portfolio and country context. A more structured framework is needed to focus grant and risk management efforts based on materiality of issues and resource implications for addressing them, having considered the regional and functional portfolio diversities. There is also a need to further focus these efforts and investments at the appropriate sub-national levels based on administrative arrangements in Indonesia. More flexibility is also needed in the Secretariat's policy framework to facilitate increased alignment between portfolio specificities and risk management activities, e.g. the use of audits, Local Fund Agent services, and Secretariat staff activities.

Taking into account these factors, particularly in relation to risk management, the Secretariat's management of governance, oversight and management risks is currently rated by the OIG as having a **partial plan to become effective.**

Programmatic and performance risks

Indonesia's disease program baselines were generally guided by relevant disease surveys, with another survey on TB drug resistance due to take place in 2015/16. Program data collection and reporting processes were found to be generally well designed and effective in most of the health

[18] Indonesia Statistics: http://www.bps.go.id/linkTabelStatis/view/id/1274 ; Ministry's of Health presentation on the national 2013-14 TB prevalence survey (3 October 2014); WHO Global TB Report 2014

[19] Malaria concept note (15 May 2014); WHO World Malaria Report 2013; HIV in Asia and the Pacific, UNAIDS Report, 2013

facilities visited. Coverage and quality of program monitoring visits varied considerably by province and district; however, most of the provinces and districts visited by the OIG have regular monitoring activities that were well documented in supervision reports.

The OIG observed issues around limited HIV and TB collaboration (noted in 86% of TB facilities visited), and gaps in the follow-up of missing HIV patients (noted in 48% of HIV facilities). These gaps lead to a possible risk of low detection of HIV infection in TB patients and consequently limited effectiveness of TB treatment, including drug resistance due to interrupted treatment. However, central mechanisms for addressing these weaknesses are being developed by the Ministry of Health through the TB/HIV National Action Plan 2015-2019, as well as improvements to the health information system and other measures.

The Country Team regularly follows up on such issues with the Principal Recipients and has worked with technical partners to align technical assistance plans for the implementing partners. It also collaborates with development partners on a sustainability assessment that is relevant for Global Fund interventions, particularly on the MDR-TB program. In this regard, the Secretariat's management of programmatic and performance risks is rated as having a **full plan to become effective.**

Health services and products risks

The OIG found significant gaps in drug quantification and forecasting, distribution planning and inventory controls, mainly at provincial sub-recipient level and again with regional variations. Weak forecasting and inventory controls were observed in 87% of warehouses and 40% of health facilities visited, which contributed to drug stock-outs and expiries at the national, provincial and facility levels. Stock-outs of at least one essential drug were found in 53% of warehouses and 33% of facilities visited, exposing the programs to treatment disruption risks. Expired drugs were found in 63% of warehouses and 33% of facilities visited, leading to financial losses. The OIG found that 56% of warehouses and 69% of facilities visited did not follow good storage practices, leading to risks of damage to drugs and their effectiveness. This was largely due to the autonomy of the decentralized provinces and districts, which are not under the administrative control of the Ministry of Health.

The above issues are being addressed and regularly followed up by the Country Team, who has worked with technical partners to align technical assistance plans, including supporting the Ministry of Health in implementing its drug management policy. However, noting the need for a sub-recipient management plan to address outstanding supply chain management issues, the Secretariat's management of health services and products risks is rated as having a **partial plan to become effective**.

Financial and fiduciary risks

The OIG found the general financial controls to be satisfactory at the Principal Recipient level. The Country Team has identified that improvements were required around the procurement process and has materially mitigated the control weaknesses. Most health products follow the Global Fund's pooled procurement mechanism, and local procurements over USD 15,000 are reviewed by the Local Fund Agent who also sample test procurements below this threshold. In this regard, the Secretariat's management of financial and fiduciary risks is rated as **generally effective.**

# IV. Findings and Agreed Management Actions

## 01 Implementation arrangements

**Unmitigated risks exist at the provincial sub-recipient level in Indonesia's decentralized environment**

Since 2001, Indonesia has decentralized the delivery of health services from the Ministry of Health (the current Principal Recipient for Global Fund grants) to the district governments. These governments are responsible for making key decisions relating to program implementation, including for Global Fund grants and counterpart funds from provincial and district budgets. Provincial health offices (sub-recipients), district health offices (sub sub-recipients), hospitals and other health facilities functionally report to the Ministry of Health as per established agreements. However, the Ministry does not exercise direct administrative control over these regional and sub-regional entities, whose administrative reporting line is to the Ministry of Home Affairs.

While decentralization has brought about significant benefits to health services delivery, it has also resulted in various program implementation challenges. The OIG noted wide variation in the quality of programmatic, financial and supply chain management in Indonesia at the provincial sub-recipient and district level including:

*Programmatic matters*

- In 86% of TB facilities visited, there was limited collaboration between TB and HIV treatment units or inadequate understanding of the performance indicator on TB/HIV combined treatment, resulting in low referral of TB patients for HIV counseling. This causes a risk that patients may not discover their co-infection status early and quickly develop an advanced stage of disease.

- In 31% of HIV facilities visited, referrals to non-governmental organizations (NGOs), who provide psychological support to patients, were weakly structured, resulting in drop outs of patients before they enroll for the treatment. Furthermore, 48% of HIV facilities visited had a limited trail for follow-up of lost patients who had started treatment. This results in a risk that patients develop an advanced stage of disease without treatment or develop drug resistance due to interrupted treatment.

  Central mechanisms for addressing the above weaknesses are currently being developed by the Ministry of Health. These include the TB/HIV National Action Plan 2015-2019, cooperation memoranda with the NGOs and upgrades of the health information system to improve the follow-up on patients.

- Frequency and coverage of supervision visits by provincial and district health offices varies considerably, and site selection is not based on documented, risk-based selection criteria. The quality of supervision reports also varies, and the standard templates have not been enforced by the Ministry of Health.[20] As a result, there is a risk that some regions may not comply with treatment schemes or report materially inaccurate programmatic data due to weak supervision controls and treatment and data quality across the regions are variable.

*Supply chain management weaknesses*

- In 92% of warehouses and 57% of facilities visited, a time-consuming drug ordering process was observed, resulting in prolonged delivery of the drugs. Weak drug forecasting and inventory

[20] In 17% of provinces and 29% of districts visited, the supervision visits did not cover a sufficient sample of sites and the supervision reports were of low quality.

controls were observed in 87% of warehouses and 40% of facilities visited, which contributed to drug stock-outs at the national, provincial and health facility levels as well as drug expiries at the facility level identified during the audit.[21] The stock-outs expose the program to treatment disruption risks while drugs expiries lead to financial losses.

- 56% of warehouses and 69% of facilities visited did not follow good storage practices, exposing the drugs to unfavorable conditions.[22] HIV program demonstrated better warehousing practices. In 54% of warehouses visited, standard operating procedures were not available. These storage issues lead to risks of damage to drugs and their effectiveness.

*Financial management weaknesses*

- Principal Recipients undertook financial supervision visits to provinces but there was no proof that supervision reports were shared with provinces consistently. Similarly, the reports for supervision of districts by the provinces were also not shared with the Principal Recipient. Thus, there is a risk of limited or no improvements resulting from financial supervision.

- Asset verifications by the Principal Recipients at the sub-recipient level were not regular or documented, leading to possible risks of assets loss, damage or theft.

These unmitigated operational risks were largely related to the fact that the Ministry of Health does not exercise administrative control over the decentralized provinces and districts, and has difficulties in enforcing remedial measures at those levels. The Country Team has regularly communicated these issues to the Principal Recipients and has also worked with technical partners to align the provincial technical assistance efforts with the Global Fund's program. The Country Team is also addressing implementation weaknesses, particularly in the area of supply chain management.

**Agreed Management Action 1:** The Country Team will ensure the Government Principal Recipients will develop and roll out a risk-based sub-recipient management plan, including identifying focus provinces and districts, and a limited number of time-bound priority actions for the next 12 months.

**Owner:** Head of Grant Management
**Target Date:** 30 June 2016

[21] The weak controls included lack of enforcement of the minimum stock policies, late implementation of the changes in treatment regimens, failure to follow FEFO (first-expired-first-out) inventory method including at the national level, weak coordination of orders from the Global Fund and provincial budgets leading to drug expiries, and/or insufficient supervisory visits from the national level.
Stock-outs of at least one essential drug were found in 53% of warehouses and 33% of facilities visited. These included stock-outs of 2nd line TB drugs at the national level, of 2nd line HIV drugs at the provincial level, and of malaria commodities at the facility level.
In 63% of warehouses and 33% of facilities visited, expired drugs were found.
[22] Failure to follow good storage practices included use of inadequate temporary premises for prolonged periods, lack of electricity, high temperature and inadequate aeration, and/or inadequate shelving, stacking, hygiene or security conditions.

## 02 Management of risks

**The Secretariat's portfolio risk management and assurance response requires a more differentiated approach and follow-up on program sustainability risks**

Indonesia is a large country with significant regional variations, particularly in terms of risk and disease burden. The Country Team regularly assesses its residual portfolio risks in the Global Fund's operational risk framework. In an attempt to differentiate its risk mitigation efforts, the Country Team also takes into account materiality and risk ratings of each grant and specific risk area, when planning the type and extent of risk mitigation and assurance activities. However, there is a need to adopt a more structured framework in determining risk mitigation and assurance activities to better align its efforts in terms of materiality, impact and likelihood of risk and cost efficiency, and in prioritizing and following up on identified issues.

*Risk and assurance planning*

The OIG found a number of instances which indicate a need for better alignment of risks with risk mitigation and assurance activities:

- In 2014, the Global Fund spent approximately USD 1.8 million on risk mitigation and assurance activities in Indonesia, primarily for Local Fund Agent and external audit services. The OIG analysis indicated that approximately 48% of this budget was spent on areas considered low risk by the Global Fund's operational risk framework, approximately 37% on medium-risk areas and only approximately 15% on high-risk areas.
- Similarly, approximately 34% of the above budget was spent on activities focusing on the provinces, while approximately 66% was spent on those focusing at the Principal Recipient level in Jakarta. However, approximately 50% of the portfolio budget is spent at the provincial sub-recipient level, while province-related control systems and risk management at the Principal Recipient level are limited.

It should be considered that the cost and levels of effort for the above activities are not expected to be fully correlated with the level of risk that they should address. However, the above proportions highlight possible misalignment between risks and risk management investments, and therefore there is a need for a more structured framework in determining risk mitigation and assurance activities.

*Prioritization and follow-up of issues*

As captured in Finding 01, there are a wide range of control weaknesses and associated risks existing at the provincial level. Many of these risks are regularly identified and reported by external auditors and the Local Fund Agent to the Country Team, who in turn communicate them to the Principal Recipients for remedial action. However, there is room for improvement at both the Secretariat and Principal Recipient level for:

- Prioritizing key weaknesses in the internal control systems from the long list of issues identified. The current lack of prioritization often translates into an equal level of effort on risks, irrespective of severity or likelihood.

- Systematically following-up on priority issues at provincial level for timely and effective mitigation, for example on health service quality and financial accountability issues identified by the Local Fund Agent or the external auditors.

At the national level, the Secretariat needs to follow up on the issue of the multi-drug resistant tuberculosis (MDR-TB) program's sustainability. Indonesia has one of the highest MDR-TB burdens in the world, estimated at 15,000 cases annually, according to the 2013-14 TB prevalence survey.

This is 2.2 times higher than the previous estimate and represents 5% of the global MDR-TB burden.[23] However, the country does not have a sustainable plan for its MDR-TB program.

In terms of programmatic effectiveness, the program has struggled to meet targets with regards to patient enrolment in treatment, treatment success and patient retention. For instance, for patients enrolled in MDR-TB treatment in 2012 (treatment usually lasts for up to two years), the treatment success was only 54%, indicating high patient drop out and mortality rates.[24]

Whilst noting that the concept note submitted to the Global Fund includes a comprehensive MDR-TB expansion plan, the required interventions therein are likely to receive only partial support under the Global Fund's country allocation or incentive funding. Furthermore, MDR-TB treatment is currently not covered under the Indonesian national health insurance scheme, and the exit strategy for the Global Fund's program endorsed by the Ministry of Health in 2012 does not articulate solutions for future coverage of the MDR-TB program.

The audit findings with regard to the Secretariat's need to follow a more differentiated approach in determining portfolio risk management and assurance activities will be addressed through a previously Agreed Management Action in the OIG audit report GF-OIG-14-014.[25] In addition, the Secretariat has agreed to the following Management Actions:

**Agreed Management Action 2:** The Country Team will focus the next management letters to Principal Recipients on high-impact, prioritized residual risks, and adopt that practice for future.

**Owner:** Head of Grant Management
**Target Date:** 30 June 2016

**Agreed Management Action 3:** In line with the emerging Global Fund strategy on sustainability and in collaboration with the World Bank, DFAT[26] and other development partners in Indonesia, the Country Team will ensure completion of the programmatic and financial sustainability assessment with relevance to the Global Fund interventions.

**Owner:** Head of Grant Management
**Target Date:** 30 June 2016

[23] According to HIV/TB concept note (20 April 2015); more precise MDR-TB patient data will be available after conducting the TB drug resistance survey planned for 2015/16.
[24] According to the WHO Global TB Report 2014, the global MDR-TB treatment success target to be achieved by 2015 was at least 75% of the patients enrolled. It was reached by 29 countries reporting the MDR-TB treatment outcomes.
[25] Audit report of Global Fund Grants to the Republic of Guinea Bissau (3 October 2014): http://www.theglobalfund.org/documents/oig/reports/OIG_GF-OIG-14-014_Report_en
[26] Australian Department of Foreign Affairs and Trade

# V. Table of Agreed Actions

| # | Category | Agreed Management Action | Target date | Owner |
|---|---|---|---|---|
| 1. | Governance, oversight and management risks | The Country Team will ensure the Government Principal Recipients will develop and roll out a risk-based sub-recipient management plan, including identifying focus provinces and districts, and a limited number of time-bound priority actions for the next 12 months. | 30 June 2016 | Head of Grant Management |
| 2. | Governance, oversight and management risks | The Country Team will focus the next management letters to Principal Recipients on high-impact, prioritized residual risks, and adopt that practice for future. | 30 June 2016 | Head of Grant Management |
| 3. | Programmatic and performance risks | In line with the emerging Global Fund strategy on sustainability and in collaboration with the World Bank, DFAT and other development partners in Indonesia, the Country Team will ensure completion of the programmatic and financial sustainability assessment with relevance to the Global Fund interventions. | 30 June 2016 | Head of Grant Management |

# Annex A: General Audit Rating Classification

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

# Annex B: Methodology

The Office of the Inspector General (OIG) performs its audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place across the Global Fund as well as of grant recipients, and is used to provide specific assessments of the different areas of the organization's' activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results ( immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.