

## Board Report

# Office of the Inspector General Annual Opinion on governance, risk management and internal controls of the Global Fund

GF/B33/07

For information

Thirty-Third Board Meeting

Geneva, Switzerland

31 March – 1 April 2015

Purpose of the document: to give Board members and other stakeholders an opinion on internal controls, governance and risk management processes at the Global Fund.

# I. Executive Summary

This first annual opinion is intended to give Board members (and other Global Fund stakeholders) an understanding of whether, in the judgment of the Office of the Inspector General, internal controls, governance and risk management processes at the Global Fund are adequate and effective to ensure that the organization's operational and strategic objectives will be met.

The Global Fund was founded in January 2002 and grew rapidly over the next eight years. In 2011 it experienced a crisis in donor confidence that was prompted by weaknesses in oversight and fiduciary controls. The High-Level Panel appointed to assess the crisis concluded that the sustainability of the Global Fund was "imperiled" and recommended that the Board of the Fund take concrete steps to address its findings. The Board promptly appointed an experienced general manager who addressed the findings of the Panel by initiating a fundamental transformation of the organization's management and internal controls in 2012.

The work done by the OIG in 2013 and 2014 documents progressive improvement in the Global Fund's organizational maturity since the transformation process began in 2012. Audits prior to 2013 documented an organization that had marked problems with policies and compliance. Governance, risk management and internal controls were at an initial stage, on aggregate rating between one and two on an organizational maturity scale ranging from one to six, where one represents nonexistent controls and six denotes a fully optimized organizational model.

At the end of 2014, the Global Fund has progressed to three on the maturity scale. This means that governance, risk management and internal control processes have largely been defined through institutional policies approved by executive

management and/or the Global Fund Board with its committees. However, on aggregate, these processes are not yet applied consistently and are not yet fully embedded in everyday management practice across the organization.

Such step changes in governance and controls are congruent with the lifecycle model for rapidly growing start-up organizations. The current maturity rating is due in part to the time necessary to fully transform a headquarters organization that has undergone repeated revisions to its business models (such as the new funding model) even as it continues to fund public health programs in highly variable and often fragile environments. The Global Fund has had to make pragmatic choices in deciding how to prioritize the implementation of its transformation plan.

Recent audit work shows that core processes and controls at the Global Fund are now maturing and continue the positive trajectory that began in 2012. This progress is noteworthy; at base the Global Fund is a financing instrument that must balance rapid evolution in the search for greater impact with stewardship over donor funds. It also means that the organization will need to actively decide which maturity level is appropriate for the different processes in light of its business model. The "full optimization" of all business processes may be neither desirable nor necessary in an organization that continues to undergo regular change and needs to remain nimble in the pursuit of its strategic objectives.

The OIG has no reason to doubt that continued management attention to identified weaknesses will lead to further growth in maturity along what has been a positive trajectory, reaching higher maturity levels in the coming years.

## II. Annual opinion: background and purpose

When the Audit and Ethics Committee was established at the Global Fund in 2012, one of its requests of the Inspector General was to consider giving an annual opinion on whether business processes at the Global Fund were adequate and effective. The work done by the OIG up to that time had been heavily focused on in-country audits of recipients rather than internal business processes in Geneva. As a result of this challenge, the OIG developed a three-year (2013-2015) audit plan designed to provide an evidenced opinion, and to balance audits of internal Global Fund business processes with engagements that tested how effectively the Secretariat managed key risks at the grant/country-level.

The OIG's three-year plan was approved by the AEC in late 2012. Whilst the OIG initially planned to issue its first annual opinion after the full implementation of the plan, the Inspector General in February 2014 informed the Audit and Ethics

Committee that this would be brought forward by one year, based on engagements in 2013 and 2014, and issued in early 2015.

We subscribe to the Institute of Internal Auditors' definition of the annual opinion: It is a "rating, conclusion, and/or other description of results ... addressing, at a broad level, governance, risk management, and/or control processes of the organization. An annual opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval."

The annual opinion is intended primarily to give Board members (and other Global Fund stakeholders) an understanding of whether internal controls, governance and risk management processes at the Global Fund are likely to ensure that the organization's operational and strategic objectives will be met.

## III. Organizational maturity

A typical annual opinion in the audit world takes a binary form: the chief audit executive either can or cannot give assurance that governance, risk management and internal controls are adequate and operating effectively at the organization. Such a binary approach is not suitable in the context of the Global Fund, which is a relatively young organization that had a large number of processes that were undergoing change at the time the audits

were performed. Our approach is therefore to give an opinion of the overall maturity of the Global Fund for the period 2013-2014 at a macro level. To do this, we employ an organizational maturity scale that describes a continuum ranging from an absence of business processes (rated 'one' on the maturity scale) to optimized business processes (rated 'six'; please see Annex 1 for a description of the scale used).

## IV. The OIG: quality of work and audit coverage

Established in 2005, the Office of the Inspector General is an independent yet integral part of the Global Fund. It is accountable and reports biannually to the Board through its Audit and Ethics Committee and serves the interests of all Global Fund stakeholders. The OIG is financially independent of the Global Fund Secretariat and is resourced appropriately to fulfil its mandate.

The work of the OIG conforms to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of the Institute of Internal Auditors and the Uniform Guidelines for Investigations of the Conference of International Investigators. The Investigations and Audit Units had successful external quality assurance reviews in late 2014 and early 2015, respectively. The audit

unit has worked closely with the external auditor to ensure the integrity of financial information.

The annual opinion is based on the findings from and management responses to the audit engagements completed in 2013 and 2014 (see Annex 2). The OIG draws also on important findings from investigations and on work done by other quality-assured providers such as the Global Fund's external auditors and audit work performed by the European Commission. The audit work underlying our first annual opinion was determined by a thorough risk-based analysis of the full universe of key business processes and country risk at the Global Fund. This analysis formed the backbone of our 2013-2015 three-year audit plan and was updated annually as part of regular audit planning.

OIG work materially covered the key risks; where gaps remained (e.g., the adequacy and effectiveness of the new funding model), we relied on the work done by other providers. In our view, the work completed is sufficient to be able to express an annual opinion on the maturity of the governance, risk management and internal control frameworks at the Global Fund Secretariat and in its grants at the country level. We discussed our conclusion in detail with the members of the Management Executive Committee of the Global Fund Secretariat; their management response to this document is included in a letter from the Executive Director in Annex 3.

**Country work inclusive of desk reviews**

**58 countries**

with 36 countries covered through desk review of Global Fund grants.

Grants covering 78% of approved dollars.

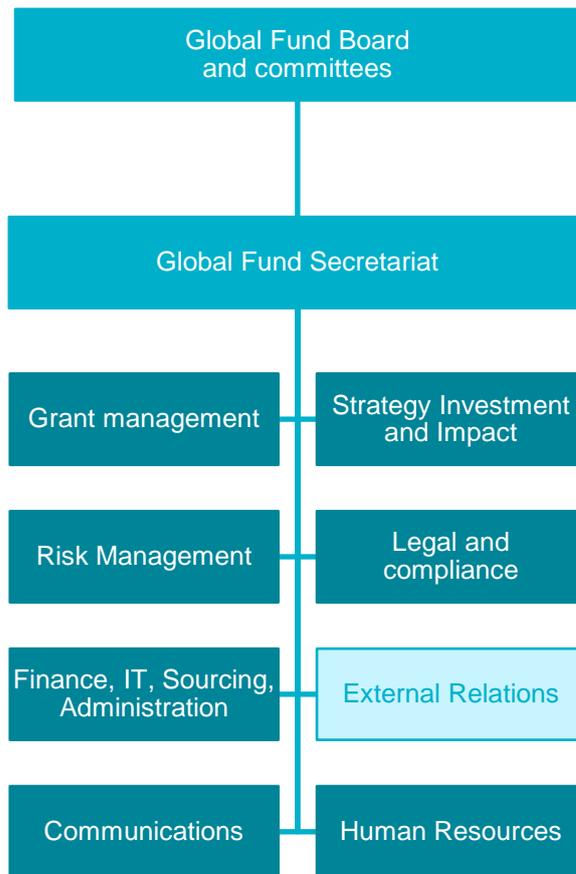
**In-country audit work**

**22 countries**

Grants representing 52% of approved dollars.

15 out of 25 High impact portfolios  
 5 more countries in Africa and the Middle East  
 2 more countries in the rest of the world.

**Organizational coverage**



Key:

- Divisions and departments audited
- Lower risk



Key: ■ in-country audit work; ■ audit desk reviews

# V. Opinion

## Context

The Global Fund has disbursed more than US\$26 billion and currently manages active grants of more than US\$12 billion in over 140 countries and territories around the globe. It makes disbursements in the multi-billion US dollar range annually. This is a large span of control given its lack of country presence and modest staff size. There is substantial variability in country context, complexity and fragility; recipients range from well-established NGOs in industrialized countries to poorly resourced ministries of health in settings with limited health systems infrastructure. This variability is reflected in our audit reports, which range from positive findings in countries with effective domestic systems of internal control upon which the Global Fund can place reliance, to others, where disbursements need to be tightly managed by fiduciary agents. Even within countries, the variability in risk management and controls can be vast. For example, the quality of assurance over controls in capital cities can often be actively managed by the Global Fund; on the other hand, the Global Fund may have an imperative to continue funding in regions that are virtual no-go areas where little assurance over expenditures is possible. Additionally, the Global Fund places substantive reliance on technical and other strategic partnerships at global, regional and country level, the outcomes of which are not under its direct control.

## Transformation of the Global Fund

Much has improved at the level of the Global Fund Secretariat in the past two years.

The Global Fund has strengthened many key business processes as part of its restructuring over the past two years. This has included providing more resources to the grant management division, including creating high impact departments with full-time managers on important portfolios. The Fund has rethought its grant-making methodology, placing more emphasis on pro-active risk management, iterative country dialogue and plans to hold portfolio managers responsible for impact. The latter has resulted in a move from the old rounds-based pass/fail funding process to one that is needs-based, linked to national strategies and results in more predictable funding to recipients. Important operational policies were updated in 2014 and are now being embedded, with a new

grant management platform being gradually implemented, providing management and grant recipients with a modern IT tool.

Similarly, the finance Step-Up project has allowed for improved financial data management and oversight. Treasury and budgeting are now managed professionally, with the Global Fund's operating expenses budget stabilized at US\$300 million per year. The Global Fund is in the process of integrating its sourcing activities, from procurement to supply chain, within one coherent, end-to-end global sourcing stream. Information Technology security is being taken seriously by the Global Fund, which has established a new position for an IT Security Officer.

Fund-raising continues to be successful, even in a context of global constraints on development support. A risk management function has been established and is now staffing up, and the Board recently adopted a number of policies related to managing risk. In addition, key weaknesses in governance are being actively addressed by the Global Fund Board.

## Looking forward

The improvements listed above show that the Global Fund has been on a positive trajectory since 2012, developing and maturing as an organization.

In November 2014, the Global Fund Board approved a "Governance Plan for Impact," laying out the transition to enhanced governance by April 2016. This plan will result in an improved committee structure, a stronger focus on managing conflict of interest and overseeing ethical behavior at the Global Fund. The Board also put in place concrete actions to strengthen risk management, inter alia by mandating an annual assurance report from the Chief Risk Officer, which will provide an independent view on the robustness and effectiveness of the Secretariat's risk mitigation and on changes to the risk profile.

Notwithstanding these robust steps for positive change, the Global Fund Secretariat needs to invest further in fully embedding a number of basic building blocks that are important in the context of a funding institution that has no country presence. In our judgment, the following four areas are key to maintaining the positive trajectory of change at the Global Fund:

**1. Due diligence:** The Global Fund Secretariat should further develop its knowledge of implementers and suppliers by systematically and proactively conducting verifications about these entities, their compliance systems, governance structures, integrity, operations and activities prior to funding them. At present we find in both audits and investigations that due diligence conducted prior to grant signing needs to be strengthened.

Due diligence principles should also apply to the development of new approaches to funding, such as the results-based funding model. The OIG welcomes these new approaches: the innovative and tailored grant-making that underlies them is a laudable evolution of the original 'cookie-cutter' grant-making approach. However, the Global Fund should take care to ensure that proper due diligence, commensurate with the scale of change envisaged, is done at the country level to ensure that sufficiently strong national systems exist that would allow for the deployment of new ways of doing business. It is important that the Secretariat carefully define the methodology for implementing new funding approaches and the rationale used to determine that a particular country is suitable for rolling this out.

**2. Grant oversight:** Pre-disbursement controls over grant funds have strengthened at the Global Fund Secretariat. However, to become optimal stewards of Global Fund investments, the Secretariat should pay greater attention to post-disbursement oversight and monitoring of the activities of grantees, especially financial management at the Sub-recipient level and below. To do this, the role and accountability of portfolio managers, finance officers and other members of the Country Teams should be better defined and managed. Progress on defining an accountability framework for Global Fund Secretariat staff has recently slowed. The Secretariat can better define terms of reference, accountabilities and the level of oversight required when managing grants.

**3. Grant differentiation:** The Global Fund has taken solid steps in thinking about a differentiated approach to managing grants with different funding levels or potential for impact. This has resulted in the 'high impact' teams, which are able to take carefully tailored approaches to the 25 key grant portfolios. However, differentiation in light of the remaining country portfolios, which are very diverse indeed and have different assurance needs, has not yet been developed.

**4. Combined assurance:** The Global Fund has committed to implementing a combined assurance model, given known areas of weakness in the data relating to impact, expenditures and pharmaceuticals at country or grant level. Assurance over these data is critical to the Global Fund model given its role as a headquarters-only funding institution. Whilst some progress was made in 2014 to initiate and define the assurance model, the work has recently missed agreed deadlines and is not embedded in everyday management practice. Bringing this process on track and managing it actively is essential.

## Conclusion

Our analysis shows a progressive improvement in organizational maturity over time. Audits prior to 2013 documented an organization that had marked compliance problems, with governance, risk management and internal controls at an initial stage, rating between one and two on the maturity scale below. Based on the OIG work done in 2013 and 2014, the Global Fund has clearly matured. Nonetheless, individual audits, both at the Secretariat and at the grant/country level, continue to document considerable variability in maturity.

Our judgment is that, at the end of 2014, the Global Fund has progressed to three on the maturity scale. This means that governance, risk management and internal control processes have largely been defined through institutional policies approved by executive management and/or the Global Fund Board with its committees. However, on aggregate, these are not yet applied consistently and are not yet fully embedded in everyday management practice across the organization.



This is due, at least in part, to the time necessary to fully transform a headquarters organization working in highly variable and often fragile environments that has undergone repeated revisions to its business model, as well as the time needed to roll out initiatives such as the new funding model. The Global Fund has had to choose and prioritize in implementing its transformational plan; recent audit work shows that core processes and controls at the Global Fund are maturing and continue the positive trajectory that began in 2012. The Secretariat has committed to taking concrete

management actions that address many of the root causes underlying the findings documented by the OIG, including those mentioned above. This progress is noteworthy; at base the Global Fund is a financing instrument that must balance rapid evolution in the search for greater impact with stewardship over donor funds. The OIG has no reason to doubt that continued management attention to identified weaknesses will lead to further growth in maturity along this positive trajectory, reaching higher maturity levels in the coming years.

# Annex 1: Organizational maturity scale

Rating	Score	Definition
Optimized	6	Internal controls, governance and risk management processes are optimized to ensure that the organization's operational and strategic objectives are met.
Actively managed and formalized	5	Internal controls, governance and risk management processes are actively managed and overseen with clear lines of accountability. Decision making is based on reliable data sets with sufficient due diligence, leading to assurance mechanisms that are robust and fit for purpose to enable the organization's operational and strategic objectives to be met.
Embedded	4	Internal controls, governance and risk management processes have been defined and are embedded in everyday management practice. However, there is insufficient close supervision or active management of these processes and/or they are not consistently measurable. It is likely but uncertain that they will allow the organization's operational and strategic objectives will be fully met.
Initiated	3	Internal controls, governance and risk management processes have been defined through institutional policies approved by executive management and/or the Board. However, they are not applied consistently and are not fully embedded in everyday management practice. They are unlikely to ensure that the organization's operational and strategic objectives will be fully met.
Ad hoc	2	Internal controls, governance and risk management processes are inchoate or ad hoc. They have not been fully defined and/or not approved by executive management or the Board. Processes are insufficient to ensure that the organization's operational or strategic objectives will be met.
Nonexistent	1	Internal controls, governance and risk management processes are absent.

## Annex 2: OIG reports 2013-2014

In the interests of transparency and accountability, all OIG reports are available in full on the Global Fund website in accordance with the Policy for Disclosure of Reports Issued by the Inspector General. Those marked with an asterisk were shared with the Audit and Ethics Committee and with Global Fund executive management but were not published following the OIG policy in force at the time.

### Country audit reports

Key Financial and Procurement Controls in Place over Grants to the Democratic Republic of the Congo, GF-OIG-13-028, July 2013.\*

Audit Report Global Fund Grants to Guinea-Bissau, GF-OIG-14-014, October 2014.

Audit Report on Global Fund Grants to Myanmar, GF-OIG-14-017, October 2014.

Audit of Global Fund Grants to Rwanda, GF-OIG-14-023, December 2014.

Audit of Global Fund Grants to the Republic of Ecuador, GF-OIG-14-024, December 2014.

Global Fund Grants to the Federal Democratic Republic of Ethiopia, GF-OIG-15-004, February 2015.

### Internal audit reports

Themes Requiring Management Action:

- Procurement and Supply Management, GF-OIG-13-013, June 2013.\*
- Country Coordinating Mechanisms, GF-OIG-13-015, May 2013.\*
- Local Fund Agents, GF-OIG-13-016, May 2013.\*
- Public Health, GF-OIG-13-020, July 2013.\*

Status Report on the Implementation of Recommendations deriving from the McKinsey Analysis of the IT Department. An OIG Follow-up Engagement, GF-OIG-13-014, April 2013.\*

Status Update on the Development and Implementation of Risk Management Tools. The “Qualitative Risk Assessment, Action Planning and Tracking” Tool, the Corporate Risk Register, and the Minimum Standards for Grant Management. An OIG Consulting Engagement, GF-OIG-13-017, May 2013.\*

Internal Audit of the Integration of Specialists into Country Teams, GF-OIG-13-024, July 2013.\*

Status Report on the Implementation of Recommendations deriving from the Internal Audit of the Human Resources Function, GF-OIG-13-025, July 2013.\*

Internal Audit of the Payroll Process, GF-OIG-13-026, July 2013.\*

Internal Audit of the Processes Underpinning the Payment of Employee Benefits, GF-OIG-13-027, July 2013.\*

Assurance at Country Level: External Audit of Grant Recipients:

- Chapeau Report, GF-OIG-13-029, August 2013.\*
- High Impact Africa 1 Regional Report, GF-OIG-13-030, August 2013.
- High Impact Africa 2 Regional Report, GF-OIG-13-031, August 2013.
- High Impact Asia Regional Report, GF-OIG-13-032, August 2013.
- Central Africa Regional Report, GF-OIG-13-033, August 2013.
- Middle East and North Africa Regional Report, GF-OIG-13-034, August 2013.
- Western Africa Regional Report, GF-OIG-13-035, August 2013.
- Southern and Eastern Africa Regional Report, GF-OIG-13-036, August 2013.
- Eastern Europe and Central Asia Regional Report, GF-OIG-13-037, August 2013.
- Latin America and the Caribbean Regional Report, GF-OIG-13-038, August 2013.
- South East Asia Regional Report, GF-OIG-13-039, August 2013.

Internal Audit of the Processes Underpinning Grant Closure:

- Chapeau Report, GF-OIG-13-040, August 2013.\*

- High Impact Africa I Regional Report, GF-OIG-13-041, August 2013.\*
- High Impact Africa II Regional Report, GF-OIG-13-042, August 2013.\*
- High Impact Asia Regional Report, GF-OIG-13-043, August 2013.\*
- Asia, Europe, Latin America and the Caribbean (AELAC) Regional Report, GF-OIG-13-044, August 2013.\*
- Africa and Middle East Regional Report, GF-OIG-13-045, August 2013.\*

Inspection of the Processes Underpinning Grant Closure: Principal Recipients in Cameroon, Ghana, Nigeria and Zambia, GF-OIG-13-046, August 2013.

Internal Audit of the Quality Control Arrangements over Pharmaceutical Products at the Country Level, GF-OIG-13-047, September 2013.\*

Assurance Validation: The Role of the Technical Evaluation Reference Group, GF-OIG-13-048, September 2013.\*

Internal Audit of the Processes and Controls related to the Recovery of Funds not spent in Accordance with the Terms of the Grant Agreement, GF-OIG-13-049, October 2013.\*

High-Level Assessment of the Market Dynamics Advisory Group, GF-OIG-14-001, March 2014.\*

High-Level Audit of the Global Fund Information Technology Systems and Processes, GF-OIG-14-003, April 2014.\*

High-Level Assessment of the Global Fund's Communications Strategy and Practices, GF-OIG-14-004, April 2014.\*

High level audit of the Global Fund Assurance Model, GF-OIG-14-006, May 2014.\*

Audit of the quantification and forecasting arrangements for antiretroviral medicines supported by the Global Fund in six African high-impact countries, GF-OIG-14-007, May 2014.\*

Governance Review, GF-OIG-14-008, June 2014.

Audit of the Management by the Global Fund Secretariat of Capacity Gaps observed among Grant Recipients, GF-OIG-14-009, June 2014.\*

Audit of Processes and Controls Relating to Quality of Services of Global Fund-supported Programs, GF-OIG-14-010, June 2014.\*

Audit of the Reliability of Data Underlying the QUART Risk Assessment of Grants in the Democratic Republic of the Congo, the Republic of Haiti and the Islamic Republic of Pakistan, GF-OIG-14-011, June 2014.\*

High-Level Audit of the Adequacy and Effectiveness of Controls around the Performance Measurement System, GF-OIG-14-012, June 2014.\*

Internal Financial Controls, GF-OIG-15-005, March 2015.

Effectiveness of IT controls, publication pending.

Procurement and Supply Chain Management Audit, publication pending.

## Investigations reports

Investigation of Procurement Irregularities in Global Projects, Implementation Center, Georgia, GF-OIG-13-018, May 2013.

Rotarians Against Malaria – Procurement and Supply of LLINs & Contracting of a Human Resource Services Provider, GF-OIG-13-022, August 2013.

Investigation of Global Fund Grants to Kyrgyzstan Global Fund Tuberculosis Grants managed by the National Center of Phthysiology under the Ministry of Health of the Kyrgyz Republic, GF-OIG-13-023, August 2013.

Investigation Report of Global Fund Grants to Cambodia Principal Recipients CNM, NCHADS and MoH and NCHADS Sub-recipient MEDiCAM, GF-OIG-13-050, November 2013.

Investigation of the Misappropriation of Funds by the Republican Center for Prophylactics and Control of AIDS of the Republic of Kazakhstan, GF-OIG-13-051, December 2013.

Investigation Report Procurement Activities of the Principal Recipients of the Global Fund's National Strategy Application Grant for Malaria to Madagascar, GF-OIG-13-052, January 2014.

Investigation of Global Fund Grants to Papua New Guinea National Department of Health, GF-OIG-14-002, January 2014.

Investigation Report of Global Fund Grants to Ghana, GF-OIG-14-013, September 2014.

Investigation Report on Global Fund Grants to Mali, GF-OIG-14-015, October 2014.

Investigation Report on Global Fund Grants to Nigeria, GF-OIG-14-016, October 2014.

Investigation Report on Global Fund Grants to Burundi, GF-OIG-14-018, October 2014.

Investigation Report on Global Fund Grants to Democratic Republic of Congo, GF-OIG-14-019, October 2014.

Global Fund Grants to the Republic of Niger, GF-OIG-14-022, December 2014.

Global Fund Grants to the Republic of Yemen, GF-OIG-GF-OIG-15-001, January 2015.

Global Fund Grants in the Republic of Kazakhstan, GF-OIG-GF-OIG-15-002, January 2015.

Global Fund Grants to Nigeria, GF-OIG-GF-OIG-15-003, February 2015.

Investigation Report of Global Fund Grants to Sierra Leone, GF-OIG-14-005, May 2014.

Investigation Report of Global Fund Grants to Burundi, GF-OIG-14-020, November 2014.

Investigation Report of Global Fund Grants to the Republic of Ghana, GF-OIG-14-021, December 2014.

## Annex 3: Management Response

See enclosed letter from the Executive Director.

Our Ref: OED/MD/DM/CK-OIG/2015.03.10- Annual Opinion Response

Geneva, 10 March 2015

Dear Colleagues

The Secretariat welcomes the Office of the Inspector General's first annual opinion. We particularly note the constructive approach adopted in the report and its recognition of the progress we continue to make in establishing a more mature organization, while being clear that we have much to do to ensure that what has been initiated becomes fully embedded in our culture – our way of thinking and acting. The overall approach the Secretariat is taking to embed the issues raised by the report is captured by the theme the Management Executive Committee has adopted for the organizational priorities in 2015: Managing for Impact.

The report notes that there has been insufficient time to fully implement certain advances, like the new funding model, and that the Secretariat has prioritized key aspects of the transformation plan.

Advances include improved and proactive grant management based on national strategies and predictable funding, proactive risk management, procurement, finance, treasury and IT. Four key areas for development relating to the management of grants: due diligence; grant oversight; grant differentiation and combined assurance. The report notes that the assessment of progress in those important areas is limited as a longer timeline is needed to implement and embed the new funding model into our operations and culture.

We are encouraged by the fact that the areas identified for improvement are the focus of our organizational and divisional priorities for 2015 and the Corporate Work Plan approved by the Board last November. As noted above, the priorities and effort to embed them in the corporate culture is captured by the theme: Managing for Impact. The eight priorities are: 1) Deliver and optimize the funding model; 2) Greatly improve results and impact measurements; 3) Increase cost-effectiveness & synergies of investments; 4) Implement combined risk & assurance framework; 5) Expand scope of work on sustainability; 6) Governance; 7) Upgrade capability and efficiency and Global Fund resources; 8) Prepare for the new strategy and the 5th replenishment.

The Annex outlines specific actions under the corporate priorities that are intended to address the issues raised in the report. It is noteworthy that for each priority area, there are several business owners. We are very aware that progress can be made only with cross-divisional, corporate ownership. We are also aware that as a 21<sup>st</sup> Century partnership, we can succeed only by reaching outside of the Secretariat to tap into expertise and support to ensure maximum results. That clear acknowledgment is demonstrated in the Annex.

Across the four areas identified for improvement, measures are either planned or have already been implemented either with the introduction of the funding model or in response to OIG findings. With regard to due diligence, examples of measures in-place include capacity assessments for Principal Recipients and other key implementers and new tools developed to link programmatic activity to financial budgets, enabling increased scrutiny over the use of resources within grants. In grant oversight, measures in place include systematic review of in-country cash balances and expenditure forecasts, new external audit guidelines for implementers and ongoing risk assessments of grants through the operational risk management processes. Improved grant differentiation has been

introduced across the portfolio and the life of a grant, from eligibility assessments for Country Coordinating Mechanisms through to a principles based approach to grant closure. While the risk and assurance initiative had a slow period, we are back on track to complete the project and embed its new approaches by the end of 2015.

We welcome the report, and will use its findings to further strengthen our efforts. We share the Inspector General's confidence that with continued management attention to the key areas it identified, and others areas we are working on, the Global Fund will continue to achieve greater organizational maturity and continue on the strong forward trajectory to be better servants to others.

Warm Regards

Mark Dybul,

Executive Director of the Global Fund to Fight AIDS, Tuberculosis and Malaria

Annex: Management for Impact

OIG report area	Recent measures taken
<p><b>1. Due Diligence</b></p> <p>The Global Fund Secretariat should further develop its knowledge of implementers and suppliers by systematically and proactively conducting verifications about these entities, their compliance systems, governance structures, operations and activities prior to funding them. At present we find in both audits and investigations that due diligence conducted prior to grant signing needs to be strengthened.</p> <p>Due diligence principles should also apply to the development of new approaches to funding, such as the results-based funding model. The OIG welcomes these new approaches: the innovative and tailored grant-making that underlies them is a laudable evolution of the original ‘cookie-cutter’ grant-making approach. However, the Global Fund should take care to ensure that proper due diligence, commensurate with the scale of change envisaged, is done at the country level to ensure that sufficiently strong national systems exist that would allow for the deployment of new ways of doing business. It is important that the Secretariat carefully define the methodology for implementing new funding approaches and the rationale used to determine that a particular country is suitable for rolling this out.</p>	<p><i>Business owners: Head of Grant Management, Chief Financial Officer, Chief Risk Officer</i></p> <p>The specific corporate priorities for 2015 that are relevant to this area are:</p> <ul style="list-style-type: none"> <li>- Deliver and optimize the funding model;</li> <li>- Implement the combined risk &amp; assurance framework.</li> </ul> <p>The Global Fund, as part of the implementation of the New Funding Model, has introduced the following processes to improve the quality of our due-diligence of implementers at different stages of the grant-cycle:</p> <ul style="list-style-type: none"> <li>• <b>Capacity Assessment of Implementers.</b> Before agreeing to a nominated Principal Recipient (‘PR’) and other key implementers, the Country Team, assisted by the Local Fund Agent (‘LFA’), undertakes a capacity assessment to ensure that the PR and other key implementers have the capacities and systems to undertake their roles in the program. The capacity assessment includes the following key activities: <ul style="list-style-type: none"> <li>○ The CCM’s assessment of nominated PRs against agreed minimum standards. The CCM assessment is a formal part of the concept note submission;</li> <li>○ Implementation arrangement mapping which identifies the nominated implementers under the program down to the ultimate beneficiary level and the key flows of funding, data and health products;</li> <li>○ The assessment of both PRs and, where deemed necessary, key SRs by the LFA and Country Team;</li> <li>○ The scope of each capacity assessment is tailored to the role of the implementers, previous understanding of implementer capacity and available assessments from other Development Partners;</li> <li>○ The capacity assessment results in a rating along four functional areas (monitoring and evaluation, finance, procurement and supply management and program management and governance) and an action plan to address identified capacity and systems issues. The results of the capacity assessment and the action plan is one of the documents that the Secretariat Grant Approvals Committee considers when deciding whether the grant can be submitted for Board approval. Agreed</li> </ul> </li> </ul>

OIG report area	Recent measures taken
	<p>actions are followed-up during grant implementation.</p> <ul style="list-style-type: none"> <li>• <b>Budget reviews.</b> New tools have been developed and are being applied to scrutinize and approve proposed program budgets, by the Finance Officers and the Local Fund Agents. These budget reviews are critical in understanding the expected activities of the grant and the level of diligence being applied by the implementer. Inadequate budget preparation or disagreement on costs within the budget will result in the Finance Officer rejecting the budget, and requiring it to be revised.</li> <li>• <b>Internal reviews.</b> The grant making process now incorporates reviews by the management levels above the Country Teams</li> <li>• <b>Annual Funding and Disbursement Decisions.</b> Integral to program oversight that the Country Team undertakes during implementation is to build on its knowledge about key implementers. During annual funding and disbursement decisions, progress on the action plan from the capacity assessment is followed-up and reviewed and emerging issues along the four functional areas are assessed. Grant management performance is a key consideration in the final rating that is assigned to the grant during annual funding decisions.</li> <li>• <b>Operational Risk Management.</b> For high-value / high-risk grants, the results of the capacity assessment and progress towards the action plan, emerging issues identified during grant implementation, and the results of other assessments are systematically documented as part of the operational risk management process called 'QUART'. The QUART is a comprehensive, structured approach to identify and assess all the important operational risks faced in grant management and implementation, and to clearly link this analysis to planning of risk prevention &amp; mitigation actions.</li> </ul> <p>With respect to due diligence in the development of new approaches to funding, new assessment processes have recently been developed for defining Results Based Financing ("RBF") pilots, and an RBF working group is reviewing them based on experience with initial pilot countries. The assessment process covers five areas: 1) Socioeconomic context; 2) National disease trends and strategies; 3) National supply chain, finance and M&amp;E systems; 4) Implementing capacity and 5) Partnership Arrangements. For each of the areas, there are high-level criteria of what can be considered a well-functioning system and potential mitigating measures in case of systems deficiencies. In addition, clear criteria have been developed for applying the full, or a partial, RBF model.</p>

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	<p>The Secretariat has also worked with the Technical Review Panel (“TRP”) to agree the scope of TRP review of RBF cases, and improve documentation.</p> <p>The new process for developing RBF pilots will include an early senior management review of all cases based on a solid business rationale for the portfolio.</p> <p>During 2015 the development of The Global Fund’s RBF approach will be supported by the Centre for Global Development working with Clinton Health Access Initiative, sharing international expertise on Results Based Financing. Also, work is underway on the development of a new strategy for The Global Fund, which will address RBF.</p>
<p><b>2. Grant oversight</b></p> <p>Pre-disbursement controls over grant funds have strengthened at the Global Fund Secretariat. However, to become optimal stewards of Global Fund investments, the Secretariat should pay greater attention to post-disbursement oversight and monitoring of the activities of grantees, especially financial management at the Sub-recipient level and below. To do this, the role and accountability of portfolio managers, finance officers and other members of the Country Teams should be better defined and managed. Progress on defining an accountability framework for Global Fund Secretariat staff has recently slowed. The Secretariat can better define terms of reference, accountabilities and the level of oversight required when managing grants.</p>	<p><i>Business owners: Head of Grant Management, Chief Financial Officer, Chief Risk Officer</i></p> <p>The specific corporate priorities for 2015 that are relevant to this area are:</p> <ul style="list-style-type: none"> <li>- Deliver and optimize the funding model;</li> <li>- Implement the combined risk &amp; assurance framework;</li> <li>- Upgrade capabilities &amp; efficiency of Global Fund resources.</li> </ul> <p>In developing the Secretariat’s procedures around grant oversight and sub-recipient performance it is critical that the Country Team first understand and assess the performance of the Principal Recipient and Country Coordinating Mechanism (“CCM”) in performing this primary role.</p> <p>In order to develop this understanding further, during 2014 we have taken measures to improve how we ensure appropriate oversight of grants, including at the Sub-Recipient level. These include:</p> <ul style="list-style-type: none"> <li>• Increased scrutiny over in-country cash balances, with reporting for key implementers on a quarterly basis and a reduction in the cash balances seen in countries with the majority of our funds;</li> <li>• An increase in the adoption of Fiscal Agents to assist implementers in their fiduciary arrangements;</li> <li>• New guidelines for external audits that require a consolidation of PR and SR expenditures into one overall audit opinion; and</li> <li>• An updated Country Team Responsibility matrix, aligned with the Finance Step-up transformation</li> </ul> <p>2015 will continue to see a focus on improving the financial management oversight capacities of implementers through:</p> <ul style="list-style-type: none"> <li>• Requesting quarterly reporting of both actual and forecasted expenditure from key implementers;</li> <li>• Enhancing the management of foreign exchange risk by implementers;</li> </ul>

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	<ul style="list-style-type: none"> <li>• Specific targeted projects with a focus on ensuring that key PR's have systems and HR capacity appropriate to the funds they are managing;</li> <li>• The production of a new Finance Handbook for Implementers that will provide a clear guide on what will be expected of implementers in the future. This will take into account the requirement for differentiation in the way grant oversight is operated.</li> </ul>
<p><b>3. Grant differentiation</b></p> <p>The Global Fund has taken solid steps in thinking about a differentiated approach to managing grants with different funding levels or potential for impact. This has resulted in the 'high impact' teams, which are able to take carefully tailored approaches to the 25 key grant portfolios. However, differentiation in light of the remaining country portfolios, which are very diverse indeed and have different assurance needs, has not yet been developed.</p>	<p><i>Business owners: Head of Grant Management, Chief Financial Officer, Chief Risk Officer</i></p> <p>The specific corporate priorities for 2015 that are relevant to this area are:</p> <ul style="list-style-type: none"> <li>- Deliver and optimize the funding model;</li> <li>- Implement the combined risk &amp; assurance framework;</li> <li>- Greatly improve results &amp; impact measurement;</li> <li>- Upgrade capabilities &amp; efficiency of Global Fund resources.</li> </ul> <p>Simplifying grant management processes and allowing differentiation is a key part of the transformation of The Global Fund. With the implementation of the new funding model the Secretariat is ensuring that key grant milestones and processes can be differentiated based on risk, materiality, and country context.</p> <p>In addition to differentiation in the approach for High Impact countries, the following differentiation of processes has been achieved across the portfolio:</p> <ul style="list-style-type: none"> <li>• <i>Eligibility Assessment for CCMs</i>: technical assistance and formalised annual eligibility and performance assessments (EPAs) are focused only on CCMs with identified issues, with a significant portion of CCMs conducting annual self-assessments only. All CCMs have an improvement plan, monitored on a monthly basis;</li> <li>• <i>Access to Funding</i>: in specific circumstances, a simplified Access to Funding process can be followed, including simplified forms, and differentiated levels of review by the Grant Approvals Committee;</li> <li>• <i>Capacity Assessment Tool</i>: the implementer assessment process at grant-making has been differentiated with a Capacity Assessment Tool, with tailoring based on guidance provided by risk owners / functional hubs. The differentiation can range from four high-level questions, to detailed capacity assessments in the four functional areas involving the Local Fund Agent;</li> </ul>

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	<ul style="list-style-type: none"> <li>• <i>Quarterly cash balance reporting:</i> a new requirement for quarterly cash balance reporting has been differentiated - specific countries and grants have been identified to capture the cash balance for 80-90 percent of the Global Fund grant portfolio by dollar value;</li> <li>• <i>Budgeting and expenditure reporting:</i> as per new Budgeting Guidelines, in specific instances and as part of the differentiated approach, for low risk/low investment grants, implementers can be authorized to budget and report using broad budgeting categories by intervention and cost groupings as opposed to the standard detailed ones;</li> <li>• <i>Programmatic Verification:</i> On-site Data Verifications are differentiated based on materiality, risk and the assessed quality of in-country systems;</li> <li>• <i>Disbursements:</i> cash disbursements are now done on a quarterly, semi-annual or annual basis, or at specific times when the PR requires funds. The number of disbursements made is based on considerations that include: available cash balance; absorption rate; currency risk; and requirements and management actions due during the execution period. Annual disbursement are only made for annual funding decisions that are less than US\$3 million;</li> <li>• <i>Grant Closure:</i> a principles-based Operational Policy on Grant Closure was adopted in 2014 which allows Country Teams to follow a differentiated approach based on the materiality of the grant and corroborative evidence to facilitate grant closure;</li> <li>• <i>Operational Risk Management:</i> the requirement for portfolios to update QUART and undergo a review by the Operational Risk Committee has been differentiated based on risk and materiality;</li> <li>• <i>Assurance:</i> Differentiation in assurance provision is embedded into the LFA manual and the amount of LFA resources allocated to each country. Country Team guidelines for tailoring LFA Services were strengthened in 2014. LFA services are tailored according to the portfolio situation, including the country context, risk profile and grant funding provided. The differentiation in LFA deliverables includes the type of LFA services requested, the scope of work and the associated level of effort. LFA services are targeted to those areas where the LFA is expected to add most value, in terms of providing additional information and addressing a particular risk.</li> </ul> <p>Work underway for 2015 includes:</p>

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	<ul style="list-style-type: none"> <li>• Further work developing principles-based operational policies for Country Teams;</li> <li>• Piloting further differentiation of assurance provision through the Risk and Assurance work;</li> <li>• Working in a focused way in support of Country Teams operating in challenging operating environments, to ensure differentiation is applied and further differentiation developed as necessary.</li> </ul>
<p><b>4. Combined Assurance</b></p> <p>The Global Fund has committed to implementing a combined assurance model, given known areas of weakness in the data relating to impact, expenditures and pharmaceuticals at country or grant level. Assurance over these data is critical to the Global Fund model given its role as a headquarters-only funding institution. Whilst some progress was made in 2014 to initiate and define the assurance model, the work has recently missed agreed deadlines and is not embedded in everyday management practice. Bringing this process on track and managing it actively is essential.</p>	<p><i>Business owners: Head of Grant Management, Chief Financial Officer, Chief Risk Officer, Head of Technical Advisory and Partnerships</i></p> <p>The specific corporate priorities for 2015 that are relevant to this area are:</p> <ul style="list-style-type: none"> <li>- Implement the combined risk &amp; assurance framework;</li> <li>- Greatly improve results &amp; impact measurement;</li> <li>- Upgrade capabilities &amp; efficiency of Global Fund resources.</li> </ul> <p>The Executive Management Committee has designated this workstream as one of the highest organizational priorities for 2015. Dedicated resources have been put in place within the Risk Management Department in February 2015 to support the organization as it:</p> <ul style="list-style-type: none"> <li>• Begins to pilot the systemic improvements to how assurance is planned, obtained and utilized in the creation and management of grants, in seven countries that are representative of the grant portfolio. These pilots will be carried out starting from April 2015;</li> <li>• Implements the governance structure defined in the first phase of the work that was completed at the end of 2014, consisting of the Global Fund Risk and Assurance Committee, co-chaired by the Executive Director and the Chief Risk Officer;</li> <li>• Explores the availability of alternative assurance providers, particularly in the areas of program and data quality;</li> <li>• Strengthens the second line assurance functions within the Secretariat on the areas of financial, procurement and supply chain, and data and program quality risks, to further improve the risk management culture within the organization</li> </ul> <p>This workstream will also incorporate considerations to make further improvements in each of the other areas identified by the OIG as requiring further</p>

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	strengthening as outlined above, being due diligence; grant oversight; and differentiation.