

Board Report

Office of the Inspector General 2015 Annual Opinion on Governance, Risk Management and Internal Controls of the Global Fund

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For information

26-27 April 2016

Abidjan, Côte d'Ivoire

The purpose of this paper is to give Board members and other stakeholders an opinion on internal controls, governance and risk management processes at the Global Fund.

I. Inspector General's Foreword

The purpose of this annual opinion is twofold: to provide Board members with an independent perspective on the maturity of the Global Fund's internal controls, governance and risk management processes; and to highlight important challenges and opportunities for the organization to move up along the maturity curve.

In its nearly 15 years of existence, the Global Fund has achieved much in terms of infections prevented, lives saved, key affected populations empowered, or support for national systems of health. Our focus here is not to provide a detailed account of these results, which are more appropriately covered in the Secretariat's management reports; however, consistent with the OIG's mandate, our primary focus is on the issues, risks, and challenges that may prevent the organization from achieving even greater impact.

These issues and challenges are diverse. Some are within the control of management: developing robust plans to execute the strategies approved by the Board; designing and implementing solid business processes to deliver on those plans; proactively identifying and managing risks; establishing an effective performance measurement framework to hold the organization accountable. Other issues and challenges can be influenced by the Secretariat, but they also require broader commitment and accountability from the Board, donors, implementers and partners: enhancing the quality of organizational governance; strengthening donor coordination and leveraging the partnership to collectively tackle complex implementation issues such as supply chain, funding gaps, or strengthening of health systems; creating an enabling environment in implementing countries and building strong governance and fiduciary accountability to make the best use of available funding.

The founding principles of the Global Fund - *partnership, country ownership, results-based funding, and transparency* - remain as valid today as they were 15 years ago. Yet, as the Global Fund has grown from a relatively small organization to a multi-billion dollar institution, it is time for the organization to seriously challenge how well it lives up to each of these core principles. Our country grant program audits continue to highlight the limits of the partnership model with multiple instances when weak partner engagement and poor coordination of interventions has limited, or in some cases even undermined, the effectiveness of programs. Likewise, in the name of the principle of country ownership, the Global Fund has sometimes failed to hold accountable recipients of its funds, often resulting in poor implementation, at best, or outright diversion of resources, at worst, as highlighted in many of our audits and investigations. Finally, there is a general consensus amongst all key stakeholders that both the Global Fund, its donors and the beneficiaries of its programs have been well-served by a lean business model, focusing on the convening power of the organization and its financing role, whilst keeping grant recipients responsible for implementation. This innovative design is still seen as a competitive advantage for the Global Fund. Without necessarily calling into question the relevance of this business model, which has strong stakeholder consensus and deep political support, there is nonetheless a pressing need to tailor the operationalization of the model to fit the situation in different environments, as suggested by significant weaknesses in both program implementation and quality of oversight identified in our reviews this year.

Addressing these issues and challenges is neither an easy task nor a short-term undertaking. Hence, whilst our assessment of the organization's maturity is a snapshot, it is important to interpret it in the context of the organization's evolution over time. This trajectory is positive, but it is not a linear progression. As early stages of maturity mostly require operational processes and systems to be put in place and to be progressively embedded, moving further up in the maturity curve will require increasingly difficult and more time-consuming shifts in the business model, the organizational culture as well as a careful consideration of the cost benefit trade-offs.

Mouhamadou Diagne
Inspector General

II. Executive Summary

The OIG’s analysis shows a steady and progressive improvement in organizational maturity over time, and the work done in 2015 confirms that positive trajectory. At the end of 2014, the OIG deemed that the Global Fund had progressed to an “initiated” level on the maturity scale. In 2015, the organization is gradually progressing towards the “embedded” level of maturity. Governance, risk management and internal control processes have been defined through institutional policies approved by executive management or the Board. In many areas, these processes are not yet applied consistently and are not yet fully embedded. However, steps already taken by management and several initiatives currently under way, if well executed, would position the organization to move up along the maturity curve within a short to medium time horizon.

Moving to an embedded state requires time

The continuation for the “initiated” maturity rating is due, in part, to the timeframe necessary

to embed the necessary changes, particularly for an organization that provides funding to public health programs in highly variable and often fragile environments. A linear trajectory should not be expected. Focused and purposeful transformations take time, and step changes in governance, risk management and internal controls will incrementally transform and innovate processes.

Senior management at the Global Fund Secretariat has proactively discussed the maturity levels that are appropriate for different processes in the current business model. In doing this, the Management Executive Committee has taken proactive steps in both self-assessing the current level of maturity and determining the future desired level of maturity. The Secretariat’s stated vision is to attain an overall maturity level of “actively managed and formalized” within a period of three years, and an “embedded” level sooner within that time horizon, assuming that the initiatives and efforts currently underway stay on track.

Figure 1. Global Fund organizational maturity.



III. Annual opinion: background and purpose

The OIG subscribes to the Institute of Internal Auditors’ definition of an annual opinion: It is a “conclusion... 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.”

To do this, we employ an organizational maturity scale that describes a continuum ranging from an absence of controls, governance or risk management in the business processes to an optimized state; please see Annex 2 for a description of the scale used.

The Investigations and Audit Units have undergone successful external quality assurance reviews and self-assessments in the period covered by this opinion, meaning that the OIG continues to conform 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.

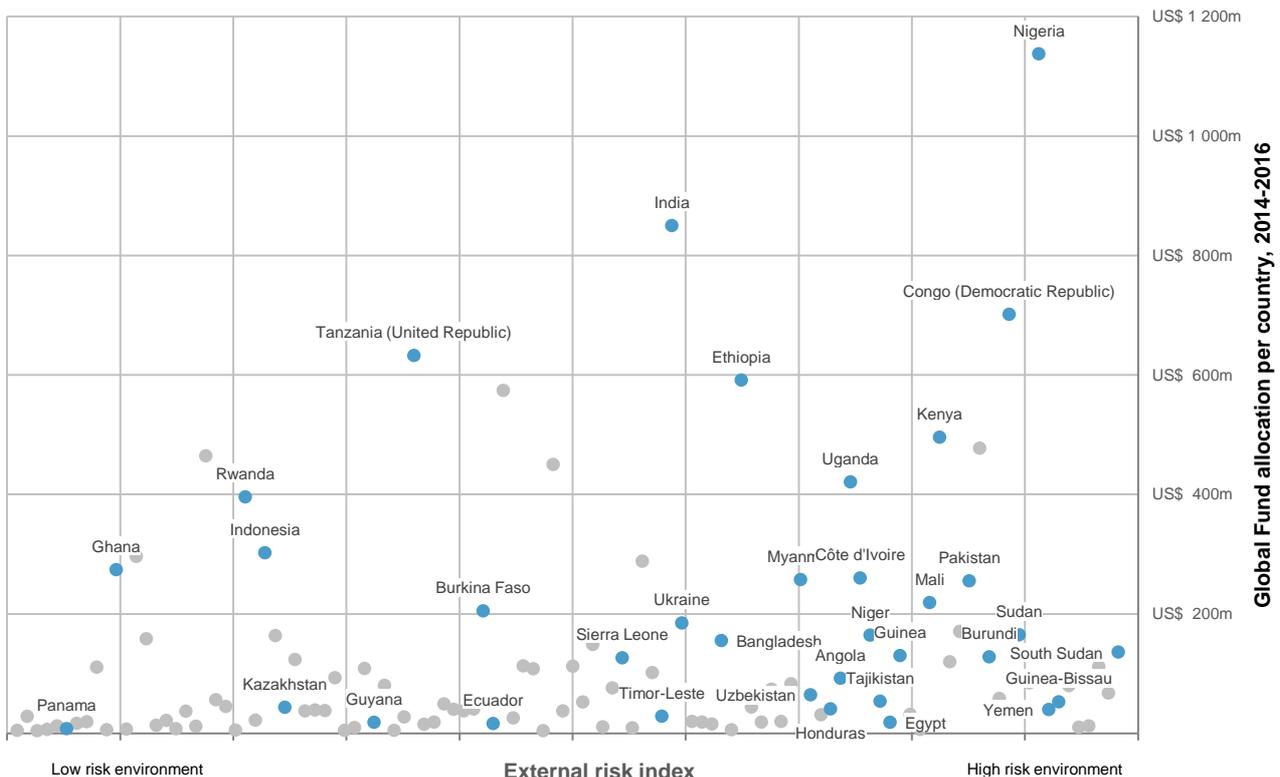
Opinion based on a thorough risk analysis of OIG work

The OIG bases its opinion on the findings and management responses to the audit, advisory and investigation engagements completed in 2014 and 2015 (see Figure 1 below and Annex 3 for a detailed listing of engagements). The OIG opinion also draws on important findings from work done by other quality-assured providers, such as audit work performed by the European Commission. Given the qualitative nature of this assessment, it is also informed by the OIG’s professional judgment in addition to actual findings from audits and investigations.

This report is divided into three key parts:

- an assessment of current maturity levels;
- a review of how the issues identified in the 2014 opinion have progressed; and
- looking to 2016, our assessment of the key challenges facing the Global Fund in maintaining a positive trajectory.

Figure 2. Coverage of 2014-2015 OIG work in country (audit and investigations).

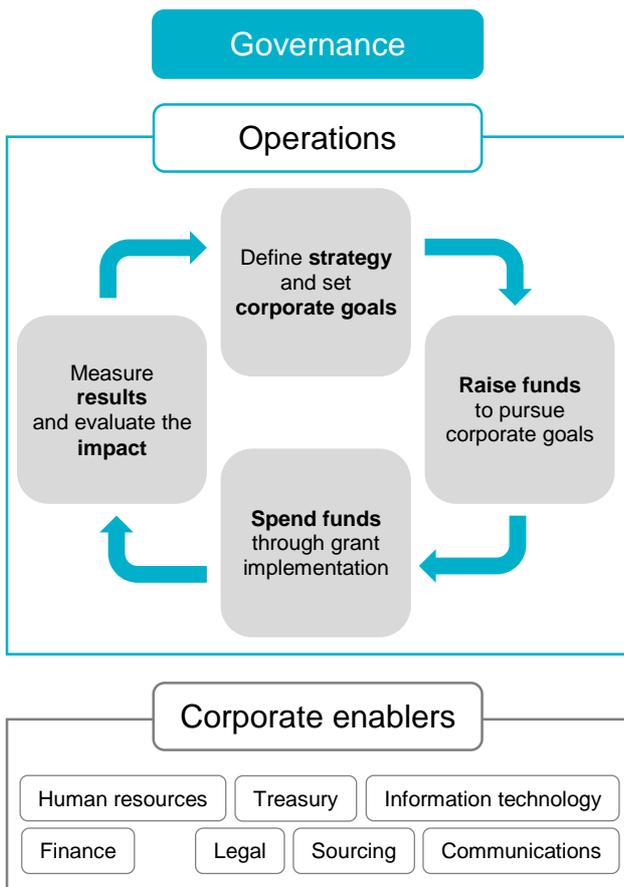


IV. Opinion

Maturity levels at the Global Fund

In forming its 2015 opinion, the OIG has considered the relative maturity of the different areas within the Global Fund to inform its overall conclusion and maturity rating. Figure 3 below depicts the Global Fund business lifecycle considered in this evaluation:

Figure 3. Lifecycle of Global Fund business processes.



Improved approach to strategy planning and strong fundraising

In terms of **Strategy, Partnership and Fundraising**, the Global Fund has made significant improvements in its strategy planning process. The organization has implemented an inclusive and transparent approach, in line with its core principle of partnership. For the first time in this new 2017-2022 strategy cycle, the organization is considering holistically the key linkages between its strategy, the allocation of funds, and the measurement of results. It has also recognized the need for evidence-based analyses to support its strategic choices, as suggested by

the initiation of a structured needs assessment, which is currently under way.

Despite the challenging fiscal environment faced by the donor community, the Global Fund has maintained a strong ability to raise funds to pursue its strategic objectives. It has recently put forth a robust investment case to maintain a high level of donor support. Notwithstanding these strengths in strategy planning and fundraising, significant gaps remain in the maturity of processes to monitor the implementation of the strategy and in the ownership and accountability for the related results. High-level strategic goals are not yet consistently translated into operational plans that are rigorously monitored to drive execution. The Global Fund currently has a weak framework of Key Performance Indicators that does not allow for meaningful measurement of progress in strategic areas nor does it foster accountability for results. Weaknesses also exist in the oversight and monitoring of key operational initiatives, often leading to implementation delays or near failures.

The Secretariat has recognized these weaknesses and in 2015, management took various steps to sharpen the Global Fund's focus on implementation, streamline processes, revamp its performance measurement framework, and strengthen project management across the organization.

Grant management processes being transformed

Improvements to **Grant Management processes** and activities have continued throughout 2015, but processes under development require time to be embedded effectively. The Secretariat has undertaken a series of important initiatives designed to improve its core grant management processes, to analyze program implementation issues such as low absorption, to address them by better leveraging partnerships, and to make meaningful progress on the long-standing differentiation agenda. These initiatives include Accelerated Integration Management, Implementation Through Partnerships, and Differentiation for Impact. If and when successfully implemented, each of these

initiatives has the potential for a transformational impact on how the Global Fund manages its core grant-making business and the effectiveness of its programs.

Until then, OIG reviews continue to highlight significant grant management issues across the portfolio. While the Global Fund has made positive strides in improving the procurement of drugs and other commodities, the implementation of its grants is still challenged by systemic weaknesses in supply chain management as highlighted again this year in OIG's reviews of high impact portfolios such as Nigeria, Ghana and Tanzania. These weaknesses have important programmatic implications, such as persistent occurrence of stock outs, expiration of drugs, or leakage of commodities. The full extent of the programmatic impact of these issues is even harder to assess as continued gaps in data quality, both at the Secretariat and country levels, and a limited monitoring and evaluation framework, continue to constrain the Global Fund's ability to consistently and reliably measure the impact of grants. This challenge is further compounded in difficult operating environments, and our audits in countries such as South Sudan point to the need to effectively tailor grant management processes in those contexts. There are also challenges related to the adequacy of existing implementation arrangements in federal environments with significant devolution of health systems at the state level, as highlighted by our audits in Pakistan and Nigeria.

Finally, while the Global Fund has fully recognized that long-term success is unlikely in its fight against the three diseases without a parallel strengthening of health systems and thoughtful strategies to support sustainability after countries transition out, the organization is still in the early stages of tackling these complex issues. This complexity is further exacerbated by the Global Fund's relatively smaller share of health funding in relation to government budgets in transitioning countries. It also has limited influence on what happens post-transition.

To a large extent, the very nature of these issues also illustrates the challenges of moving up the maturity curve in an area such as grant management. These are complex issues with multiple dimensions, some of which are related to the country context and are beyond the

control of the Global Fund. They also require significant partnership and coordinated approaches with other donors and country stakeholders, whose priorities may not always be fully aligned. Finally, they require significant commitments of resources that, in some cases, may exceed the limits of current allocations. Yet, tackling these issues and making progress in such core processes that are at the heart of the organization's business are fundamental prerequisites to moving towards a higher level of maturity.

Grant finance maturing but more work needed in-country

The **Grant Finance** area has undergone significant change over the past year, including spearheading differentiation efforts to free up needed resources for higher impact portfolios, and implementing expenditure reporting for 'top 20' Global Fund countries to better monitor significant budget variances and ineligible expenditures.

Although not yet fully implemented at the end of 2015, processes to ensure differentiation have been developed with clear accountabilities to optimize scarce Secretariat resources. However, given that these processes have not yet been fully put in place, and some are still at the design stage, it is not possible to validate the extent of their effectiveness.

Program impact assessment still challenged by evolving Monitoring & Evaluation framework and data gaps

Measuring the results and impact of grant investments is an evolving area and maturation of these processes is still work in progress. The Global Fund's 2015 Results Report indicates strong results achieved by the organization in terms of prevention and treatment across all three diseases, health systems strengthening, and increased domestic investments in health. Monitoring and evaluation (M&E) systems provide both this underlying data and the methodologies and tools to analyze the data and assess actual impact. Hence, robust M&E systems are a cornerstone of the organization's ability to measure its impact. Yet, the Global Fund remains challenged by the weak quality of its programmatic data and by the lack of a robust M&E framework, a challenge that is shared by many institutions across the development community. Several of the OIG's

2015 reviews show that data continues to be problematic in high impact countries, as evidenced in our audits in Ghana, Uganda, Nigeria and Tanzania; these issues were found to be largely due to inadequate or unused data collection tools, human resource gaps, and poor monitoring and supervision. Investigations in Burundi and Côte d'Ivoire identified excessive procurement of medical products often emanated from errors in quantification and forecasting. In these reviews, the errors were found to be linked to inadequate warehousing and inventory management and/or use of erroneous baselines for need assessment such as stale disease burden estimates.

Enterprise-wide risk management still requires significant improvements

Risk Management continues to evolve at the Global Fund. The function remains at an early stage of maturity and significant work is ahead to embed risk management in day-to-day business activities. A risk management framework exists, but it is not yet effectively used to guide the organization in achieving its goals, including by taking risk-based decisions.

A formal Risk Register is in place, but is not effective in driving meaningful dialogue around current risk postures, target levels of risk tolerances (risk differentiation), or the effectiveness of risk mitigation activities. Whilst tools such as the Qualitative Risk Assessment, Action Planning & Tracking (QUART) or Capacity Assessment Tools provide useful inputs into the identification of risks at the grant or implementer level, OIG reviews continue to highlight a lack of consistency between initial identification of risks and subsequent mitigation activities to manage those risks. Thus, a gap still exists between risk identification and risk mitigation.

There is also a need to streamline the various risk management tools and processes, which are currently fragmented. The Secretariat is tackling these, and other weaknesses in the risk management framework, through the Risk and Assurance initiative. Progress on this initiative has been slow during 2015 and the completion of the related pilots has been significantly delayed. Recent OIG updates to the Board had highlighted some of the root causes related to clarity of the vision, stakeholder buy-in and accountability, project management, and executive sponsorship.

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The Secretariat has acknowledged these issues and recently taken steps to address them, including leadership changes, clarification of roles and accountabilities, and re-baselining of targets for the assurance pilots. The Secretariat has reported three of the pilots as completed and three others have been started. An Enterprise Risk Committee has been established to replace the previous Risk and Assurance Committee. Its stated goals are to oversee risk prioritization, quality-assure mitigation actions, and oversee the implementation of risk and assurance and other related initiatives.

Whilst the changes made are steps in the right direction and suggest a much needed course correction, it remains premature, as of the date of this report, to confirm their real impact. A key determinant of success for the risk and assurance project will also be the extent of stakeholder buy-in and active support, within the organization's operational business units, based on the perceived value-add. The OIG will continue to monitor progress on this important corporate initiative.

IT evolving but not yet a robust business enabler

Over the last few years, the Global Fund **Information Technology** landscape has undergone significant transformation. Following an OIG audit which identified serious weaknesses regarding data access, availability and classification, the IT department initiated actions to mitigate these risks, including appointing a Chief Information Security Officer, reviewing users' access rights, installing intrusion prevention and detection systems and antivirus solutions, and developing basic IT policies which have been recently approved by executive management.

However, the Global Fund still does not have a formalized and fully tested IT disaster recovery plan. The IT Department has undertaken an effort to outsource the management and provision of all servers and related application services to an external provider. The organization's efforts to increasingly leverage the opportunities of cloud computing are in line with industry trends and, if well implemented, can yield both efficiencies and cost savings. However, there is also a need to carefully consider the risks and trade-offs, which requires a clear IT strategy in a cloud environment, proactive identification and management of the related

risks, strong change management capabilities and processes, and effective IT governance and oversight. These are areas that still require much improvement. As the Global Fund focuses increasingly on improving the efficiency of its core business processes and achieving operational excellence, there is an opportunity to move IT, a historically neglected area, along the maturity curve and transform it into a true business enabler that helps simplify operational processes, increase productivity, and reduce costs.

Enhanced internal financial processes

Internal financial systems and processes to manage and report have undergone significant transformation over the past two years. The Finance Step-Up project has improved financial planning. Budgetary oversight has been improved. With the implementation of a new treasury function and a hedging program, the Secretariat is now actively managing currency and liquidity risks. As a result, new tools, processes and accountabilities have been embedded in everyday operations. Despite the significant revision of internal processes, the OIG found that controls have nevertheless matured. The 'zero-based' approach to budgeting, expected to be implemented in 2016, and increased financial oversight to support course correction for organizational under-performance, are sound steps to further mature the organization's financial decision-making processes.

Enhancing the strategic focus of HR

In terms of **Human Resources**, basic processes such as recruitment are in place and generally adequate in the context of a relatively small organization such as the Global Fund. However, workforce planning is not built routinely into strategic discussions. Talent management processes were introduced in 2014. Although, according to the Human Resources Department, two-thirds of Global Fund staff movements are internal redeployment, these processes are not yet fully effective in managing the resource pool; there is also still significant room to embed a culture of tackling poor performance. The department has a limited policy framework and capability to

handle employee grievances and dispute resolution issues.

Overall, although the function is maturing, there is still significant room to enhance the strategic agility and impact of Human Resources beyond its core operational support role. This evolution would position the Global fund to manage in a more holistic and strategic manner its human capital, presumably the organization's most significant asset. Human Resources management has recently undertaken a detailed diagnostic exercise to identify the relevant maturity gaps. It also has a roadmap to address the gaps.

Strengthening legal framework

For **Legal** matters, basic controls around grant agreements and other contractual matters are in place. Although dedicated legal support is provided to the business, in particular to country teams, the current matrix system does not always guarantee that legal advice is followed nor are the escalation mechanisms or the implications clear when legal advice is ignored. Some important legal issues, such as the obtention of privileges and immunities to protect Global Fund staff and assets, require increased focus.¹ Since the Board approved a Privileges and Immunities Agreement in 2010, only ten out of the more than 140 countries in which the Global Fund operates have agreed to provide such privileges and immunities.

Progress on governance matters is limited

The **governance** agenda has shown some progress in 2015, but significant matters still remain pending. The Board has approved a Governance Performance Assessment Framework, expected to support a new process of ongoing assessment of the performance of the Board and its committees, in line with industry best practice. A new committee structure has recently been adopted following the recommendations of the Transitional Governance Committee, with an intent of strengthening governance oversight. The Board has also approved the Terms of Reference of an Ethics Officer, whose recruitment was recently completed. The Coordinating Group of the Board, which now has a detailed work program derived from its Terms of Reference, has also increasingly focused on risk as a cross-cutting

¹ A "Privileges and Immunities Advisory Group" was established by the Board in 2015.

issue and incorporated it in the agenda of its discussions during 2015.

However, progress has been slow or limited in practice on several governance weaknesses previously highlighted by the OIG. Whilst the Global Fund has adopted a formal risk management framework and a risk differentiation policy, risk tolerances remain largely undefined. Board committees have defined scopes of risk coverage, but a holistic oversight of risks across the organization is still lacking due in part to limited effectiveness in the coordination of cross-cutting risk issues, particularly as it relates to Board and committee

follow-up on risk management issues. Other significant matters that are yet to be conclusively addressed by the Board include board composition, voting structure, duty of care and the management of conflicts of interest, etc. Overall, significant questions still remain as to whether the design and operation of the Global Fund's Board is still fit for purpose to meet the needs of the organization 15 years after the current governance architecture was adopted in a relatively different context. The Board's appetite and ability to address these outstanding issues is critical to raising the maturity of the Global Fund's governance processes.

V. Progress on previously identified issues

The 2014 OIG opinion found that the Global Fund Secretariat needed 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.

The following four areas were found to be key to maintaining the positive trajectory of change at the Global Fund, and we have provided an update on these issues below:

1. Due diligence

Our 2014 opinion highlighted the OIG's finding, in both audits and investigations, that due diligence on implementers needed to be strengthened. Because the consequences of insufficient due diligence are felt much later in the grant lifecycle, the OIG has continued to find more examples of this issue in 2015.

For example, recent OIG investigations in Timor Leste and India identified non-competitive tenders and improper procurement practices by Global Fund sub-recipients. The primary root cause was deemed to be a lack of adequate due diligence on the implementers. At a broader level, the OIG has recently conducted a comprehensive Root Cause analysis for malpractices substantiated in its investigations. Lack of due-diligence was one of the most common root causes identified. While the Grant Management Division has rectified these particular issues in isolation, the strategic use of due diligence as an assurance tool remains an unfulfilled potential. Although the Capacity Assessment tool goes some way in strengthening

our understanding about who implements our grants, it is only performed for Principal Recipients, and does not cover all sub-Recipients, suppliers, or individuals. When due diligence is expected to be performed by Principal Recipients on other implementers or suppliers, adequate oversight is necessary to ensure the effectiveness of their due diligence procedures.

Whilst it is still exploring options, the Secretariat has taken further steps that include the adoption in 2015 of an Information Note to assist in building implementers' capacity in this area. To move forward, the Global Fund should focus on managing existing risks on a holistic basis and improving its due diligence processes, throughout the lifecycle of the grant, to mitigate the impact of this risk. Therefore, these risks related to due-diligence should be carefully considered in the Risk and Assurance Framework currently being piloted and expected to be rolled out later in 2016.

2. Grant oversight

The OIG's 2014 annual opinion highlighted a need to pay greater attention to post-disbursement oversight and monitoring of the activities of grantees, especially financial management at the sub-recipient level and below. During 2015, scrutiny over grant in-country cash balances has increased, including quarterly reporting on material amounts. The number of fiscal agents has also increased in order to assist implementers in managing their fiduciary risks.

However, portfolio-wide progress in this area will be limited until the risk and assurance project is properly implemented. OIG audits in Nigeria, Uganda, Pakistan, Tanzania and South

Sudan point to significant gaps in financial oversight that remain due to a fragmented approach to financial assurance.

In addition to oversight at the Secretariat level, oversight also continues to be weak at the Country Coordinating Mechanism (CCM) level, despite some progress made. In its thematic audit of CCMs, the OIG noted various operational weaknesses, including the absence of oversight committees, material gaps in oversight plans, lack of feedback from key populations, inadequate discussions on key grant issues, and oversight reports with relevant stakeholders including the Global Fund Secretariat that are not shared.

This was due to multiple and varying root causes including time constraints of CCM members, poor planning, documentation and follow-up of oversight activities, inadequate resources, and weak secretariat functions. A study by Grant Management Solutions indicated that 79% of

Global Fund grants that were rated B2 or C improved to B1 or better after strengthening the oversight of their CCMs. This important finding highlights the potential gains from improving CCM oversight.

3. Grant differentiation

As mentioned in 2014, the Global Fund has taken significant steps in differentiating its approach to managing grants, including the creation of 'high impact' teams and the reallocation of finance resources, to concentrate on high risk and high value grants. One of the key corporate initiatives in this area is the Differentiation for Impact Project. That said,

OIG audits, in particular in Indonesia, Ghana, South Sudan and Honduras, have identified the ongoing risks of a non-differentiated approach. This means that the work on implementing a more tailored approach to grants is both urgent and important in achieving impact across the portfolio.

4. Combined assurance

Audit work in Ghana, South Sudan and Indonesia has continued to find weaknesses in assurance. Global Fund assurance initiatives in 2015 have been limited in their effectiveness

and, with the exception of the work in the finance division that is still ongoing, are still not tailored to the country context.

VI. Looking forward to 2016 and beyond

The improvements outlined in this opinion show that the Global Fund has taken a number of important steps to mature its operations. However, as it heads towards its new strategy cycle, the Global Fund needs to evaluate what is required to develop the organization and fully help it to transition from the crisis-fighting

mode of its early years to a more agile and mature organization that is well-positioned to win its fight against the three diseases.

The following areas are critical for the organization to move up the maturity scale in 2016:

1. Optimizing partnerships

The Global Fund's 2016 Investment Case outlines that combined domestic and external funding need for HIV, malaria and TB is estimated to be US\$97bn over the next three years. Even assuming a successful replenishment, the Global Fund will only be able to access a fraction of that resource level. Therefore, clear interdependencies exist if we are to achieve our goals. Working well with partners is not just a desirable goal, but a prerequisite to long-term success. This is the case even though one needs to acknowledge that partnership is a two-way street, and the Global Fund's effectiveness in this area is highly contingent on the responsiveness and quality of engagement of its partners on the other side.

OIG audits in Pakistan, Tanzania, Nigeria, Sudan and Kenya highlighted partnerships that have not functioned optimally. For example, in Tanzania, the OIG uncovered instances where the Global Fund, government implementers and partners were not aligned on matters such as funding responses to the three diseases, responding to storage and distribution challenges, and coordinating supervision and training activities. OIG audit work in Pakistan highlighted various instances where Global Fund investments fund parallel and vertical systems, which have resulted in inefficiencies and duplications in the supply chain and the support functions.

Our audit in Kenya highlighted an urgent need for a thorough understanding and mapping of donor interventions to drive a joined-up, shared accountability framework for health service delivery, and for delivering tangible

coordination on common targets and long-term funding plans. The same concept could be extrapolated across other key countries that are critical for the Global Fund to have an impact on the three diseases at a global level.

CCMs are central to the Global Fund's commitment to local ownership and participatory decision-making. In addition to its in-country audits, the OIG performed a cross-cutting review of the adequacy and operational effectiveness of these important mechanisms. Although this review found that the overall design of the CCM model is fundamentally aligned with the principles contained in the Global Fund Framework document, the audit also highlighted that the Global Fund does not necessarily build on, or work with, existing coordinating bodies to ensure national ownership and country-led implementation processes where possible. The OIG found that CCMs often partially or entirely duplicate other structures, with limited integration or harmonization into these or national systems. Out of nine countries from which the Global Fund has already transitioned, only one country has retained its CCM.

Recognizing the need to work better with partners, the Secretariat, in its Implementation through Partnership project, aims to enhance in-country alliances; in particular, it aims for cross-disease collaboration on operational issues and to build upon existing structures. The importance of successfully implementing this initiative, and unlocking the potential of the partnership on many aspects of the business, should not be underestimated.

2. Balancing country ownership and accountability for results

Country ownership, a core principle of the Global Fund since its creation, is the notion that each country defines its own priorities, based on consultation with an empowered group of stakeholders, and owns the implementation of its programs. However, our audits and investigations regularly highlight the inherent tension between fulfilling the spirit of that concept and, in return, holding grant implementers accountable.

For example:

- Several audits in 2015 have highlighted a high rate of persistent issues unaddressed by implementers, with significant programmatic implications, despite continued commitment of substantial resources by the Global Fund. The legitimate concern about maintaining program continuity and minimizing the risk of treatment disruptions may have led, in some cases, to a perception that the Global Fund had few options but to continue funding despite persistent and material weaknesses.
- Operationalizing the country ownership concept has also shown significant limits in challenging operating environments. Investigation work in Democratic Republic of Congo, Burundi, Niger and Nigeria has found that capacity, oversight and procurement issues are particularly pronounced in such environments.
- The audit of CCMs also highlights challenges with the Global Fund's commitment to local ownership. Whilst the Global Fund appropriately allows country stakeholders discretion in CCM composition, civil society and key populations are not always engaged and adequately represented at the country level.
- An OIG audit of grant-making found that while sampled countries had committed to meeting counterpart funding thresholds during grant-making, the Global Fund does not yet have any effective mechanisms to enforce this requirement. For example, this issue was evident in the Tanzania audit, where interventions for HIV and TB are 95% funded by external donors, domestic fundraising measures have been sub-optimal and are not likely to succeed in the short term. The OIG found that, despite struggling to meet the Global Fund's threshold requirement for counterpart funding, changes in national treatment guidelines for HIV patients in Tanzania exacerbated an already large funding gap. As the Global Fund does not control World Health Organization guidelines and has limited influence on a country's decision to adopt updated guidelines, these situations also illustrate the need for greater partner and stakeholder coordination

3. Tackling the procurement and supply-chain challenges in a holistic manner

Approximately two-thirds of the Global Fund's annual disbursements relate to procurement and supply chain management activities. Hence, this area is at the heart of the organization's business. Whilst the Global Fund has made significant progress addressing procurement challenges, notably through the Pooled Procurement Mechanism, a large number of the OIG's 2015 audit work has continued to identify significant weaknesses in country supply-chain processes. Efficiencies gained in the initial purchasing phase of health products are often

undermined by subsequent inefficiencies and weaknesses in the in-country distribution phase. Persistent issues of drug stock-outs, expiration of commodities, unaccounted deliveries, and product leakages, have been highlighted in our audits of Nigeria, Tanzania, Uganda and Ghana.

Beyond the operational challenges, these issues have tangible programmatic implications: impact can only be achieved if the health products funded by grants reach the right populations at the right time. This requires

effective management of the supply chain from entry of the products in the country all the way to distribution to local health facilities and then to the patients who need them. The OIG recognizes the complexity of this issue: unlike procurement, the supply chain does not lend itself to a centralized solution; by definition, it is a local process subject to local constraints, many of which may well be beyond the control of the Global Fund. In addition, solving supply chain challenges requires well-coordinated

interventions and funding from a broad range of donor partners and country stakeholders. Yet, the success or failure of Global Fund programs in many countries hinges on solving this difficult challenge. In 2015, the Secretariat launched various initiatives to tackle this issue, both in high impact countries such as Nigeria and Tanzania, and across the broader portfolio through a supply chain study which is currently underway.

4. Strengthening health systems in a cost effective manner

The Global Fund has recognized that, to defeat the three diseases, it cannot overlook key weaknesses in country health systems that directly affect the viability or long-term sustainability of its programs. Grant resources have increasingly been carved out to strengthen these systems. According to Secretariat records, approximately one third of investments go toward improving systems for health. However, the organization is still facing significant challenges in clearly measuring the impact of these investments and developing a clear

implementation approach to optimize value for money.

OIG audits and investigations have identified investments that have not been well managed or prioritized and, at times, may have wasted scarce resources. The investigation in Nigeria and the audit of grants in South Sudan and Tanzania uncovered examples where investments in construction projects involved significant deficiencies, irregularities and mismanagement.

5. Risk Management and Assurance framework

Audit work has continued to find weaknesses in risk and assurance, as demonstrated by our audits of grant portfolios in Ghana, South Sudan, Indonesia, Nigeria, Tanzania and Pakistan. Despite Global Fund investment in various risk and assurance activities, these are limited in their effectiveness and are still not tailored to the country context. Although risk management tools have been put in place, more work is required to embed risk management in grant decision-making, and in particular to identify and record risks consistently to allow teams to mitigate more proactively portfolio level risks:

- From an assurance perspective, 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. This is another important area yet to be tackled by the ongoing Risk and Assurance Project.

- Whilst significant emphasis and resources are currently devoted to financial and fiduciary assurance, there is still a gap related to programmatic assurance. Challenges in this area are multi-faceted, including limited availability of skilled resources to provide such assurance, methodology limitations and data quality constraints.

VII. Conclusion

The OIG analysis shows a steady and progressive improvement in organizational maturity over time. Based on OIG work in 2015, the Global Fund is clearly maturing. Nonetheless, OIG work points to the need to mature further in order to have a real impact on the three diseases.

The OIG opinion is that, at the end of 2015, the Global Fund remains at the initiated stage on the maturity scale, but is gradually moving towards the “embedded” stage. Governance, risk management and internal control processes have largely been defined through institutional policies approved by executive management and/or the Global Fund Board structures. However, on aggregate, these are not applied consistently and are not yet fully embedded in everyday management practice across the organization.

Clearly, one calendar year is not enough time to rapidly transform the Global Fund from an ‘initiated’ stage to ‘embedded’. The time necessary to fully transform a small organization originally designed to urgently tackle a humanitarian crisis in highly variable, often fragile environments into a mature, risk-based organization managing a US\$14 billion portfolio takes even *more* time. Continuing on the positive trajectory that began in 2012 is essential if the Global Fund is to remain the innovative, inclusive and impact-driven organization that it sets out to be.

Annex 1: Management Response

The Global Fund Secretariat agrees with the OIG's opinion that it is currently placed between "initiated and "embedded" levels on the maturity scale and making steady and progressive improvement towards "embedded".

The Secretariat formed its own opinion based on an internal survey and consultation between MEC and senior management. The conclusion was that in 2015, a strong foundation was laid for improved management processes within the Secretariat and the rating of governance, risk management and internal controls is mid-way between 'initiated' and 'embedded'. There is clear progress in the trajectory towards improved maturity compared to the OIG opinion in March 2015 where the overall rating was "initiated". The Secretariat's vision is to attain an overall maturity of level of "actively managed and formalized" within a period of three years. Given considerations such as value for money, and contextual factors such as the external environment, the consensus was that for the organization as a whole, trying to get to an "optimized" state would not be appropriate. That said, it is likely that some of the processes in areas such as financial management may go beyond this level, i.e. between "formalized" and "optimized". Cost-benefit considerations and external dependencies will influence such a movement.

The Secretariat also agrees with the opinion that the successful implementation of some of our corporate priority projects, i.e. Accelerated Integration Management (AIM), Differentiation for Impact (D4I) and Implementation through Partnership (ITP), will have a transformational impact on the grant-making business and the effectiveness of our programs. A newly formed project management team has been tasked with tracking progress and ensuring coordination. There are a number of other efforts underway as outlined in the Risk Management Report that will help move us up the maturity scale.

While progress has been made on enhancing due diligence of implementers capacity, the Secretariat recognizes the need for greater focus here and is exploring practical ways to enhance it. Differentiation is a key priority and will be delivered, not just through the D4I initiative, but also embedded in a number of other ways such as the Challenging Operating Environment policy and the manner in which Country Coordinating Mechanisms are evaluated. Risk and Assurance project has also progressed with the completion of three pilots and the remaining three started and expected to be completed in 2Q, 2016. Assurance will be rolled out on a differentiated basis across the grant portfolio in the second half of the year.

The Secretariat is also aligned with the priorities outlined by OIG for 2016 and beyond.

1. Optimizing partnerships especially in the context of the estimated funding need of \$97B to fight the three diseases over the next 3 years and Global Fund's relatively modest contribution to it.
2. Balancing country ownership and accountability for results
3. Focus on procurement and supply chain since a significant part of GF's disbursements relate to this
4. Strengthening systems of health in a cost effective manner focussing on key priorities in line with the guidance received from SIIC
5. Risk Management and Assurance framework

The initiatives that the Global Fund has prioritized and are currently underway demonstrate this alignment.

PRIORITIES	PROJECTS / INITIATIVES
Partnership	ITP, Risk and Assurance
Country ownership	ITP, Program and Data Quality, AIM
Procurement and Supply chain	Supply Chain, ITP, Risk and Assurance
Health Systems Strengthening	Finance Step-up, Supply Chain, AIM, ITP,
Risk Management and Assurance	Risk and Assurance, Differentiation, AIM,ITP

As mentioned above, a newly formed project management team has been tasked with tracking progress and ensuring coordination. Effective internal monitoring will help in mid-course corrections, should the need arise.

Annex 2: Organizational maturity scale

Rating	Definition
Optimized	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	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	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	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	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	Internal controls, governance and risk management processes are absent.

Annex 3: OIG reports 2014-2015

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

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.

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

Audit of Global Fund Grants to the Republic of the Sudan, GF-OIG-15-009, June 2015.

Audit of Global Fund Grants to the Republic of Kenya, GF-OIG-15-011, July 2015.

Audit of Global Fund Grants to the Islamic Republic of Pakistan, GF-OIG-15-014, September 2015

Audit of Global Fund Grants to the Republic of South Sudan, GF-OIG-15-016, October 2015.

Audit of Global Fund Grants to the Republic of Ghana, GF-OIG-15-018, October 2015.

Audit of Global Fund Grants to the Republic of Indonesia, GF-OIG-15-021, December 2015.

Audit of Global Fund Grants to the Republic of Honduras, GF-OIG-15-022, December 2015.

Audit Report of Global Fund Grants to the Republic of Uzbekistan, GF-OIG-16-001, January 2016.

Audit Report of Global Fund Grants to the United Republic of Tanzania, GF-OIG-16-002, February 2016.

Audit Report of Global Fund Grants to the Republic of Uganda, GF-OIG-16-005, February 2016.

Audit Report of Global Fund Grants to the Federal Republic of Nigeria, GF-OIG-16-XXX, due March 2016.

Internal audit reports

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

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

Audit of the Procurement and Supply Chain Management Audit, GF-OIG-15-008, May 2015.

Audit of Global Fund's Methodology for the Allocation of Funds Internal Controls, Risk Management, and Governance Processes, GF-OIG-15-010, July 2015.

Advisory engagement on the resources available to Global Fund Implementer Constituencies, GF-OIG-15-013, September 2015.

Audit of the Effectiveness of IT controls at the Global Fund, GF-OIG-15-020, November 2015.

Audit of Audit of the Global Fund Country Coordinating Mechanism, GF-OIG-15-004, February 2016.

Audit of the Global Fund Country Coordinating Mechanisms, GF-OIG-16-004, February 2016.

Audit of Internal Controls: Compliance with key internal policies including operational, financial and procurement controls, GF-OIG-16-0XX, due February 2016.

Audit of the Global Fund's Strategy Planning, Implementation and Monitoring Processes, GF-OIG-16-0XX, due February 2016.

Audit of the Global Fund's Key Performance Indicator Framework, GF-OIG-16-0XX, due February 2016.

Investigations reports

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 Report of Global Fund Grants to Papua New Guinea, GF-OIG-14-002, January 2014.

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

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

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

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

Investigation Report of 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.

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.

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

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

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

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

Investigation Report of Global Fund Grants to Tajikistan, GF-OIG-15-006, March 2015.

Global Fund Grants to the Republic of Guinea, GF-OIG-15-007, March 2015.

Investigation Report of Investigation Report of Global Fund Grants in Ukraine, GF-OIG-15-0012, August 2015.

Investigation Report of Global Fund Grants to Egypt, GF-OIG-15-0015, September 2015.

Investigation Report of Global Fund Grants to the Democratic Republic of Timor-Leste, GF-OIG-15-0017, September 2015.

Investigation Report of Global Fund Grants to Burkina Faso, GF-OIG-15-0019, October 2015.

Investigation Report of Global Fund Grants to Panama, GF-OIG-15-0023, January 2016.