Audit Report
Global Fund In-country Assurance

GF-OIG-17-026
18 December 2017
Geneva, Switzerland
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1. Executive Summary

1.1. Opinion

The Global Fund has a lean structure and, unlike many other international organizations, no country presence or offices outside its Geneva headquarters. The Secretariat therefore relies on various assurance providers to monitor how risks are effectively mitigated in the implementation of its grants. Since the last OIG audit on assurance in 2014, the Secretariat has taken several steps to improve assurance, including a differentiated approach for high risk countries; the introduction of key risk matrices as a starting point for determining assurance needs; and committees to oversee and coordinate assurance activities across different functional areas. Secretariat investments in systems and processes to support Local Fund Agent (LFA) management have also led to improved evaluation and more accurate and accessible data around costs and work plans.

However, challenges remain as the Secretariat is yet to put in place some of the key drivers that underpin effective assurance. The work on defining risk appetite is in its early stage and, until sufficiently advanced, there is limited guidance on the required level of assurance. Assurance activities are also insufficiently aligned to the highest risk areas in the grant portfolio, including supply chain management and programmatic risks. This often results in gaps and possible redundancies in assurance at the country level.

The LFA model remains central to the Global Fund’s assurance framework, with a budget of US$48 million in 2016. This model remains justified since the circumstances and conditions under which it was set up are still applicable today. However, its operational effectiveness is limited by the following: an insufficient focus of LFA assurance services on key grant risk areas, gaps in functional expertise for some of those risk areas, and few available tools to guide LFA work. The Global Fund also faces a significant concentration risk in this area as the bulk of LFA services remain with one provider.

From a governance and accountability perspective, whilst the Risk Department is considered the business owner for assurance, grant-related assurance activities are mainly planned, executed and managed by the Grant Management Division. The audit identified gaps in who owns and coordinates assurance. Assurance is also managed in a siloed manner, by functional areas, which limits the optimization of assurance resources across the full spectrum of the grant lifecycle. However, in 2017, the Secretariat has started collaboratively managing assurance across the functional areas in the organisation.

1.2. Key Achievements and Good Practices

The Global Fund Secretariat has deployed several in-country assurance providers to assess the effectiveness of existing controls in mitigating key risks. The assurance model has evolved over the years in an effort to keep pace with changes in the organization. Accordingly, the Secretariat has adjusted the types of assurance sought, introduced different providers, and amended tools. In order to maximize the use of the limited resources available, the Secretariat has differentiated assurance across its grant portfolio with an increased focus on high impact and high-risk countries in terms of both frequency, coverage and scope of assurance. Key risk matrices are now prepared for high impact and core countries as a starting point for preparing assurance plans.

The LFA model is an innovative approach to providing assurance. It has allowed the Global Fund to oversee a broad range of programs while remaining lean, without a country presence, despite a global footprint of activities in over 100 countries. The model has enabled the Secretariat to tap into a diverse pool of technical resources on an as-needed basis. It has also allowed the Secretariat to deploy assurance services across a grant portfolio that has disparate country contexts and risk profiles. The Secretariat is also making efforts to widen the scope of assurance over significant risks, especially in procurement, supply chain and programmatic areas. There are strong management processes to
support the LFA model, including well-established processes for contracting, performance management, conflict of interest review, LFA expert approval, on-boarding, training and cost management.

The Secretariat has also set up the Enterprise Risk Committee (ERC), a high-level management forum to discuss risks and assurance arrangements. The ERC was created to ensure that key enterprise-level risks are consistently and regularly reviewed by senior management. In addition, the Operational Risk Committee was established as a forum to review the prioritized risks and mitigations of key Country Portfolios. The Secretariat has also established coordination mechanisms, under the leadership of the Risk Department, to bring together key stakeholders to identify ways in which assurance can be strengthened across different thematic and functional areas.

1.3. Key Issues and Risks

**Challenges in implementing some of the key drivers for effective in-country assurance:** Work on defining a clear organizational risk appetite framework at the corporate level started recently and is still in its early stages. Until it is completed, or sufficiently advanced, there is not enough guidance on various risk trade-offs and, consequently, on the evaluation of what constitutes an appropriate level of assurance for different risk exposures in various country contexts. Given that it is neither feasible nor cost-effective to obtain the same level of assurance on all risks, careful consideration is needed to ensure that trade-offs and resource allocations are aligned to the organization’s risk appetite. Assurance also remains insufficiently aligned to the critical risks facing the Global Fund. The Secretariat is not focused enough on critical programmatic, procurement, and supply chain risks. This is reflected in the work performed by the key assurance providers as noted below in relation to the work of the LFA. While the Secretariat has made progress, challenges still remain in the coordination of all the different assurance providers (LFAs, internal audit, external audit functions) at the country level, with gaps and potential redundancies identified in the 15 countries reviewed by the OIG.

**LFA model still relevant but improvements needed in its operational effectiveness:** Whilst the LFA model remains pertinent, several operational challenges affect its effectiveness. LFA work is largely driven by a mandate and priorities set by country teams. LFA focus is not always aligned to the areas of greatest risk in the grant portfolios. Whilst 31% of LFA activities in 2015-2016 involved reviewing the Progress Update and Disbursement Requests process, there was relatively less focus on targeted reviews in areas identified as being of the highest risk to the organization. Programmatic, procurement and supply chain management assurance, outside of the Progress Updates validation, accounts for less than 10% each of total LFA activities, although they are identified as the highest risk areas in the grants.\(^1\) The limited prioritization of these areas has been compounded by changes in the services and tools available for the LFA to review these risks. Tools such as On-Site Data Verification\(^2\) and Rapid Service Quality Assessments\(^3\) were discontinued as they did not provide the level of assurance needed. They were replaced with various programmatic assurance options, including Health Facility Assessments, although these have not yet been fully executed as per the Secretariat roll-out plan. The effectiveness of the assurance provided by LFAs may also be affected by gaps in the mix of resources used to address key risk areas. The LFA pool remains predominantly composed of accounting firms, with one provider representing 63% of budgeted LFA spend in 2016, covering 58% of the country portfolios. This predominance of a single provider on a critical aspect of the Global Fund’s business model and grant oversight architecture constitutes a significant concentration risk.

**Fragmented management of assurance activities and resources:** Assurance is currently planned, executed and managed separately across four functional areas and over six different teams

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\(^1\) Grant Risk Management Report 2015-16 published August 2016
\(^2\) On-Site Data Verification assessed the quality of reported programmatic results for specific grants and for the portfolio as a whole to improve accountability
\(^3\) Rapid Service Quality Assessments evaluated the quality of services at country level. They aimed to continuously build capacity and use quality improvement as an integral part of program implementation.
within the Secretariat (program finance, the Country Coordinating Mechanism hub, the Supply Chain Department, LFA coordination, the Risk Management Department, and monitoring evaluation & country analysis, in addition to country teams). Efforts to consolidate and integrate assurance activities are in their nascent stage. While the risk of duplication and overlaps is relatively limited due to specific roles for each team, the management of assurance budgets is fragmented across these teams. This limits the organization’s ability to comprehensively review its total available assurance resources, evaluate the risk trade-offs, and allocate those resources based on an agreed prioritization of risks.

**Challenges with the mandate, competency and independence of certain assurance providers:** Whilst the mandate of providers such as the LFA and external auditors is explicitly stated (e.g. in grant agreements and terms of reference), there is less clarity on the mandate or expected roles of other providers, such as the internal audit functions of implementers. In addition, the lack of rotation and long tenure of LFAs, in some cases, may affect over time their ability to bring a fresh and sufficiently objective perspective.

### 1.4. Rating

<table>
<thead>
<tr>
<th>Objective 1.        Whether the design of the in-country assurance model and related frameworks is adequate and effective in supporting the identification and mitigation of grant-related risks.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OIG rating:</strong> Needs significant improvement. In the absence of a clear organizational risk appetite framework at the corporate level, assurance remains insufficiently aligned to the critical risks facing the Global Fund. There is insufficient focus on critical programmatic, procurement and supply chain risks as reflected in the work of the key assurance providers. Until these gaps are addressed, there is no reasonable assurance that the in-country assurance model is adequate in supporting the identification and mitigation of grant-related risks.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Objective 2.        The adequacy and effectiveness of Secretariat structures and processes in managing assurance to obtain the best value from available resources.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OIG rating:</strong> Partially effective. Whilst Secretariat processes to support the LFA model, including well-established processes over contracting, performance management, conflict of interest review and cost management are adequate, improvements are needed to limit the concentration risk through retendering and rotating LFA services. Ownership and accountability for assurance need to be clarified. The Secretariat needs to better coordinate assurance management.</td>
</tr>
</tbody>
</table>

### 1.5. Summary of Agreed Management Actions

In response to OIG audit report, the Secretariat will better align its assurance to risks and mitigation activities by developing and implementing an assurance handbook for use by the Country Teams. Following a recent Board decision, the Secretariat will update LFA procurement procedures aiming to mitigate the concentration risk while considering service quality and cost.

The Secretariat will also develop functionalities to allow for monitoring of assurance budgets by portfolio and type of activities. It will revise the audit guidelines to strengthen the review of internal controls as part of the external audit.
1. Background and Context

2.1. Overall Context

The Global Fund operates in an environment characterized by a broad range of risks that can limit program impact if left unmitigated. Some of these risks are grant-specific while others are more pervasive and relate to broad constrains at the country level. There are significant implementation bottlenecks created by capacity constraints such as poor infrastructure, structures, systems, personnel, tools and policies. Many of the countries in which the Global Fund operates are also rated highly in corruption rankings, which increases fiduciary risks. The top 15 recipient countries, which collectively account for 41% of Global Fund grants, fall in the bottom third of Transparency International’s Corruption Perceptions Index. In this highly challenging environment, the Secretariat relies on assurance providers to identify risks and ensure that they are effectively mitigated so that program objectives are achieved.

2.2. Importance of Assurance

The Global Fund’s business model does not involve in-country presence in the form of field offices. The model depends on internal and external assurance providers to give assurance that risks inherent in the grant programs are effectively managed. At the operational level, in the absence of direct oversight of implementation at country level, assurance mechanisms provide crucial validation of grant data used by the Global Fund to make key business decisions. At the strategic level, assurance provides the Global Fund Board and senior management with the comfort that instituted controls are effective in reducing risks to a manageable level.

There are multiple definitions and varied interpretations of what constitutes assurance. For the purposes of this audit, as stated in the Secretariat’s February 2013 Assurance Framework, assurance is defined as “the objective and independent review of processes and controls in place to manage key risks affecting programs supported by the Global Fund, with the ultimate goal of ensuring the achievement of each grant’s objectives.”

2.3. Evolution of In-country Assurance at the Global Fund

The Global Fund has put in place several assurance projects since it was founded, most of which have had varied levels of success in furthering the assurance agenda, as reflected in the figure below:

*Figure 1: Assurance roadmap since 2011*

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*The Grant Management Assurance Framework, February 2013*
Key milestones in the evolution of assurance at the Global Fund include:

- A High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms reported in 2011 that the Global Fund had an excess of apparently uncoordinated grant-related assurance, which did not appear to add up to greater assurance.

- As part of the ongoing reform, a grant management assurance framework was issued in 2013 in response to the concerns raised by the panel. The aim of this framework was to optimize assurance provision and to bring a consistent operational approach to assurance. The framework provided guidance on risk differentiation and assurance activities. However, following limited piloting in a few countries, the framework was not implemented.

- At the request of the Audit and Ethics Committee in 2013, the OIG assessed the extent to which the Global Fund Board could rely on the work of assurance providers of its grants. In response to the OIG’s findings, the Secretariat established a Combined Assurance Working Group in 2014 with the primary objective of inculcating a culture of accountability and transparency at the Global Fund, as well as prioritizing risk and assurance processes.

- Recognising that the Global Fund does not have a formal articulation of its assurance framework to ensure that grant management strategies are being executed as intended, the Secretariat replaced the Combined Assurance Working Group with a Risk and Assurance Project in late 2014; however, the latter did not take on all the objectives of the former project.

- The Risk and Assurance Project’s objective is to ensure that the information obtained from core assurance providers is adequate. This project is under the leadership of the Risk Department. Risk and assurance pilots have been completed. The approach is currently being rolled out across high impact and core countries.

2.4. In-country Assurance Providers

The figure below shows the overall framework within which in-country assurance providers operate. 

Figure 2 The Global Fund has three lines of defense to provide assurance

The entities below are considered by the Secretariat as in-country assurance providers:

(i) LFAs are the cornerstone of the Global Fund’s grant oversight and assurance model. Sometimes referred to as the ‘eyes and ears’ of the Global Fund, they are independent organizations contracted by the Secretariat on a country-by-country basis to objectively examine various aspects of grant implementation, and to provide independent professional advice relating to grants and implementers.6

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6 The LFA reporting line is directly to the Country Team and the Country Team mandates the role and work of the LFA. Thus, the LFA act as an extension of the Country Team and their assurance output also settles within the first line of defense.

6 LFA Communication Protocol
(ii) External auditors are organizations contracted to complete an annual financial audit of Principal Recipients and sub-recipients, as required by the grant agreement.

(iii) Principal Recipients have internal controls, risk management, and monitoring mechanisms to ensure they can achieve grant outcomes within the terms of the grant agreement. Assurance is obtained from assessments and reviews undertaken by their compliance officers, monitoring and evaluation officers, internal auditors, etc.

(iv) The Country Coordinating Mechanisms provide assurance through their program oversight function and by ensuring, in principle, that resources are used efficiently and effectively.\(^7\)

(v) Programmatic assurance providers work on Health Facility Assessments with other programmatic reviews. These assessments are national representative surveys completed by various specialists using a harmonized tool to assess the availability, readiness and quality of services at health facilities in the country, measured against international standards.

\(^7\) http://www.theglobalfund.org/en/ccm/
3. The Audit at a Glance

3.1. Objectives

The audit assessed the adequacy and effectiveness of in-country assurance (including the LFAs) over key risks inherent to Global Fund programs. Specifically, the audit assessed:

- whether the design of the in-country assurance model and the related frameworks are adequate and effective in supporting the identification and mitigation of grant related risks; and
- the adequacy and effectiveness of Secretariat structures and processes in managing assurance to obtain best value from available assurance resources.

3.2. Scope

The audit reviewed assurance arrangements in 15 countries, including LFAs, Principal Recipient monitoring officers, external auditors, internal auditors, health facility assessment providers and Country Coordinating Mechanisms. The audit did not involve in-country visits but leveraged data and observations from other OIG country audits. The 15 countries reviewed as a part of the audit are as below:

*Figure 3 The 15-country sample*

<table>
<thead>
<tr>
<th>Global Fund Differentiation Category</th>
<th>Country Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused</td>
<td>Moldova, Georgia, Gambia</td>
</tr>
<tr>
<td>Core</td>
<td>Guatemala, Papua New Guinea, Namibia, Nepal, Rwanda, Somalia</td>
</tr>
<tr>
<td>High Impact</td>
<td>Sudan, Myanmar, Thailand, Kenya, Viet Nam</td>
</tr>
</tbody>
</table>

3.3. Progress on Previously Identified Issues

An OIG audit in 2014 assessed the extent to which the Global Fund Board and senior management can place reliance on the work of first and second-line assurance providers over Global Fund grants. The audit concluded that while the Secretariat had instituted several measures to strengthen its assurance mechanisms since the 2011 High-Level Panel report findings on assurance, the coordination of different assurance providers and management of information produced by them remained a challenge. There was an inconsistent quality of assurance, with both redundancies and gaps in assurance coverage. The ensuing Agreed Management Action was to constitute a Combined Assurance Working Group that would inculcate a culture of accountability and transparency at the Global Fund, and prioritize risk and assurance in 2014. Two initiatives were born out of this working group: the Risk and Assurance Project driven by the Risk Department, and an assurance project to establish guidelines for financial assurance planning on Global Fund grants in the Finance Department. These initiatives helped resolve some of the assurance issues identified. However, the working group was discontinued before it could achieve its overarching objective and a replacement-working group was set up in late 2016.
4. Findings

4.1. Gaps in Aligning Assurance to Identified Risks while a Risk Appetite Framework Is Finalized

The Secretariat has implemented several initiatives that are improving the organization’s assurance maturity. These initiatives include the Risk and Assurance pilot, which resulted in the introduction of key risk matrices and a Risk Management Group, which is discussed in Section 4.3. However, gaps remain in relation to two key elements that underpin effective in-country assurance: a defined risk appetite and the alignment of assurance to key risks.

(i) Lack of clarity on appropriate levels of assurance, pending finalization of risk appetite framework:

The Global Fund cannot have absolute assurance over the risks in its grant portfolio, as this level of assurance is generally neither feasible nor cost-effective. In an operational policy note on risk management, the Secretariat’s target is for risks to be mitigated to a point where they are proportional to the level of risk acceptance. However, the levels of risk acceptance have not yet been defined by the Secretariat and approved by the Board. At the time of the audit, work was underway under the leadership of the Chief Risk Officer to define a risk appetite framework and to bring this to the Board. This historical gap in developing a shared understanding of risk has made it difficult, so far, to determine what constitutes an appropriate level of assurance for different circumstances and risks that are inherent to the grant portfolios.

The OIG’s 2016 Annual Report notes that, in the absence of formal Board guidance and a defined risk appetite, the organization operates largely under implicit assumptions of risk, which may differ significantly amongst key stakeholders. At the tactical level, decision-making by the Enterprise Risk Committee on what constitutes reasonable assurance and acceptable levels of residual risks is not guided by a clear formulation of the trade-offs. At the operational level, this also often leads to inconsistent risk-taking as individual judgment or perceptions replace institutional norms and guidance.

In the absence of a clearly defined risk appetite, the Secretariat has developed a differentiation model which covers assurance activities, among other things. Under this approach, greater assurance is expected for countries with greatest risk exposure and impact. However, even this differentiated approach does not fully compensate for the absence of risk appetite as country teams still lack the ability to determine what constitutes reasonable assurance for different types of risks in the various country categories (high impact, core and focused countries).

(ii) Gaps in aligning assurance to identified risks:

The Secretariat has made progress, since the last OIG audit, in identifying risks, but challenges remain in the identification process and how assurance is mapped to those risks.

- Key risk matrices provide a good starting point for aligning assurance but they need improvement: The preparation of key risk matrices, which were initially rolled out under the Risk and Assurance Planning pilots in 2016, provides a shared understanding of key risks in the grant portfolio.

For the 15 countries reviewed by the OIG, four have prepared key risks matrices. In three out of the four, these matrices and the processes to create them have helped to facilitate the alignment of assurance to risks at an operational level. However, the matrices may not always capture all the key risks in the portfolio. For example, in one of the countries sampled, the key

9 Differentiation for Impact (known as D4I) project aims to maximize the impact against HIV, TB and malaria by tailoring Global Fund’s investments and processes to specific characteristics of a country portfolio or a program.
risk matrix did not capture significant issues that were flagged in a subsequent OIG audit of that portfolio. Gaps in the identification process may lead to the Secretariat not prioritizing significant risks and thus not allocating efficiently assurance resources.

Beyond the 15 countries reviewed, the OIG also noted broader issues in the roll-out of the key risk matrices, which affects the effectiveness of these tools:

- The Secretariat has planned to complete key risk matrices in 53 countries that it has categorized as high impact and/or high risk. Alternative risk identification processes are not in place for focused countries where these matrices are not mandatory. Consistent with the differentiation framework, risk management processes for these focused countries were appropriately simplified to reflect their lower levels of both materiality and perceived risk. This is also in line with the organization’s emerging risk appetite framework. However, whilst the perceived risk and the required level of assurance may be lower for these countries, effectively tailored risk and assurance planning is still needed to guide the allocation of assurance resources that are even more limited for focused countries. The effectiveness of certain assurance activities in the context of a focused country is also covered in Section 4.2.

- The Secretariat has so far completed the key risk matrices for 23 out of the 42 countries that were planned by December 2017. Plans for the completion of key risk matrices in the remaining 19 countries were being developed during the audit.

Limited assurance over areas identified as riskiest to the organization: The Secretariat has identified in its Corporate Risk Register (a tool developed in 2013 to record entity level risks updated on a quarterly basis) and risk management reports several pervasive risks across the portfolio. The highest ones are concentrated, as expected, in programmatic areas and in the delivery of health products and services as shown below.

Figure 3 Top ten risks in grant portfolio

<table>
<thead>
<tr>
<th>Risk ranking</th>
<th>% of grants rating it as high risk</th>
<th>Top ten risks as per Risk Management Report(\text{/})</th>
<th>Type of Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>46%</td>
<td>Treatment disruptions</td>
<td>Health services and products risks</td>
</tr>
<tr>
<td>2</td>
<td>42%</td>
<td>Poor aid effectiveness and sustainability</td>
<td>Programmatic and performance risks</td>
</tr>
<tr>
<td>3</td>
<td>34%</td>
<td>Poor access &amp; promotion of equity &amp; human rights</td>
<td>Health services and products risks</td>
</tr>
<tr>
<td>4</td>
<td>32%</td>
<td>Poor quality of health services</td>
<td>Health services and products risks</td>
</tr>
<tr>
<td>5</td>
<td>31%</td>
<td>Inadequate monitoring and evaluation and poor data quality</td>
<td>Programmatic and performance risks</td>
</tr>
<tr>
<td>6</td>
<td>28%</td>
<td>Inadequate PR governance and oversight</td>
<td>Governance oversight and management</td>
</tr>
<tr>
<td>7</td>
<td>27%</td>
<td>Theft/diversion of non-financial assets</td>
<td>Financial and fiduciary risks</td>
</tr>
<tr>
<td>8</td>
<td>23%</td>
<td>Low absorption or over commitment</td>
<td>Financial and fiduciary risks</td>
</tr>
<tr>
<td>9</td>
<td>23%</td>
<td>Poor financial reporting</td>
<td>Financial and fiduciary risks</td>
</tr>
<tr>
<td>10</td>
<td>22%</td>
<td>Not achieving program outcome and impact targets</td>
<td>Programmatic and performance risks</td>
</tr>
</tbody>
</table>

However, as the OIG already noted in its 2014 audit, assurance resources are skewed towards financial risks rather than higher risk programmatic and supply chain areas. In this audit, the OIG analysis of assurance coverage by key in-country assurance providers, both within the 15 countries sampled and globally, showed that there was still limited focus on the top risk areas identified in programmatic and supply chain areas.

\(\text{\textquoteleft\textquoteleft} 2014, 2015 \text{\textquoteleft\textquoteleft} \text{\textquoteleft\textquoteleft} 2016 risk management reports prepared by the Secretariat’s Risk Department.\(\text{\textquoteleft\textquoteleft}\)

\(\text{\textquoteleft\textquoteleft} Key risks are prepared from an analysis of key portfolio QUARTs as sourced from the Grant Risk Management Report 2015-16 published August 2016. Ranking is determined by proportion of grants that highlighted risk as high in that portfolio.\(\text{\textquoteleft\textquoteleft}\)
• LFAs and external auditors provide the greatest coverage of key risks in the Global Fund grant portfolio. However, for the 2015-2016 cycle reviewed, thematic programmatic, procurement and supply chain management assurance activities, outside of the Progress Update and Disbursement Requests validation, accounted for less than 10% each of the total LFA activity spend globally. Thus assurance is still relatively limited on higher risk areas of programmatic areas and the delivery of health service and products:

  - Since the Secretariat discontinued the On-Site Data Verification tool in 2016, limited assurance work has been done to date with regard to data quality risks in the eleven high impact and core countries included in the audit sample. The Secretariat did not think that On-Site Data Verification provided sufficient assurance and instead began to rely more on WHO-recommended tools rather than Global Fund specific tools. In 2016, the Secretariat provided more detailed guidance around program and data quality assurance (as described under an operational policy note on program and data quality). However, the Secretariat is still in the process of adapting and aligning the assurance activities with countries’ risk planning exercise.

  - There is limited coverage of risks related to poor aid effectiveness and sustainability, access and promotion of equity and human rights, treatment disruption, and quality of services. Rapid Service Quality Assessments ended in 2016, with few other tools available to assess quality of service risk in the countries reviewed. The Rapid Service Quality Assessments were discontinued for the same reasons as the On-Site Data Verification tool above. Whilst the LFA’s health product management specialists cover procurement and supply chain management, the majority of this work focuses on upstream activities such as procurement processes, quantification and forecasting. There is less emphasis on downstream supply chain activities, up to facility level and last mile distribution, where key risks such as treatment disruption are most likely to materialize.

  - The tools mentioned above were replaced by a set of assessment options, including Health Facility Assessments considered by the Secretariat to be more efficient and aligned with national processes. The Health Facility Assessments are expected to provide assurance over data quality, quality of service, and supply chain risks related to commodity stock-outs and expiries at facility level. However, their effectiveness as a form of assurance may be limited by several factors.

These include limitations in their design: (i) low frequency as they are scheduled once every two to three years. As such, while potentially effective in providing periodic evaluations of certain aspects of program delivery, they are not inherently designed to provide ongoing and timely assurance; and (ii) limited scope primarily focused on facilities. Consequently, they may not necessarily address non-facility related interventions such as, for example, most interventions targeted at young women and adolescent girls for which delivery is not facility-based.

Further to this, there have been issues in the operationalization of the Health Facility Assessments. The assessments, introduced in 2016 by the monitoring evaluation and country analysis team, were significantly delayed and thus not fully operationalized by the Secretariat as planned. Only 15% of the Health Facility Assessments budget for 2016 was spent.

  - The primary focus of external auditors, consistent with their mandate, is to provide an opinion on annual financial statements. Accordingly, their coverage is primarily on financial and fiduciary related risks.

• As part of the ongoing work on program quality and assurance, the Secretariat has recently identified other sources of assurance, including annual thematic reviews on key programmatic areas, country specific evaluations per grant cycle (every three years), and prospective country evaluations to be conducted by the Technical Evaluation Reference Group. As these are just being introduced this year, it is too early to assess their effectiveness.
The Secretariat is also increasingly identifying technical and strategic partners as potential assurance providers. However, whilst this approach is consistent with the spirit of the Global Fund partnership model, the level of reliance and the expected nature of this partner-driven assurance still require careful analysis and clear articulation. The Global Fund has low control over the assurance activities, often limited visibility into the specific outcomes, and in general, a clear mutual accountability framework is yet to be articulated.

As part of Agreed Management Action 1 from a 2017 OIG Audit on Risk Management Processes, (GF-OIG-17-010) the Secretariat agreed, “to present a paper to the Board recommending risk appetite for the key risks to delivering the 2017-2022 strategy. The paper will include broad principles to operationalize the risk appetite. If approved by the Board, the Secretariat will implement the principles approved to use risk appetite in portfolio decisions”.

### Agreed Management Action 1

The Secretariat will develop and roll out an assurance handbook for a differentiated use by the Country Teams that outlines guidance on (i) linking assurances to risks and mitigations, and (ii) roles and responsibilities in the operationalization of various assurance activities.

Owner: Chief Risk Officer

Due date: 30 June 2018
4.2. Local Fund Agent Model Still Relevant but Its Operational Effectiveness Could Be Enhanced

The LFA model was established as the key source of assurance for the Global Fund following a Board decision in April 2002. The model remains justified since the circumstances (i.e. lack of country presence and purpose for which it was established (need for programmatic and financial assurance) have not changed. While the model remains relevant at a strategic level, operational challenges impact its effectiveness in relation to the focus of the assurance work expected from LFAs, the alignment of skills committed in the different functional areas, the adequacy of the tools deployed, and overall management of LFAs.

Rationale for setting up LFA model still relevant: Given the nature of the business model and the need to maintain a lean structure, the Global Fund does not have offices outside its Geneva headquarters. Indeed, this business model and relatively low cost profile are a significant value-proposition for the Global Fund in the eyes of many of its donors. However, one implication of this model is also reduced direct visibility into the implementation of grant programs. The Board’s decision to use an LFA approach was therefore a response to the need for indirect oversight at country level to monitor both program implementation and financial reporting.

In its decision, the Board stated, “Country Coordinating Mechanisms in consultation with the Secretariat and the Trustee [should] identify a suitable, independent, credible and experienced partner organization at country level to assure readiness for implementation and adequate programmatic, financial and related standards; and thereafter to oversee the financial accountability and programmatic implementation of the Principal Recipients.” 12 The circumstances under which the LFA model was established in 2002 are still largely the same today and continue to justify the conceptual relevance of the model. However, its operationalization also has limitations arising from several potential misalignments.

(i) Alignment of LFA resource allocations and tools with key risk areas:

Country teams determine LFA work through an annual planning process and assignment of specific terms of reference. The audit identified gaps in the Secretariat’s prioritization of LFA work in light of limited resources:

- LFA reviews not always guided by country specific risk assessments: Although a tool known as Qualitative Risk Assessment, Action Planning & Tracking consistently identifies programmatic, procurement and supply chain management as higher risk areas, this is not reflected in the focus of activity by the LFA. This shows the wider corporate level misalignment between risk and assurance, described in Section 4.1. In 2015-2016, as mentioned above, LFA activities were focused on data validation of the Progress Updates (31% of total LFA activities), grant-making/closure activities (10% of total LFA activities), implementer assessments at the start of grants (6%) and attendance at country team and partner meetings (7% of total LFA activities). LFAs act as the Secretariat’s advisor in complex and challenging situations which means they are also involved in many services that are not necessary linked with assurance. While this advisory role is a key component of their mandate, it also means proportionately less time and resources are available for assurance in key programmatic, procurement and supply chain risks.

This limited focus on procurement and supply chain issues has also been historically flagged by the OIG. Its 2015 OIG Audit of Procurement and Supply Chain (GF-OIG-15-008) noted that, although an estimated 67% of grant disbursements were spent on procurement of health and non-health products, only 5% of the LFA budget had been allocated to its related assurance.

- Under-utilization of LFA budgets: Although constraints related to resource availability have often been highlighted, annual LFA budgets are not fully used, especially in the programmatic and procurement and supply chain management areas that are categorized as high risk. This is because country teams do not always commission work for areas that have been budgeted in the work plans. While there have been improvements in the overall use of global LFA budgets over

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12 Second Board meeting April 2002 (GF/B01/8.1.3)
time, from 2015-2016, US$3.7m (18% of the global LFA programmatic assurance budget) and US$3.9m (25% of the global LFA procurement and supply chain management assurance budget) were not spent. This was mainly due to the lack of effective planning and work plan execution.

- **LFA reviews sometimes not at the right implementation level:** In the 15 countries reviewed, LFAs are typically requested to focus their reviews at the Principal Recipient level. However, in these countries, 57% of grant funds were spent at the sub-recipient level or below where most implementation activities take place. This is where risks typically materialize due in part to lower capacity.

- **Adequacy of the tools supporting the LFA reviews:** The Secretariat has developed various tools to guide LFA services necessary to support country team management of portfolios. These tools provide a structured and consistent approach, but they also have limitations.

  o Whilst tools used to guide LFA services on financial risks are quite mature, those supporting programmatic and procurement and supply chain management reviews are comparatively much less developed as they are more recent. Many of the tools have only been developed recently or were still under development at the time of the audit. The Health Commodities Stock Status reporting component in the Progress Update and Disbursement Request and the WHO-guided Targeted Data Quality Review (issued in 2015) tool were updated in January 2017. Limitations of programmatic tools such as the On-Site Data Verification and Rapid Service Quality Assessment, and their replacement by the Health Facilities Assessments, were covered in Section 4.1. Regarding procurement and supply chain tools, as noted in a 2017 OIG Audit of Global Fund In-Country Supply Chain Processes (GF-OIG-17-008), the Progress Update Disbursement Request contains limited procurement and supply chain management related information that does not cover all key risk areas. For example, the LFA reports information on stock-outs at the central level. Thus, the Progress Update may not provide timely information about key risks such as treatment disruption, which often materialize downstream at the local level.

  o A cornerstone of LFA verification and analysis of financial and programmatic information is the Progress Update and Disbursement Request. Over the years, the Progress Updates have been amended to reflect new information required by the Secretariat for decision-making. However, whilst a uniform tool does support consistency, it also promotes a ‘one size fits all’ approach across a broad range of countries of varying contexts and risks. As mentioned in the OIG 2017 Audit of Monitoring Processes for Grant Implementation (GF-OIG-17-022), the Progress Updates are not effectively differentiated for different country categories, i.e. high impact, core and focused countries, where there has been more emphasis to adjust the frequency of the tool, based on classification, rather than the tool itself.

(ii) **Alignment of skills with nature and/or level of risks:**

The 2002 Board decision provided guidance on the general profile of the LFA, recommending “a suitable, independent, credible and experienced partner organization at country level”. The decision appropriately leaves room for significant flexibility on the LFA arrangements, i.e. “a variety of partner organizations or institutions could be contracted to assume responsibility for monitoring of program implementation and financial reporting. Such partners could be chosen among recognized local or international bilateral, multilateral or other relevant organizations; including non-governmental and commercial entities... arrangements might differ depending on the specific country context and situation”. The OIG audit noted the following:

- **Challenges with staffing arrangements:** Some of the benefits of the LFA model include providing the Secretariat with deep country contextual knowledge. However, the limited availability of competent staff in many countries has often resulted in LFAs appointing fly-in consultants who typically cover multiple country portfolios. Procurement and supply chain management and programmatic experts in nearly two-thirds of the 15 countries reviewed were not resident in-country. This may potentially impact the extent of their in-depth knowledge of
the country, ongoing implementation challenges and the ability to respond in a timely manner to emerging grant issues. The ability of the Secretariat or LFA teams to overcome this challenge is constrained, to a large extent, by the limited availability of skilled resources in many countries which is not within the power of the Secretariat or LFA to easily resolve.

- **Criteria for LFAs need to be periodically reviewed:** The Secretariat has set criteria for the different types of specialists hired. Processes are in place to ensure proposed staff have adequate skills. However, there is a need to periodically review the qualifications and mix of LFA experts required so that they remain relevant in light of changing risks. For example, the 2017 OIG Audit of Global Fund In-Country Supply Chain Processes noted the lack of agreement on what qualifications LFA procurement and supply chain management experts should have. The requirements should also be checked against the unique circumstances of different countries especially with regard to programmatic expertise. Four out of the 15 country teams sampled raised concerns around the programmatic/strategic capabilities of their LFA teams.

- **Approved staff not always available for work:** Once approved, proposed staff may not always be available to undertake the agreed work for a variety of reasons. In some cases, senior staff members were budgeted but the work was actually done by a junior specialist. This may compromise the quality of assurance work if the work was originally planning to be of a technical level requiring senior expertise. Two out of the 15 countries reviewed had budgeted senior technical specialists based on the complexity of the work, however junior specialists were used instead. This was also flagged in the 2017 OIG supply chain management report where three countries with significant supply chain related issues were serviced by junior LFA staff.

The Secretariat reviews and updates, as needed, on a periodic basis its Procedure for Approval of Key LFA Experts, which also includes minimum requirements for key LFA experts. The last update was in February 2017. The Secretariat continues strengthening its controls to ensure the LFA experts of appropriate expertise and seniority are engaged in various LFA activities.

(iii) **Management of the LFAs:**

There is strong coordination of LFA matters by a dedicated team within the Grant Management Division. There are now robust systems in place to centrally manage their administration, including performance evaluations, work plans and cost management. As a result, there has been significant improvement in data management and reporting for decision-making both at an aggregated and granular level. However, the audit also noted residual issues around the management of LFA tendering and dependency risks.

**Retendering and rotating LFA services:** At its 15th meeting in April 2007, acting on recommendations from the former Portfolio Committee, the Board directed the Secretariat to retender LFA contracts every four years and to perform mid-term reviews. The process followed in practice by the Secretariat so far has not adhered to this 2007 Board decision. This is due in part to significant challenges and inefficiencies of retendering within that timeframe. However, in October 2017, the Secretariat proposed a revised approach to replace the 2007 Board decision with a rolling tendering process.

Instead of retendering every four years, a combination of approaches is currently used. In some cases, a Request for Information is used to test the market and to obtain an understanding of the available offers. Whilst it provides much of the information that would be available through a Request for Proposals, the Request for Information does not often result in a re-tendering of the contract. In other cases, following the Global Fund procurement procedures, a full Request for Proposals is launched and the LFA contract is re-tendered. In limited cases, the Secretariat has also directly appointed LFAs without tender using an “exception-to-competition memo”, as was the case for 10 new regional grants in 2015 and 13 new regional grants in 2016. The Secretariat has outlined several considerations for its decision-making process in choosing either request form, including: the timing of the last request for a portfolio, changes in the environment or country circumstances, current LFA costs, and quality of performance, etc.
Overall, from 2013-2016, there were 85 Requests for Information for LFA services and 51 Requests for Proposals. The approach adopted by the Secretariat considers various criteria for re-tendering and has been less complex to administer than the global tender previously executed following the Board directive. However, it has not resulted in meaningful competition in the provision of LFA services, even though the market was tested in many countries. For example, 10 out of the 15 countries reviewed in this audit have not retendered in the past four years and nine of the 15 countries have had the same LFA service provider for 10 or more years.

Continuity of service providers builds institutional memory and portfolio experience; however, a lack of competitive tendering and periodic rotation can also contribute to provider complacency or lack of objectivity over time. Whilst there are fundamental differences between the LFA and the external auditor roles and services, concerns similar to these have led, in the past few years, to a growing trend in the assurance industry towards mandatory external auditor rotation in multiple jurisdictions.

Also, as most LFA services have not been competitively retendered since 2007, it is difficult to objectively conclude whether the rates in place are still the most competitive in the market for the same level of service quality. However, there has been a continuous reduction of the LFA budget since 2012 from US$85m in 2012 to US$48m in 2016, highlighting improved efficiencies of the model. The LFA cost represents 21% of the Global Fund’s total 2016 operational expenditure budget but less than 2% of overall grant funds.

**Dependence on service providers:** The Board’s 2007 decision was intended to encourage a diversity of participants in the LFA tendering process. However, following the 2007 re-tender, the incumbent LFAs still retained 93% of the business, although the proportion of the business held by the three leading incumbent LFAs fell from 85% to 67% at the time. Currently, the leading service provider continues to hold 63% of the 2016 LFA budget and 58% of the country portfolios.

While the predominance of one service provider has advantages related to simplified vendor management, coordination of activities and knowledge-sharing, it also exposes the Global Fund to a high level of concentration risk. The high degree of dependence increases the risk of service disruption in the event that the firm becomes unable or unwilling to provide its services. It is important, however, to also recognize that the potential benefits of diversifying the LFA supplier base need to be carefully evaluated against the overarching goal of maintaining or improving service quality and effectively managing costs.

### Agreed Management Action 2

In November 2017, Board approved new principles for the LFA procurement method to replace the 2007 Board decision. Following the Board approval the Secretariat will develop the procurement procedures to govern all LFA related procurement, balancing the need to mitigate concentration risk and the need to maintain service quality and effectively manage costs.

**Owner:** Head Grant Management

**Due date:** 30 September 2018
4.3. Secretariat’s Oversight and Management of Assurance Requires Further Strengthening

As part of strengthening the Global Fund’s risk oversight framework, the Secretariat has steadily improved the level of coordination across the various functional areas involved in assurance. Guidance and methodologies related to both risk identification and assurance activities have been developed to support enhanced assurance planning by the country teams. In 2017, the Secretariat worked to define, document and cost the available assurance options in place or under development at the Global Fund across all functional areas. These initiatives are progressively moving the organization’s maturity with regard to assurance towards a more embedded level. However, assurance is still managed, to a large extent, in a siloed manner. Roles and accountabilities are, in many cases, insufficiently clarified, thus limiting accountability.

(i) Ownership and accountability for assurance not clarified:

The country teams support the design of country programs, oversee their implementation and have significant accountability in ensuring that implementers have the established effective controls to mitigate key program risks. Likewise, the teams also manage the end-to-end assurance process to evaluate both the quality of program implementation and the effectiveness of risk mitigation especially concerning the biggest assurance provider, the LFA. They select LFAs, determine the scope of work, manage their work plan and budget, review the findings, and assess their performance. On the one hand, this predominance of the country teams in the assurance process appropriately reflects their role as first-line owners of risk. As such, it is critical that they play a central role in the management of key risks and the related assurance that those risks are effectively mitigated. On the other hand, there is also an inherent vulnerability that the core risk-taking function may have a disproportionate influence on the related assurance about how effectively those risks are being managed.

This vulnerability and the potential conflicts it may generate can be substantially mitigated to the extent that there is effective monitoring and oversight of risk and assurance activities by a strong second-line oversight function, such as the Risk Department, Supply Chain Department or the Finance Division in order to ensure accountability in the use of the LFA by the first line. In that regard, some second-line oversight functions have historically been more effective in ensuring that sufficient assurance is being obtained in their areas of focus. This has notably been the case for financial and fiduciary risk management where the Finance Division has exercised a strong oversight role on assurance activities. Conversely, second-line oversight has traditionally been more blurred and weaker on programmatic, procurement and supply chain management areas, although the risks are relatively higher. The result has been a lack of focus on programmatic, procurement and supply chain risks by the first line, as discussed in Sections 4.1 and 4.2, and ineffective use of resources to provide robust assurance in these areas.

(ii) Challenges in planning, coordinating and managing assurance:

The Secretariat has put systems in place for planning, coordinating and managing assurance, but challenges persist. The Secretariat’s 2017 accountability framework assigns the custodianship of grant-related assurance to the Risk Department. However, ownership for assurance activities is spread among six departments and teams at the Global Fund, all with separate budgets, guidelines and functional priorities. This has historically acted as a barrier in effectively coordinating and managing a comprehensive assurance approach that holistically tackles the critical risks facing grants.

As already mentioned, planning has been strengthened through the key risk matrix. However, once completed, country teams do not always implement the assurance actions agreed in the matrix. This is because, for 2016, the process of developing assurance plans as part of the key risk matrices was designed independently of the annual LFA planning process with limited regard to the potential cross...
over benefits. Furthermore, even for sampled countries without key risk matrices (11 out of 15), there was limited evidence that risk assessments were driving the allocation of LFA resources in the annual LFA planning process. This represents missed opportunity to tailor assurance to areas of greatest risk.

It is important to note that progress in coordination has been noted since the start of 2017 with the creation of a Risk Management Group, which holds monthly coordination meetings between functional areas. Although the output of these meetings is yet to be operationalized.

**Agreed Management Action 3**

The Secretariat will develop the functionality to allow for monitoring the budgets and actuals by country and by type of assurance activity for various assurance providers, whose work is financed from OPEX, Strategic Initiatives as well as external audits.

Owner: Head Grant Management, Chief Finance Officer, Head of SIID

Due date: 31 December 2019
4.4. Some Assurance Provider Mandates Require Further Clarification

The level of reliance that the Global Fund can place on assurance providers is influenced by three key factors: a strong mandate, competence in assurance services, and objectivity and independence. The Secretariat is generally able to rely on LFAs and external auditors, but less on Country Coordinating Mechanism oversight mechanisms, Principal Recipient monitoring arrangements or Health Facility Assessment service providers.

The mandates of external auditors and LFAs are clearly defined through the grant agreements and specific terms of reference. However, the OIG noted gaps with other providers:

- **Mandate of some assurance providers not defined:** The Secretariat invests in additional oversight mechanisms in country, such as Principal Recipient monitoring functions and internal audits that could provide additional assurance. However, only limited reliance can be placed currently on those functions as a source of assurance, in part due to a lack of clearly defined mandates. In general, the grant implementer internal audit functions tend to lack effective charters, clear terms of reference and adequate reporting lines. These limitations, combined with generally tight resources, significantly constrain their effectiveness. Likewise, whilst Country Coordinating Mechanism oversight activities provide some level of assurance, these bodies were established for different purposes and, as such, they do not have a clear assurance mandate.

As part of Agreed Management Action 2 of [a 2016 OIG Audit of Country Coordinating Mechanism (GF-OIG-16-004)](GF-OIG-16-004) “The Secretariat will develop a mechanism to strengthen Country Coordinating Mechanism oversight”, the Secretariat is working, as part of the Country Coordinating Mechanism evolution project, to update the mechanism’s Oversight Guidance Paper and better clarify its oversight role.

- **Internal control reviews not emphasized in assurance mandates:** The Secretariat has standardized the terms of reference for external auditors. It also issues terms of reference for LFA tasks. However, these terms of reference are generally focused on transactional verifications and do not emphasize the review of internal controls, unlike terms of reference used by other donor organizations. For example, the terms of reference for USAID recipient external audits include objectives that emphasize the review of internal controls and require the external auditors to provide a specific report on internal controls. Likewise, the terms of reference used by the World Bank also require auditors to provide an opinion on three distinct areas: the reasonableness of the project financial statements and the supplementary financial information; the adequacy of the internal control structure of the project; and the entity’s compliance with the terms of the Loan Agreement and applicable laws and regulations.

In the case of the Global Fund, however, the current guidelines for annual audits of the grant program financial statements do not require an assessment of, and reporting on, the implementer’s internal controls. Nor is this gap filled by the LFA. LFAs are typically required to review internal controls only as part of the grant-making process and not necessarily through the grant implementation cycle. This limited consideration of internal controls has often resulted in other reviews, such as periodic OIG country audits or a one-time financial control environment review undertaken in 2016, identifying significant weaknesses in the control environment that had not been previously identified by the external auditors and the LFAs.

A few actions have been already taken by the Secretariat. A regional audit initiative which includes more than 20 grants emphasizes the need to review the design and operating effectiveness of controls at both Principal Recipients and key sub-recipients. Similarly, internal guidelines for budgeting of LFA financial services better clarify the roles of the external auditor and the LFA in reviewing internal controls.

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4 Financial Control Environment Review (FCER) on Global Fund Grants to Nigeria in 2016
Agreed Management Action 4

The Secretariat will revise the auditing guidelines to strengthen the review of internal controls as part of the external audit.

Owner: Chief Finance Officer

Due date: 30 September 2018
## 5. Table of Agreed Actions

<table>
<thead>
<tr>
<th>Agreed Management Action</th>
<th>Target date</th>
<th>Owner</th>
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<tbody>
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## Annex A: General Audit Rating Classification

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Effective</strong></td>
<td>No issues or few minor issues noted. Internal controls, governance and risk</td>
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<td></td>
<td>management processes are adequately designed, consistently well implemented,</td>
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<td></td>
<td>and effective to provide reasonable assurance that the objectives will be</td>
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<td>met.</td>
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<tr>
<td><strong>Partially Effective</strong></td>
<td>Moderate issues noted. Internal controls, governance and risk management</td>
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<td></td>
<td>practices are adequately designed, generally well implemented, but one or</td>
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<td></td>
<td>a limited number of issues were identified that may present a moderate risk</td>
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<td></td>
<td>to the achievement of the objectives.</td>
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<td>**Needs significant</td>
<td>One or few significant issues noted. Internal controls, governance and risk</td>
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<tr>
<td>improvement**</td>
<td>management practices have some weaknesses in design or operating effectiveness</td>
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<tr>
<td></td>
<td>such that, until they are addressed, there is not yet reasonable assurance</td>
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<td></td>
<td>that the objectives are likely to be met.</td>
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<tr>
<td><strong>Ineffective</strong></td>
<td>Multiple significant and/or (a) material issue(s) noted. Internal controls,</td>
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<td></td>
<td>governance and risk management processes are not adequately designed and/or</td>
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<td>are not generally effective. The nature of these issues is such that the</td>
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<td>achievement of objectives is seriously compromised.</td>
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Annex B: Methodology

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

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

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

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

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

Countries where the Global Fund invests are challenged not only by epidemics and inadequate health infrastructure, but also by a broad range of other capacity and implementation constraints. Many of these countries are also rated highly in international corruption rankings, and are affected by instability, natural disasters or conflict. The Global Fund does not shy away from the challenge of investing in high-risk environments. Instead, we approach risk strategically and proactively, integrating risk management within the fabric of our key business processes and partnerships, and with a high degree of transparency.

Strong risk management and assurance is fundamental for the effective implementation to achieve lasting impact. Programs supported by the Global Fund have saved more than 22 million lives, with a decline of one-third in the number of people dying from HIV, TB and malaria since 2002. The impact of our investments is clear. As part of our commitment to constantly improve risk management, we have done extensive work to strengthen the Global Fund’s assurance framework, and it has already succeeded in delivering stronger risk oversight across the organization. A critically important part of this work is selecting robust, strategic controls and the right mitigating actions. So is a differentiated approach to assurance in mission-critical countries that allows us to comprehensively review available assurance resources, evaluate trade-offs, and allocate resources based on risk prioritization. Aligning assurance from various providers, including Local Fund Agents and external auditors, is also a constant focus.

We have strongly prioritized financial assurance and have expanded the scope and reliability of assurance options. Risk and Assurance planning exercises are increasingly leveraging new assurance options for supply chain and data quality risks, and assurance plans for all High Impact and selected core portfolios are scheduled for completion in the first half of 2018. Efforts to develop and embed improved risk and assurance processes and tools (including an assurance handbook) are aimed at selecting robust and costed assurance options covering relevant grant facing risks in a differentiated manner. We are increasing our ability to tailor programmatic assurance in order to leverage existing data, as well as country and partner assurance systems. We are developing a Risk Appetite framework for Board adoption in 2018 which will ensure alignment of risk trade-offs and resource allocations across the portfolio.

As you can tell from this summary, we keenly aware that we need strong independent assurance in many areas, and we are taking extensive actions to make sure our investments are as effective as possible. The Office of the Inspector General is a central and important part of providing assurance, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund. The OIG’s Audit Report on Global Fund In-country Assurance validates our extensive work, recognizing significant improvements. The audit also identifies system-wide issues that are not specific to the Global Fund, and includes recommendations on areas where we can do better, including establishing clear guidance on risk appetite and widening the scope of assurance in procurement, supply chain and programmatic areas – all areas which we are already pursuing.

I want to add that the Local Fund Agent model remains a central piece of the Global Fund’s assurance framework. Over the past several years, the Global Fund significantly strengthened LFA management processes to bring value-adding services, stronger controls, improved evaluation and more accurate and accessible data around costs and work plans, leading to better quality and greater cost efficiency. We are continuously reviewing whether LFA service providers deliver value-for-money services and remain competitive, with a systematic LFA Performance Evaluation and Feedback System to track on an annual basis the quality of LFA service delivery and provide feedback to LFAs.

The Global Fund partnership has made extraordinary achievements. Yet there is much more we have to do and we need make every dollar count. We are grateful for the suggestions for improvements on assurance and will continue pursuing them.

Respectfully, Marijke Wijnroks