OIG AUDIT FINDS THAT TREASURY MANAGEMENT AT THE GLOBAL FUND IS GENERALLY IN GOOD SHAPE

The Office of the Inspector General (OIG) says that the governance, risk management practices and internal controls related to treasury management are adequately designed and generally well implemented. The OIG audited the treasury function in 2016. A report on the audit was released on 18 January 2017.

“Treasury” covers the management of cash and liquidity, asset and liability, foreign exchange and investments. It is a relatively new function at the Global Fund, having been established as a result of the adoption of an amended Comprehensive Funding Policy in 2014.

“Overall, the Global Fund has established, in a relatively short timeframe, a well-functioning treasury function,” the OIG said. “The audit did not identify any material weaknesses or process failures.”

The OIG said that the treasury function is fully staffed with professionals that have extensive qualifications and experience in treasury management. The Secretariat has also significantly enhanced its ability to manage its own grant and operational expenditure payments, the OIG added, with the establishment of five commercial banking relationships. Two additional relationships are expected to be finalized by the end of 2016.

Nevertheless, the audit identified some issues, particularly with respect to governance and risk management, foreign exchange management, and asset and liability management. The OIG said that if the Global Fund had been more mature, and if it had a higher trading volume using complex financial instruments, “the combination of issues identified in this report…would have been considered a significant deficiency.”

The OIG rated governance and risk management “partially effective.” Issues that need to be addressed include the following: (a) there is limited formalization of independent oversight over treasury activities; and (b) the Chief Risk Officer, who performs the role of risk manager of the treasury function, “is fully reliant on the information provided by the treasury function without having independent access to it.”

The OIG also rated foreign exchange management as “partially effective.” Two issues that need to be addressed are: (a) trading limits for traders have not been defined and built into the system; and (b) the Fund’s own policy requires counterparty limits to be in place, but no such limits have been defined by the Secretariat. (“Counterparty” refers to the opposite partner in a currency transaction. “Counterparty limits” are the amount of financial exposure an organization chooses have with another organization.) See also the section on multi-currency disbursements below.

Asset and liability management (ALM) was also rated “partially effective.” The OIG said that processes and controls for this function have been adequately designed, but are not operationally efficient and effective because forecasted amounts are consistently and materially different from the actual expenditures. “This forecasting process is critical to ALM.” The OIG stated. “It results in key decisions being taken about the allocation of funds to countries over the implementation period.” According to the OIG, the effectiveness of this process is limited by the accuracy of data provided by principal recipients and country teams.

Nevertheless, the OIG said, the trend has improved over the past year. “The position taken by the Secretariat is a conservative one with the risk of over-commitment of funds being low, which is the primary objective of ALM.”

The OIG concluded that cash, liquidity and investment management processes and controls are adequately designed, consistently well implemented and effective.

Multi-currency disbursements

Multi-currency disbursements (MCDs) involve matching disbursements with the currency of the incurred expenses of Global Fund programs in order to mitigate the foreign exchange risk faced by countries. The Board approved the use of MCDs in June 2014, but they have not yet been operationalized. The OIG said that although treasury, financial services and accounting teams have developed, tested, and are ready to implement MCDs, more work is needed “at the functional and operational level” before MCDs can be rolled out across the Global Fund portfolio.

That work includes developing internal grant management processes, and dialoguing with in-country implementers and country coordinating mechanisms in recipient countries. The OIG believes that MCDs needs to be prioritized by the Secretariat in order to operationalize the Board decision. In addition, the OIG stated, the Global Fund will need to evaluate its hedging policy and limits “to ensure that it remains fit-for-purpose” as it moves towards full implementation of MCDs. If this work is not done, the OIG said, implementers are likely to be experiencing foreign exchange risk throughout the implementation of grants approved during the 2017-2019 allocation period.

Agreed management actions

The Secretariat is putting in place corrective actions to address the weaknesses identified by the OIG audit. These include (a) reviewing all policies and procedures that cover treasury activities and (b) strengthening controls over foreign exchange management. The latter will include develop a hedging strategy template which will then be operationalized to support executed trades. It will also include specifically defining a trading mandate taking into account the traders profiles; and defining a counterparty limit framework.

In addition, the Secretariat will put in place a formal change management roadmap to implement MCDs across the Global Fund portfolio. The OIG had recommended that this happen in a 12-18-month timeframe. Grant Management systems are currently being re-engineered to cater for MCDs through the project AIM (Accelerated Integration Management). At the country level, the 12-18-month timeframe allows time for change management without being rushed and without introducing additional risks. MCDs will not be applicable to all countries, so a phased approach makes sense.

As well, the Secretariat will perform a detailed assessment of the World Bank as its trustee and asset manager.

Other actions will involve the Secretariat reviewing all policies and procedures related to treasury activities; investigating the feasibility of automating the online trading platform within the treasury function; and refining the process for the calculating sources of funds in the asset and liability management process.

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