



Independent observer  
of the Global Fund

## FIVE AMAS TO ADDRESS THE FINDINGS OF AN OIG AUDIT INTO THE GLOBAL FUND'S MANAGEMENT OF GRANTS IN HIGH-RISK ENVIRONMENTS

Earlier this year, the Office of the Inspector General released a [report](#) on a thematic audit into grant management in high-risk environments. On 31 January, we [reported](#) on the findings of this audit. We indicated at the time that, in a separate article, we would provide information on the agreed management actions (AMAs) that the Secretariat committed to implement to address the findings. We provide this information below, right after our summary of the audit findings.

At the time of the audit, the Global Fund had classified 47 countries as high-risk or very high-risk. In April 2016, the Fund identified 24 of these 47 countries as “challenging operating environments (COEs).” These environments are characterized by weak governance and man-made or natural crises.

From the inception of its new funding model to the time of the audit, the Global Fund had signed grants amounting to \$5.7 billion with the 47 countries. Due to the unique risks and capacity challenges in these countries, 61% of grants are managed by U.N. agencies and NGOs.

Two of the tools the Fund employs to manage grants in high-risk environments are the Additional Safeguard Policy (ASP) and the use of fiscal agents. The ASP, which is designed to be temporary, is used when the Fund determines additional measures are required to ensure the security of Fund financing. Often, grants managed under the ASP are subject to a “zero cash” policy, whereby sub-recipients do not receive lump-sum disbursements in advance. Instead, disbursement is made (a) on a reimbursement basis against submission of appropriate documentation; or (b) directly to the suppliers by the principal recipients (PRs).

At the time of the audit, fiscal agents had been put in place in 23 countries, of which 15 were high-risk and very high-risk countries. The Global Fund may appoint a fiscal agent to act as an enhanced control function within the implementers to oversee and verify expenditures of grant funds through a pre-expenditure review and sign-off process. They are also appointed to build the financial management capacity of the principal recipient (PR) or sub-recipients.

### Summary of audit findings

The OIG audit focused on two aspects of grant management in high-risk countries: (1) whether existing measures are adequately designed to ensure impact; and (2) whether existing measures are effectively implemented and monitored.

With respect to the design of existing measures, the OIG audit found that:

- there are inadequate early warning mechanisms to identify and monitor risk levels of grants to allow for a timely response;
- while country teams are flexible in managing grants in high-risk countries, the absence of a defined risk appetite and minimum verifications required for grants in these environments have affected the ability of the teams to take measured risks;
- emergency preparedness has not been consistently incorporated in grant management in high-risk environments.

The OIG was of the opinion that these design gaps were due to the absence of an overarching framework to support grant management in high risk environments.

With respect to implementation and monitoring, the OIG audit found that:

- the measures being employed to manage grants in high-risk environments have not always addressed the risks they were intended to address. For example, the OIG said that there were gaps in the quality of assurance services provided by fiscal agents;
- although there has been progress on financial risk mitigation, supply chain and programmatic mitigations have not shown equivalent progress and are not effectively addressed in 10 countries that are under the ASP;
- monitoring has been less than optimal. Eleven of the 19 high-risk countries have been under the ASP for at least five years without a reassessment of its effectiveness. Contrary to what its own operational policy note calls for, the Secretariat has never presented a report of the status of the ASP countries to the Audit and Finance Committee (or its predecessor committee);
- while fiscal agents are required to be assessed every year, the necessary tools and systems have not been developed; and
- the Secretariat has not analyzed and defined thresholds for the costs of doing business in high-risk environments.

The OIG noted that to respect the Global Fund’s country ownership principle, additional safeguards are

supposed to be short-term measures. However, the OIG said, a clear strategy to phase out short-term measures has not been consistently agreed and implemented with in-country stakeholders. The audit found that 13 of the 19 countries that are under the ASP did not have exit strategies. Only two countries have transitioned from the ASP since 2004.

#### Agreed management actions

To address these findings, the Secretariat agreed to implement five AMAs. They are described in the table.

Table: List of AMAs from OIG audit of grant management in high-risk environments

AMA #1: The Secretariat will develop: (a) an operational policy note for challenging operating environments (COPNE) that clarifies the process for classification of countries as COEs including further sub-classifications and the flexibility for the countries and how such flexibilities are approved; and (b) guidance for contingency planning for countries in emergencies.	
Owner: Head of Grant Management	Target Date: 30 June 2017
AMA #2: The Secretariat will: (a) develop a system to track countries under the Additional Safeguard Policy (ASP) in the Grant Operational System; and (b) update the operational policy note on ASP to clarify the processes for regular review of countries under the Policy and revoke it where appropriate.	
Owner: Head of Grant Management	Target Date: 31 December 2017
AMA #3: The Secretariat will: (a) develop financial risk management guidelines that outline the: (i) main financial management tools, (ii) roles of the fiscal agent, (iii) triggers for use of fiscal agents and the process for appointment and removal of fiscal agents, (iv) processes for management of conflict of interest in the roles of the fiscal agents, and (v) measure performance of the agents; and (b) centralize annual performance assessments for fiscal agents.	
Owner: Head of Finance, IT, Sourcing and Administration Division	Target Date: 31 March 2018
AMA #4: The Secretariat will develop an automated fiscal agents management system which will include need-based contract management and performance assessment modules.	
Owner: Head of Finance, IT, Sourcing and Administration Division	Target Date: 31 December 2017
AMA #5: The Secretariat will conduct an analysis of cost categories across different types of PRs in COEs and high-risk COE high-risk countries for comparison. This will then be leveraged as appropriate during grant making.	
Owner: Head of Finance, IT, Sourcing and Administration Division	Target Date: 30 June 2017

All AMAs are on track with the exception of AMA #3. The Secretariat has informed Aidsplan that AMA #3 is progressing well but won't be completed until 30 June 2017.

