



Independent observer  
of the Global Fund

## FIVE STRATEGIC THEMES EMERGE FROM THE OIG'S AUDITS AND INVESTIGATIONS OF GLOBAL FUND GRANTS AND PROCESSES IN 2016

Five significant strategic themes emerged from the work of the Office of the Inspector General (OIG) in 2016:

1. Service quality: Success of scale-up dependent on leveraging partnerships
2. Supply chain and procurement: Getting the right health products to patients
3. Risk management and assurance: Challenges embedding risk mitigation into business processes
4. Controls and culture: Policy gaps and non-compliance can weaken impact
5. Governance: Important gaps remain despite recent progress

The themes are the centerpiece of the Office of the Inspector General 2016 Annual Report, presented to the Global Fund Board at its meeting in Kigali, Rwanda, on 3-4 May 2017. This article provides an overview of what the OIG said for each of these themes.

**Service quality: Success of scale-up dependent on leveraging partnerships**

“The scale-up of treatment required to ensure that the Global Fund is able to end the three epidemics puts intense pressure on the quality of services given to patients,” the OIG said. When countries scale up treatment, which they often do in response to revised guidelines from the World Health Organization (WHO) or donor expectations, this puts significantly more patients on treatment, “but unintended consequences also often include strain on health facilities, overloaded staff, and drug stock-outs.” As a result, quality of care may decrease even as the quantity of patients on treatment rises.

To address this problem, the OIG said, scale-ups need to be accompanied by commensurate improvements in the quality of services to patients.

According to the OIG, effective coordination between in-country partners is essential to improve service quality. “With no presence in country, the Global Fund model is dependent on good coordination with governments, civil society, communities affected by the diseases, technical partners, the private sector, faith-based organizations, and other funders to implement programs on the ground,” the OIG said.

In its annual report, the OIG identified several initiatives launched by the Secretariat that are helping to address quality of service issues, including the Program and Data Quality Strategy, the Data Use for Action and Improvement framework, and the Impact Through Partnership project. The OIG also described several challenges that need to be addressed, including decreased patient retention; non-compliance with national and Global Fund guidelines; inadequate treatment adherence; inadequate case management; and gaps in diagnosis.

Aidspace provides more information on these initiatives and challenges in a [separate article](#) in this issue.

#### Supply chain and procurement: Getting the right health products to patients

According to the OIG, the Global Fund invests approximately 40% of its annual disbursements in health products. Effective country supply chain systems are needed to deliver health products to beneficiaries and to supply critical data back for health planning.

Most health products successfully reach their intended beneficiaries, the OIG said. “However, recurring stock-outs, expiries, unaccounted for stock, theft, diversion and quality issues can often lead to treatment disruption.”

The OIG reported that the Secretariat has taken steps to address supply chain management issues across the portfolio by creating a specific Supply Chain Department and appointing a Head of Supply Chain in August 2016. In addition, a supply chain strategy and related assurance framework are under development.

At the country level, a number of initiatives have been launched, the OIG said, including a supply chain transformation project in Nigeria. An OIG audit of the Cameroon portfolio noted that the Secretariat has significantly mitigated procurement risks through the use of centralized procurement agents and coordination of health product procurement plans with other partners. In Côte d'Ivoire, the OIG said, procurement and supply chain systems, as well as the associated infrastructure, are comparatively well developed and effective.

However, the OIG said, while the Global Fund has implemented short-term fixes, it has failed to address long-term root causes in underlying health systems. The OIG identified four systemic root causes, as follows: (a) weak country ownership and leadership in prioritization, accountability and coordination; (b) lack of funding due to limited government commitments and competing priorities in funding requests; (c) lack of accurate and reliable data to support informed decision-making; and (d) inadequate human resources for health.

Aidspace will provide more information on these root causes in an article in a future issue.

#### Risk management and assurance: Challenges embedding risk mitigation into business processes

Given the environment in which grants are managed, the OIG said, risk management at the Global Fund is complex. For example, the Fund's portfolio includes 84 of the world's 100 most corrupt countries,

accounting for \$9 billion of the \$10.3 billion allocation for 2017-2019. Weak country governance is compounded by high levels of poverty: In the top 15 countries supported by the Global Fund, more than 50% of the population lives in poverty. Political instability and institutional fragility are also constraining factors, with 47 countries rated as “high risk” or “very high risk” on the Global Fund’s External Risk Index.

The OIG said that the Global Fund’s risk management landscape is improving considerably. Although significant gaps remain, the OIG said, distinct progress is being made across the six key areas of the risk architecture, as shown in Figure 1.

Figure 1: How the Global Fund is performing in the six key components of the risk management architecture

1 Governance		
2 Risk Culture		
3 Foundational Components Common language and taxonomy Policies and standards Consistent methodologies	4 Processes & Practices Agreed risk appetite and tolerances Defined roles & responsibilities Risk identification Risk mitigation	5 Monitoring & Reporting Assurance over key risks Tracking and analysis Senior management reporting Board reporting
6 Risk tools		

Key: Mostly in place  
Good progress but improvements required  
Initial stages

Source: Office of the Inspector General 2016 Annual Report

Aidspace will provide more information on how the Global Fund is performing in the key components of the risk architecture in an article in a future issue.

Controls and culture: Policy gaps and non-compliance can weaken impact

Because the Global Fund does not implement programs directly in country, the OIG said, its operational effectiveness and efficiency depend on how well it oversees and monitors operations at a central level. “As the organization aspires to significantly improve the maturity level of its internal controls and risk management processes, a key pre-requisite will be its ability to not only design and implement sound business policies, procedures and processes but also to instill a culture where they are executed in a consistent and sustainable manner.”

Without such operational discipline, the OIG said, “there is a significant risk that the Global Fund’s business processes may operate in an ad hoc manner and fail to achieve their intended objectives.”

The OIG said that enhanced fiscal controls have contributed significantly to a decrease in large cases of fraud that it sees in the course of its work. Measures such as the Additional Safeguard Policy and the introduction of fiscal agents in high risk environments have allowed the Secretariat to implement grants in a “risk-measured way” despite in-country challenges, it said.

The OIG said that its audits in 2016 have identified effective financial controls in a number of countries including Malawi, DRC, Côte d’Ivoire and Zimbabwe, often thanks to the introduction of a fiscal agent. As a result, OIG auditors have been able to concentrate on other programmatic risks such as the quality of service delivered or supply chain management.

The OIG said that an initial risk assessment of a planned audit in the Philippines demonstrated that strong internal financial management controls were in place at all three principal recipients, leading to low residual risks of fraud, corruption, theft or diversion of non-financial assets. Programmatic and supply chain risks were also assessed as low. As a result, the OIG said, it opted to cancel a full-scale country audit and to perform a targeted advisory assignment instead.

Although much progress has been made, the OIG said that its work in 2016 highlighted the need for compliance with processes and procedures to be formalized at both the Secretariat and the country level. “Weak processes that may have been an acceptable culture 15 years ago when the focus was on a quick operational response to an emergency health situation, are no longer consistent with the level of maturity expected of a multi-billion dollar 21st century partnership organization,” the OIG stated. “Stronger compliance mechanisms are necessary to ensure business activities are conducted consistently with approved organizational rules and procedures.”

The OIG said that systematic compliance monitoring and related mechanisms to hold staff accountable are key to embedding a learning culture which avoids recurrence of past mistakes. In particular, the OIG said, the Secretariat needs to develop an accountability framework to clarify who has the authority to make decisions, of what type, when to escalate or consult, and how to document and report on the decisions. The OIG pointed out that the need for an accountability framework was identified as far back as 2013.

The OIG said that country investigations in 2016 found a strong correlation between the absence of non-compliance with policies and the opportunity for wrongdoing. “Whether the main theme of the investigation was local procurement, financial management and accounting, product supply chain, bed net distribution, conflicts of interest, [or] deliberate fraud, most of the wrongdoing could be attributed – at some stage – to policy failures or contraventions,” the OIG said.

Governance: Important gaps remain despite recent progress

“Governance at the Global Fund is improving,” the OIG said, citing as examples the creation of a standing committee specifically focused on governance matters (the Ethics and Governance Committee); induction programs for new members; significant improvements in the tracking of Board decisions; and the implementation of a formal performance assessment framework.

Nevertheless, the OIG said, little progress has been made in revising the Board’s composition and structure. Issues that have persisted since 2002, and that continue to be raised in interviews with Board members, include: the continued relevance of having separate donor and implementer blocs; the advantages and disadvantages of a voting mechanism that requires a two-thirds majority from each bloc for taking decisions; whether the current size of the Board achieves the right balance between inclusivity and effectiveness; and the challenges of evaluating the extent to which the current Board structure and composition are optimal in light of the increasing pressure to expand the donor base.

The OIG said that the loss of institutional memory due to a high turnover rate in Board delegations is a concern. In the 18-month period between the 33rd Board meeting in April 2015 and the 36th meeting in November 2016, two-thirds of Board members and alternates have changed. At the committee level, there has been a turnover of nearly 75% (27 out of 36 members) from the old committees to the current ones.

The OIG said that the constituency management guidelines, currently under revision, need to build in an explicit strategy for maintaining institutional memory. “This will require balancing a level of turnover to bring fresh perspectives to the Board whilst carefully staggering changes to ensure an appropriate level of continuity and institutional knowledge.”

Concerning the Management Executive Committee, the OIG said, in a recent survey, 77% of Board members, both past and present, expressed concern about “the breadth and depth of succession cover” for the top management team.

The Office of the Inspector General 2016 Annual Report, Document GF-B37-12, should be available shortly at [www.theglobalfund.org/en/board/meetings/37](http://www.theglobalfund.org/en/board/meetings/37).

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