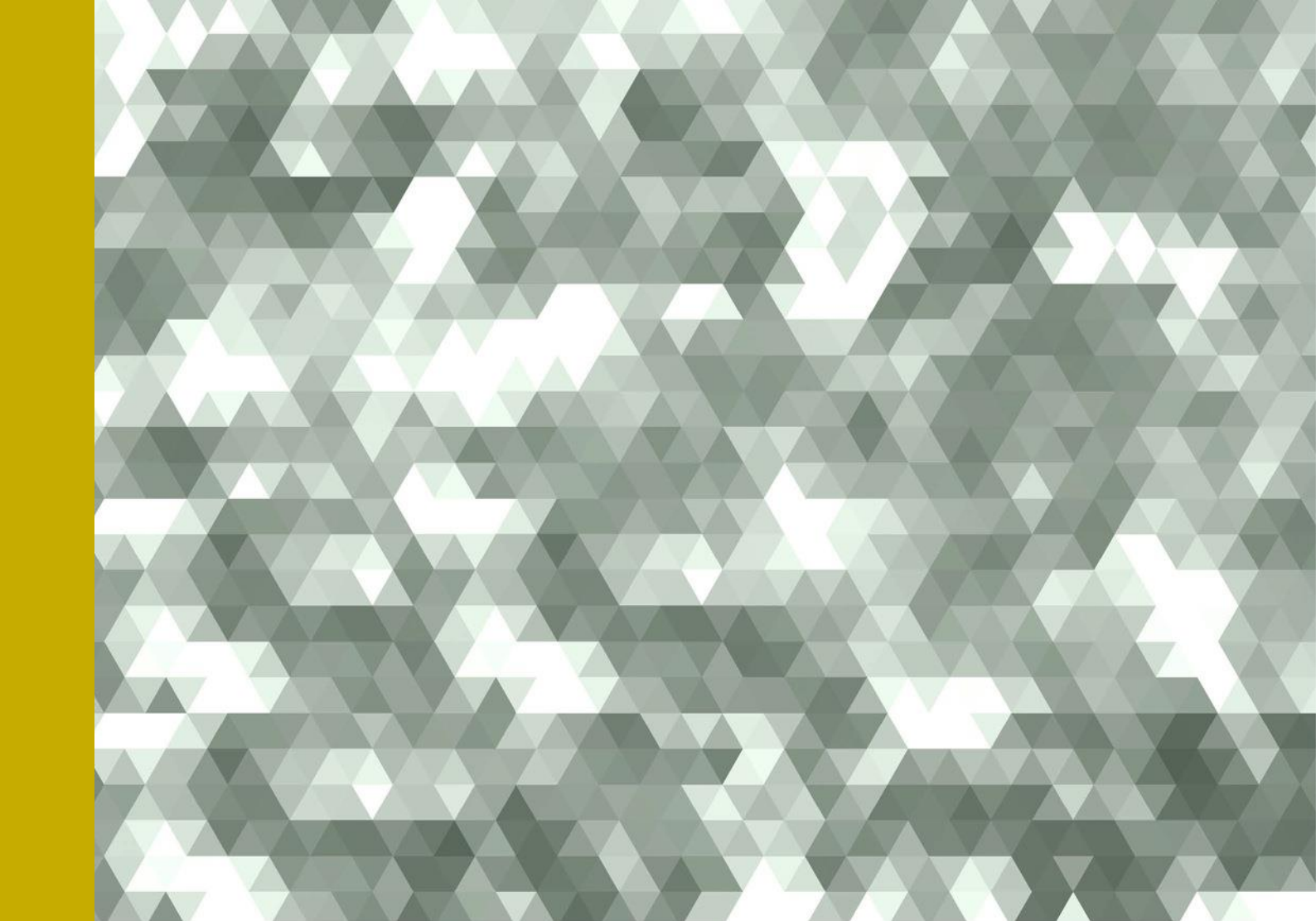




## Audit Report

# Global Fund Grants to the Republic of Kenya

GF-OIG-15-011  
21 July 2015  
Geneva, Switzerland

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# I. Background

## Country context

In 2014, Kenya had an estimated population of 45 million and was ranked 147 out of 187 countries in the United Nations Development Program's Human Development Index. Previously considered a low income country, Kenya achieved lower middle income status in July 2014, according to recently revised national statistics. The country is the ninth largest African economy with an estimated Gross Domestic Product of USD 56.3 billion. Transparency International's 2014 Corruption Perceptions Index ranks the country 145 out of 175. It faces security problems in the form of the Somalia-based Al-Shabaab and activity from local militias, particularly in the coastal regions and in major towns.

The introduction of a new constitution in 2010 devolved power and accountability to 47 semi-autonomous counties, including health care budgetary authority and service delivery to counties. In 2010, Kenya's Country Coordinating Mechanism was reformed with new governance and oversight mechanisms put in place.

Kenya has made efforts to increase its domestic allocation to the health sector (7.8% of public expenditure was earmarked for health in 2012/2013) and the country aims to reach the 15% target set in the African Union's Maputo declaration. Although the country has gradually increased its contribution to the fight against the three diseases and is financing more drugs to treat patients, donor aid remains critical.

Between 2003 and 2014, the Global Fund signed 16 grants with Kenya totaling USD 897 million of which USD 670 million has been disbursed. Current grant allocation for 2014-2016 totals USD 495 million, which includes existing and additional funding of USD 91 million. In January 2015, the country submitted a draft joint concept note for the HIV and tuberculosis components and a reprogramming request for the malaria component.

## Disease context

### HIV/AIDS

HIV/AIDS is one of the major causes of mortality in Kenya and has placed tremendous demands on the health system and the wider economy, with an estimated 1.6<sup>1</sup> million people living with the disease. The HIV epidemic is spread among the general population but is concentrated in some geographical areas and among specific most at risk populations. In 2013, 6% of the population was living with HIV.<sup>2</sup> Prevalence estimates by county show the geographical variability of the HIV burden across the country. These ranged from a high 25.7% in Homa Bay county to below 0.2% in Wajir county.<sup>3</sup> The ten counties that have an estimated prevalence which is higher than the national average, are where the major donors focus their interventions.

Global Fund investments account for roughly 25-30% of HIV funding in country and have contributed primarily to buying health products and pharmaceuticals, training and human resources development. The United States is the largest donor funding roughly 60-70% of HIV investments.

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<sup>1</sup> NASCOP, Kenya HIV Estimates report, 2014

<sup>2</sup> NASCOP, Kenya HIV Estimates report, 2014

<sup>3</sup> HIV Estimates Report, 2014

## **Malaria**

Malaria continues to be a leading cause of morbidity and mortality in Kenya. Malaria indicator surveys conducted in 2007 and 2010 show that malaria parasite prevalence increased from 3% to 8% during this period. However, significant progress has been made in reducing deaths from malaria. Inpatient malaria deaths showed a 47% decline between 2000 and 2010. Since 2004, Kenya has adopted the policy of treating all cases of uncomplicated falciparum malaria with Artemisinin-based Combination Therapy (ACT).

Global Fund investments account for roughly 30-35% of malaria funding in country and have contributed primarily to supporting the purchase of long-lasting insecticidal nets, ACTs, indoor residual spraying, and towards training and equipment purchases. The United States are the largest donor with roughly 30-40% of malaria funding in country, and the United Kingdom supports approximately 20-25% of malaria interventions.

## **Tuberculosis**

Tuberculosis (TB) is one of the major public health problems in Kenya. The country has approximately the 15<sup>th</sup> highest TB burden in the world, with an estimated annual incidence of 120 and mortality rate of 22 per 100,000 people. Multi-drug resistant (MDR) TB prevalence is found in 2.6% of new cases and in 13% of previously treated cases.

Kenya's estimated case detection rate (all TB forms) was estimated to be 81% in 2011 and has been declining. Since 2006, a treatment success rate of over 85% has been achieved among new smear positive TB cases.

Progress has also been made since 2005 in screening TB patients for HIV and initiating Cotrimoxazole Preventive Therapy (CPT) and Antiretroviral Therapy (ART). Currently, 94% of TB patients know their HIV status, 38% were found to be co-infected, and among those tested positive 99% were initiated on CPT and 84% on ART.

Global Fund investments account for roughly 40-45% of TB funding in country, making it the largest donor of anti-TB interventions. Its investments have contributed primarily to buying health products, pharmaceuticals, and towards supporting human resources and monitoring and evaluation activities. Government of Kenya provides roughly 30-35% of the overall share of TB funding, and the United States' provides approximately 20-25%.

## II. Scope and Rating

### Scope

This audit was undertaken in line with the OIG's risk-based audit plan for 2014. The OIG used a tailored approach to examine the controls in place to safeguard future Global Fund investments in Kenya. This is to ensure that grants have the greatest impact and that the population of Kenya receives quality and timely health services. The OIG team assessed:

1. the Global Fund strategy for grants to Kenya, including grant effectiveness and sustainability;
2. the identification, assessment and mitigation of material risks and the effectiveness of the Global Fund's follow-up mechanism; and
3. the effectiveness and the adequacy of the Global Fund's assurance plans.

For number 3, the OIG reviewed the assurance arrangements over grants to Kenya, including the program performance and data quality, procurement and supply management, financial and fiduciary controls, and information technology controls for the key health systems in country.

The review primarily focused on the existing six active grants:

- three of them (one for each disease) are implemented by the Principal Recipient, the National Treasury, a pass-through Principal Recipient, and its sub-recipients: the national disease programs within the Ministry of Health, and the National AIDS Control Council; and
- three grants are implemented by civil society organizations: the Kenya Red Cross Society (HIV grant) and Amref Health Africa (malaria and TB grants).

In the course of the fieldwork, the OIG worked with the above entities, as well as:

- Kenya Medical Supplies Authority (KEMSA, a procurement agent),
- the Country Coordinating Mechanism members and Secretariat,
- the Local Fund Agent,
- the donor organizations represented in 'Development Partners in Health Kenya' (DPHK) group, and
- Kenya National Audit Office (KENAO).

### Rating<sup>4</sup>

| <b>Operational Risks</b>             | <b>Rating</b>                    | <b>Reference to findings</b> |
|--------------------------------------|----------------------------------|------------------------------|
| Programmatic and Performance         | Partial plan to become effective | IV.1, IV.2, IV.3             |
| Financial and Fiduciary              | Generally effective              | No significant findings      |
| Health Services and Products         | Generally effective              | IV.1, IV.3                   |
| Governance, Oversight and Management | Partial plan to become effective | IV.1, IV.2, IV.3             |

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<sup>4</sup> See Annex A for the rating definition

### III. Executive Summary

Kenya is often cited as an example in the development world for its progress in dealing with public health issues, particularly regarding HIV/AIDS. The country has set a framework for its national health strategies and conducts periodic health data surveys to measure the achievement of national health targets, identify program gaps and provide baselines for strategizing program interventions. Kenya also has an active civil society sector.

The OIG audit focused on three key themes:

1. The adequacy of the Global Fund strategy for grants to Kenya, including grant effectiveness and sustainability

Kenya is one of the Global Fund's High Impact countries with approximately 5% of the global HIV/AIDS disease burden, as well as substantial shares of the malaria and TB epidemics. The country received the seventh highest allocation from the total available Global Fund resources for 2014-2016 amounting to USD 495 million. This large investment demands a well thought out investment strategy for Kenya that not only tackles the disease burden in the short to medium term, but also identifies and effectively mitigates key strategic risks that would stop Kenya from achieving impact on the three diseases in the longer term.

In terms of effectiveness, the Global Fund Kenya Country Team, in conjunction with the national programs, has developed its own portfolio-level strategy to tackle the diseases, including an increased focus on disease hot spots and key populations; this has resulted in tangible impact on the three diseases. However, the Country Team's strategy lacks a longer term view beyond the current implementation period (2014-2016) and has not addressed some key strategic issues that are critical to ending the three diseases in Kenya. In particular, the OIG noted:

- There is a need for a thorough and up-to-date mapping of donor interventions for the three diseases to drive a joined-up and shared accountability framework for health service delivery in Kenya and to deliver tangible coordination on common targets or long-term funding plans.
- Effective strategies are required to mitigate the risks caused by the devolution of health care budgetary authority and service delivery to the county level, with particular focus on the counties' capacities to effectively manage programs and deliver services.
- A TB prevalence survey has not been completed in Kenya since the 1950s and is critical in order to confirm the existing TB burden in country and to provide guidance on the country's progress with regard to tuberculosis. Delayed since 2011, a new survey is expected to start mid-2015.

The principle of sustainability is embedded in the country grants with national disease programs continuously focusing on building in-country capacity through components such as health systems strengthening. Through national health data surveys, and various program reviews and studies, the country has also made considerable inroads in identifying impactful interventions; for example, a geographically targeted HIV 'combination prevention' program. The OIG also noted the country is taking increasing responsibility in funding commodity procurements.

On the other hand, Kenya's Global Fund grant performance is measured based on health targets at the national level, rather than grant specific indicators and targets. While this is in line with the Global Fund's policy and encourages sustainability, it means that measuring grant performance is more difficult. As the Global Fund's investments account for between 25-45% of the total program expenditure in Kenya and have low absorption rates, using national targets alone does not offer a

sufficiently stringent way to assess the grant recipient performance or to link targets with expenditures.

## 2. The identification, assessment and mitigation of material risks and the effectiveness of the Global Fund's follow-up mechanism

The large Global Fund investment in Kenya calls for effective risk management to identify and mitigate strategic portfolio risks which may prevent or stop the grants from achieving impact. The Country Team has completed the Qualitative Risk Assessment, Action Planning and Tracking Tools (known as QUART) across the three diseases which list a number of strategic and material operational risks as well as actions to mitigate the risks identified.

The management of financial and fiduciary risks were considered **generally effective** and included primarily the Local Fund Agent reviews and grant recipient audits, most of which were done by the Kenya National Audit Office. Health Services and Products risks were also generally well-managed and received a **generally effective** rating.

Although the majority of material programmatic risks in the portfolio were known, the OIG noted some key risks that had not been identified (for example, the low use of distributed long lasting insecticide treated bed nets) or mitigated. Due to this and to the issues raised around effectiveness and sustainability, programmatic and performance risks are therefore assessed with the rating **partial plan to become effective**.

The OIG also noted a number of inconsistencies in the rating and classification of risks between QUARTs for various grants, suggesting that the risk assessment exercise was not fully coordinated within the Country Team or lacked robust quality review and follow-up. Although most of the priority actions identified in the QUARTs to mitigate material risks had been implemented, a number of actions remained outstanding and a number of issues identified by the assurance providers remain unmitigated.

One of the reasons for these inconsistencies in the Country Team's assessment is that the QUARTs are used primarily to report risks to the Operational Risk Committee; in practice the Country Team considered the portfolio risks outside the QUART and therefore did not consistently kept the tool up-to-date. Although the escalation and acceptance of risks at the senior management level is commendable, the QUART did not help the Country Teams in managing and mitigating risks.

## 3. The effectiveness and the adequacy of the Global Fund's assurance plans

A number of implementing partners perform a number of assurance activities in Kenya; however, each partner's approach to assurance is different and possibly creates duplications or gaps in the overall assurance provided. The Country Team has followed the Global Fund's operational policies when defining assurance activities over its portfolio. However, it has not reviewed the quality of assurance provided by other partners in order to determine whether to place reliance on these assurances, and if so, to what extent. This would be pertinent in designing an effective assurance model for Kenya, especially, in the areas of program performance, data quality and supply chain management where the Global Fund's own assurances do not to provide adequate coverage across this large and diverse country. The Country Team has also not considered how the Global Fund's and partners' assurance activities can be better coordinated in order to obtain more effective and sustainable assurance coverage.

Previous OIG audit findings have pointed to the absence of a clearly articulated assurance framework across the majority of Global Fund grant portfolios. A high-level Risk and Assurance Working Group has been working since 2014 to define an assurance framework around grant funds with implementation continuing in 2015.

As a result of this and the other issues raised, management of the governance, oversight and management risks was rated as having only a **partial plan to become effective**.

## IV. Findings and Agreed Actions

|      |                                     |                    |                                  |
|------|-------------------------------------|--------------------|----------------------------------|
| IV.1 | Strategic issues in Kenya portfolio | Country Team level | Partial plan to become effective |
|------|-------------------------------------|--------------------|----------------------------------|

### **A number of unmitigated strategic portfolio issues were identified that call for a more long-term approach in fighting the three diseases**

Kenya is categorized as a High Impact country at the Global Fund with a high HIV/AIDS epidemic corresponding to around 5% of the global burden. Malaria and TB are equally large public health concerns and represent between 1.5 and 2% of the global burden. The Global Fund's allocation of funds to Kenya for 2014-2016 is USD 495 million, the seventh highest of the total worldwide allocation.

Over the past 30 years, Kenya has been successful in fighting the three diseases and has an established framework for its national health strategies. It has a geographically targeted HIV combination prevention program, with increasing focus on disease hot spots and key populations. This has resulted in a number of achievements for the national disease programs including:

- HIV prevalence rate among people aged 15-49 has decreased from 10.5% in 1996 to around 6.0%, where it has remained stable since 2003.<sup>5</sup>
- Malaria prevalence decreased from 20% in 2006 to 8% in 2013.<sup>6</sup>
- TB prevalence has declined from 334 per 100,000 people in 2006 to 283 per 100,000 people in 2013.<sup>7</sup>

Despite the successes mentioned above, the OIG identified a number of unmitigated strategic issues, which if not tackled, may have a long-term adverse impact on programs.

#### Coordination with donors

The Development Partners in Health Kenya group was formed by key donors and partners to coordinate the support to the country. The Kenya Country Team understands what service delivery areas each donor contributes towards fighting the three diseases, and is regularly involved in donor interactions and sharing information. The Global Fund has also leveraged additional donor funding for some of its supported activities in Kenya.

However, the efforts of the Development Partners in Health Kenya have not produced a thorough mapping of donor interventions for the three diseases or a high-level agreement on the shared accountability for health service delivery. Although the donor group jointly supports the national health strategies, it does not have common targets, performance frameworks or long-term funding plans, nor does it have agreed approaches to known programmatic issues such as the treatment of eligible people living with HIV or gaps in anti-malaria interventions. In 2013, the health donor community undertook a basic 'shadow budget mapping' but it was not implemented due to different donor budget cycles, categories, and implementation arrangements. In the context where the total donor funding for the three diseases in Kenya ranges around USD 1.5-2 billion per year, common

<sup>5</sup> According to Kenya HIV Estimates 2014

<sup>6</sup> WHO 2014 malaria report and Kenya malaria indicator survey 2010

<sup>7</sup> WHO stop TB country profile 2006-2013

tools and frameworks for closer donor coordination are warranted to ensure that aid is optimally targeted.

The donor community and the Kenya Country Coordinating Mechanism are planning to update the budget mapping. According to the Country Coordinating Mechanism, the Ministry of Health has initiated the development of a health sector funding and decision tool with a view to aligning the various sources of funding. The country is also in the process of developing partnerships and accountability frameworks with the donor community.

#### Devolution issues

The introduction of the 2010 Constitution of Kenya provided a major devolution of power, resources and representation to the county level; this included the devolution of health care budgetary authority and service delivery. The Country Team had implemented certain activities with regard to devolution and considered certain key risks associated with it (for instance, by limiting transfer of grant funds to devolved structures until proper accountability mechanisms are established). However, some operational risks have arisen that were not anticipated by the Country Team. For example, government funds for the procurement of TB first line medicines (approximately USD 3 million) were allocated to the counties in 2013-14 without timely guidance or proper training on procurement or drug forecasting. As a result, no TB drugs were procured by the counties resulting in stock-outs in 2014 in a number of health facilities.<sup>8</sup> Following retrospective action by the Kenya Government, the funds were reallocated to the national TB program, and subsequent procurements of anti-TB commodities were agreed to be made at the national level. The strategies to address the devolution issues have since been captured in the Country Coordinating Mechanism's Risk Management Plan.

#### Malaria: Low use of bed nets

The use of bed nets is an important malaria prevention tool, and bed net purchase is the largest budget component (USD 25.8 million or 31%) of the current malaria grants to Kenya. Low bed net use has been identified as one of the key issues by the national malaria program. Compared to the national malaria program's target of 80%, the average use of bed nets in the household population is considered low and could reduce the combined impact of vector control interventions. However, the estimates of bed net use vary (e.g. between 61% in 2010 and 37% in 2012)<sup>9</sup> according to various surveys with different methodologies. The 2014-15 Malaria Indicator Survey has not yet been completed; instead, the Country Team currently uses an approximate estimate from a recent study in 2014 which recalculated the data from a Demographic Health Survey performed in 2008 which suggests that the median bed net use in Kenya must be over 80%.<sup>10</sup>

The malaria grant (Phase 2) signed in 2014 and a reprogramming request submitted in January 2015 included funding of activities to enhance the appropriate use of bed nets. However, optimal and up-to-date data on bed net use is required to select optimal interventions. The field work of 2014-15 Malaria Indicator Survey has been postponed until mid-2015, and based on the outcomes of the survey, the Country Team will review the current interventions targeting bed net use.

#### Tuberculosis: Delayed prevalence survey

A TB prevalence survey is a more inclusive measure to assess TB prevalence than the data from the national TB program's electronic case-based surveillance system. Therefore, a survey is critical in order to better measure the disease burden, to understand the limitations of the current program and to improve the existing strategy in place. The last prevalence survey was undertaken in Kenya in

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<sup>8</sup> National TB program commodity audit report, August 2014

<sup>9</sup> Source: 2010 Malaria Indicator Survey; 2012 Evaluation of the 2011 Mass LLIN Distribution Campaign

<sup>10</sup> H Koenker, A. Kilian, Recalculating the Net Use Gap: A Multi-Country Comparison of ITN Use versus ITN Access, May 2014

the 1950s and a new one is required to confirm whether the currently used program baselines from the national surveillance system are appropriate, or whether the program needs to revise program priorities. Experience from other countries with a high TB burden has shown that a survey may at times produce significantly different TB prevalence results than previous estimates.

A new survey was initially scheduled for 2011 but has been deferred several times in the past four years due to delays in procurement of the survey equipment. It is expected that the survey will start in mid-2015 and the results will be finalized in 2016.

#### HIV: Partial treatment coverage of people living with HIV

The number of people on ART is a leading target for HIV/AIDS according to the Global Fund's Strategy Framework 2012-2016. According to the revised 2013 WHO treatment guidelines, over 80% of people living with HIV are now eligible for treatment. Although the HIV/TB draft concept note submitted in January 2015 indicates that the outreach and treatment target is 73% of the estimated 1.6 million people living with HIV in Kenya, only 56% will have access to treatment during the implementation period.<sup>11</sup> This treatment gap, valued at USD 96 million, was not prioritized compared to other program components and no mitigation has been proposed by the Global Fund or the wider donor group to address this risk. The Principal Recipient has requested government funds to cover the gap. According to the Country Coordinating Mechanism, the country is embracing a resource mobilization strategy to address the treatment gap through various sources of funding.

The issues noted above point to the need for a longer term strategy to anticipate risks before they become major issues. Although the Country Team has made efforts towards creating a portfolio strategy (for example, by outlining program targets and grant management objectives and tasks), it did not involve a set of prioritized targets, strategic actions, or a long-term vision beyond the current implementation period. A longer-term view of grants to Kenya would aid the Secretariat in identifying and anticipating strategic risks and producing corrective actions.

The Country Team used the Global Fund's risk reporting tools ('QUARTs') to identify and assess material risks, and identify mitigating actions. The low use of anti-malaria bed nets was not identified in the QUARTs, as it was not considered a risk at the time by the Country Team. The QUARTs identified a number of the Country Team's efforts regarding the other strategic issues noted above but did not propose further mitigating actions in these areas.

**Agreed management action 1:** The Country Team will formulate and implement a time-bound action plan to address the strategic portfolio issues identified in this report including:

- Working with country partners and stakeholders to produce an updated donor mapping;
- Ensuring that interventions to address bed net usage are included in the grant reprogramming efforts; and
- In collaboration with stakeholders including WHO and the Ministry of Health of the Government of Kenya, following up on the TB prevalence survey to ensure that it is conducted as per stakeholder agreed timelines.

**Owner:** Head of Grant Management

**Target Date:** 31 December 2015

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<sup>11</sup> The Concept Note estimates are based on the national strategies and in-country consultations with donors and other partners.

**Agreed management action 2:** During the next QUART update, the Country Team will ensure that strategic risks including devolution are identified, documented, and relevant action plans developed/discussed and approved by the Risk Committee.

**Owner:** Head of Grant Management

**Target Date:** 31 December 2015

|      |                                                  |                   |                                  |
|------|--------------------------------------------------|-------------------|----------------------------------|
| IV.2 | Grant performance measurement in Kenya portfolio | Secretariat level | Partial plan to become effective |
|------|--------------------------------------------------|-------------------|----------------------------------|

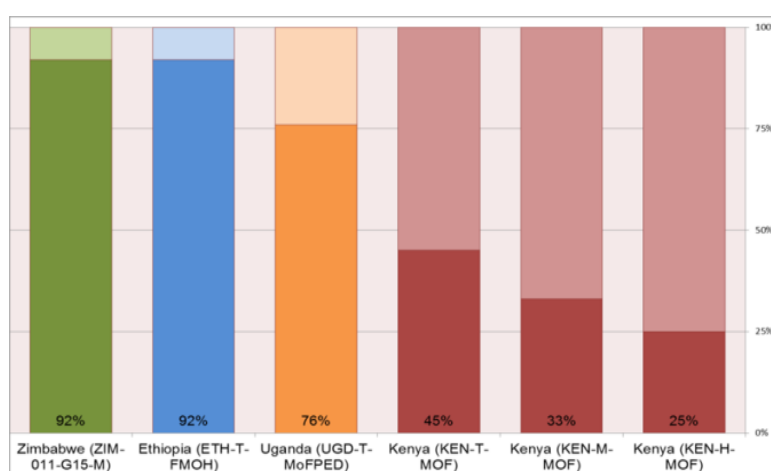
**Using national targets alone does not offer a sufficiently stringent way to assess the grant recipient performance in Kenya.**

According to the progress updates submitted by Kenya's Principal Recipients, considerable results have been achieved against the national targets in fighting the three diseases including:

- 86% of the target of eligible adults and children receive antiretroviral therapy;
- 102% of the target of people with uncomplicated malaria receive ACT treatment as per national treatment guidelines;<sup>12</sup>
- 89% of the target of TB cases (all forms) were notified to the national health authorities.<sup>13</sup>

The Secretariat has agreed with the National Treasury (the largest Principal Recipient in Kenya) to use existing national health output indicators to evaluate grant performance, rather than develop separate Global Fund targets. This aims to enhance the quality and support the sustainability of the existing national systems to collect and report data. Using national targets is also consistent with the new funding model to measure the country's overall achievements, rather than attempt to isolate the impact of Global Fund grants.

However, measuring grant performance in the Kenya portfolio using national targets alone makes it difficult to evaluate the full performance of the grants, as Global Fund investments account for only between 25-45% of the total program in Kenya. The OIG's review of the grant performance frameworks of 12 High Impact countries in Africa (each having three disease programs) revealed that the majority of disease programs report on both the national targets and grant specific results, for the grants to the national authorities. Three grants (in addition to Kenya) use only national targets, however the Global Fund investment in these countries constitutes between 76-92% of the total funding which makes it easier to link the national targets with Global Fund grant performance (see Figure 1):



*Figure 1: Global Fund investments as a percentage of overall program funding*

<sup>12</sup> The main indicator for Malaria which is the "number of long-lasting insecticide nets distributed to targeted population through mass campaigns" was not yet due for reporting.

<sup>13</sup> The program targets are set primarily based on the estimates of the program's capacity and resources to achieve a certain target within the wider target population and during a reporting period. Based on the actual circumstances, a target may be underachieved or overachieved.

Using national targets alone to report on the results achieved in a portfolio such as Kenya can lead to various risks including:

- **Risk of non-adherence to the Global Fund principle of performance-based funding:** The Country Team has made disbursement decisions based on the national results without full consideration of the actual performance of the Global Fund grants to Kenya. For instance, the largest HIV grant has received good overall ratings between A1 ('exceeding expectations') and B1 ('adequate') since its start date (1 September 2011), based on the achievements of the national targets. However, as of 30 June 2014 (data available at the time of the audit), the grant had absorbed only USD 58 million (37%) of USD 157 million disbursed to the Principal Recipient. When deciding on the final grant rating, the Country Team considered factors such as procurement lead times which may have delayed the absorption of funds. However, in the OIG's view, the justification and documentation of the assessment process was sub-optimal.
- **Risk of publishing imprecise progress results:** The Global Fund reports programmatic achievements on its public website. For Kenya, it states that 340,000 people on antiretroviral treatment were supported by the Global Fund in Kenya. However, this number is based on an approximate estimate agreed within the Global Fund and is not based on external calculations.

In order to fulfill the requirement of the performance-based funding principle, it is critical that the Global Fund make full use of additional measures to ascertain that progress is being made towards achieving its grant specific objectives, while collaborating with implementing partners to report on the collective progress towards the national targets.

**Agreed management action 3:** The Secretariat will update and implement its operational guidance to ensure that material discrepancies between expenditures, program performance and results are promptly identified during the ADMF/cash transfer process. This guidance will require Country Teams to perform comprehensive analysis to understand and justify the cause of the discrepancy, including identifying any corrective action where necessary. The guidance will also define the responsibilities for identifying material discrepancies, and the expected scope of the analysis.

**Owner:** Head, Grant Management Division

**Target Date:** 31 December 2015

|      |                                                                              |                    |                                  |
|------|------------------------------------------------------------------------------|--------------------|----------------------------------|
| IV.3 | Assurance over program performance, data quality and supply chain management | Country Team level | Partial plan to become effective |
|------|------------------------------------------------------------------------------|--------------------|----------------------------------|

**Improved coordination of assurance arrangements is needed to obtain more efficient and representative assurance for Kenya grants.**

The Global Fund has no in-country presence and its operating model is predicated on gaining assurance over grant strategic objectives.

Although the Global Fund has focused heavily on improving its operational risk management processes during the last few years, OIG findings from several audits have pointed to the absence of a clearly articulated assurance framework over Global Fund grant portfolios. As one of the organizational priorities of 2014, the Secretariat has acknowledged this issue and has tasked a Risk and Assurance Working Group with ensuring that the information from core assurance providers is reliable, timely and exhaustive in verifying that underlying risks are appropriately understood and monitored. The group has identified three priority areas (financial assurance, product quality assurance and program quality assurance) and has been developing an assurance framework for each area, including the plan for implementation and change management. The project has experienced delays with a progress update given to the Global Fund Board in November 2014 and implementation continuing in 2015.

In relation to the Kenya grants, the Global Fund spends around USD 1.2 million per annum on its independent assurance activities. Implementing partners (including the three national disease programs as well as KEMSA) also perform a number of assurance activities including supervision visits of health facilities, data quality assessments, health service quality assessments, commodity audits and post-market surveillance on the quality of drugs. However, these combined efforts are not well-coordinated or optimized in terms of coverage or timing, particularly in the areas of the program performance, data quality and supply chain management at the health facility level:

- Coverage: the Global Fund's assurance activities (mainly Onsite Data Verifications and Rapid Service Quality Assessments) were carried out in line with Global Fund guidelines; however these reviews covered only a small sample of health facilities, making it difficult to draw nationwide conclusions (up to nine facilities were visited during each assessment, compared to 6,000 health facilities in Kenya). The coverage of the assurance activities performed by implementing partners was significantly higher. For example, in 2013 the national HIV program undertook 'supervision visits' to 1,898 facilities, and the national malaria program visited more than 100 facilities in 2014.<sup>14</sup>
- Timing: unlike the national implementers, the Global Fund's assurance activities were not performed every year and were commissioned on an ad-hoc basis (depending on the complexity of the issues identified in the previous activity).

At the time of the audit, the Country Team had not reviewed the quality of these assurance activities, and as such, did not take advantage of the efficiencies, better coverage and deeper understanding of the issues that a more comprehensive assurance approach would provide. For example, procurements undertaken by KEMSA, estimated at 70% of the grant funds, are subjected to statutory internal and external audits of KEMSA. Prior to the OIG audit, the Country Team had not commissioned any independent reviews of procurements undertaken by KEMSA; nor was there

<sup>14</sup> At the date of the audit, the number of HIV supervision visits for 2014 were being aggregated.

evidence that it had reviewed the available audit reports. The Country Team commissioned a procurement review that was completed after the OIG audit.

Going forward, a move to increasingly rely on implementer assurances (providing they are of sufficient quality) would also provide a more sustainable approach to achieving impact in Kenya.

**Agreed management action 4:** Taking into account the work outcomes of the Secretariat's Risk and Assurance Working Group, the Country Team will adapt its assurance plan to consider in-country partner and implementer assurance activities over key areas including program performance, data quality and supply chain.

**Owner:** Head of Grant Management and Chief Risk Officer

**Target Date:** 30 June 2016

## V. Table of Agreed Actions

| No. | Agreed management action                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Target date      |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 1.  | <p>The Country Team will formulate and implement a time-bound action plan to address the strategic portfolio issues identified in this report including:</p> <ul style="list-style-type: none"> <li>• Working with country partners and stakeholders to produce an updated donor mapping;</li> <li>• Ensuring that interventions to address bed net usage are included in the grant reprogramming efforts; and</li> <li>• In collaboration with stakeholders including WHO and the Ministry of Health of the Government of Kenya, following up on the TB prevalence survey to ensure that it is conducted as per stakeholder agreed timelines.</li> </ul> | 31 December 2015 |
| 2.  | <p>During the next QUART update, the Country Team will ensure that strategic risks including devolution are identified, documented, and relevant action plans developed/discussed and approved by the Risk Committee.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                 | 31 December 2015 |
| 3.  | <p>The Secretariat will update and implement its operational guidance to ensure that material discrepancies between expenditures, program performance and results are promptly identified during the ADMF/cash transfer process. This guidance will require Country Teams to perform comprehensive analysis to understand and justify the cause of the discrepancy, including identifying any corrective action where necessary. The guidance will also define the responsibilities for identifying material discrepancies, and the expected scope of the analysis.</p>                                                                                   | 31 December 2015 |
| 4.  | <p>Taking into account the work outcomes of the Secretariat's Risk and Assurance Working Group, the Country Team will adapt its assurance plan to consider in-country partner and implementer assurance activities over key areas including program performance, data quality and supply chain.</p>                                                                                                                                                                                                                                                                                                                                                       | 30 June 2016     |

## Annex A: General Audit Rating Classification

|                                         |                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Highly Effective</b>                 | <b>No significant issues noted.</b> Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.                                                                                                                                                                                                           |
| <b>Generally Effective</b>              | <b>Some significant issues noted but not material to the overall achievement of the strategic objective within the audited environment.</b> Generally, internal controls, governance and risk management processes were adequate, appropriate, and effective. However, there is room to improve.                                                                                                        |
| <b>Full Plan to Become Effective</b>    | <b>Multiple significant and/or (a) material issue(s) noted. However, a full SMART (Specific, Measurable, Achievable, Realistic and Time-bound) plan to address the issues was in place</b> at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should ensure adequate, appropriate, and effective internal controls, governance and risk management processes. |
| <b>Partial Plan to Become Effective</b> | <b>Multiple significant and/or (a) material issue(s) noted. However, a partial SMART plan to address the issues was in place</b> at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should improve internal controls, governance and risk management processes.                                                                                               |
| <b>Ineffective</b>                      | <b>Multiple significant and/or (a) material issue(s) noted.</b> Internal controls, governance and risk management processes were not adequate, appropriate, or effective. They do not provide assurance that objectives will be met. <b>No plan to address the issues was in place</b> at the time audit Terms of Reference were shared with the auditee.                                               |

## Annex B: Methodology

The Office of the Inspector General (OIG) performs its 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 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 across the Global Fund as well as of grant recipients, 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.