



Audit Report

# Global Fund Grants to the Federal Democratic Republic of Ethiopia

GF-OIG-17-025  
27 November 2017  
Geneva, Switzerland

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### Audit Report

OIG audits look at systems and processes, both at the Global Fund and in country, to identify the risks that could compromise the organization's mission to end the three epidemics. The OIG generally audits three main areas: risk management, governance and oversight. Overall, the objective of the audit is to improve the effectiveness of the Global Fund to ensure that it has the greatest impact using the funds with which it is entrusted.

### Advisory Report

OIG advisory reports aim to further the Global Fund's mission and objectives through value-added engagements, using the professional skills of the OIG's auditors and investigators. The Global Fund Board, committees or Secretariat may request a specific OIG advisory engagement at any time. The report can be published at the discretion of the Inspector General in consultation with the stakeholder who made the request.

### Investigations Report

OIG investigations examine either allegations received of actual wrongdoing or follow up on intelligence of fraud or abuse that could compromise the Global Fund's mission to end the three epidemics. The OIG conducts administrative, not criminal, investigations. Its findings are based on facts and related analysis, which may include drawing reasonable inferences based upon established facts.

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# 1. Executive Summary

## 1.1. Opinion

The Federal Democratic Republic of Ethiopia is a low income country with a population of 102 million people, the second highest in Africa.<sup>1</sup> It is one of the Global Fund's 'high impact' countries (cf section 2.2) with active signed grants of US\$475 million for the period July 2015-December 2017.

Political unrest and severe drought in the last few years have affected health care delivery and programmatic results in some parts of the country. Despite this, Ethiopia has made significant progress in the fight against the three diseases, with support from the Global Fund and other partners. Approximately 70% of Global Fund grants to Ethiopia are spent on the procurement of medicines and health products. The supply chain is able to distribute medicines to health facilities and no major stock-outs were noted at the service delivery points. However, there are limitations in the underlying systems and inefficiencies in procurement and supply chain management processes. Challenges in the delivery of quality services to beneficiaries are well identified by the country thanks to assessments by the Ministry of Health, the Global Fund and partners. But effective measures are still needed to address these challenges. The procurement, supply chain and delivery of quality services to intended beneficiaries are rated as **partially effective**.

The Global Fund has allocated resources to support the country's Health Systems Strengthening (HSS) activities. However, the Global Fund HSS grant was not adequately planned and executed in the current implementation cycle to solve the identified challenges. Delays in disbursing funds at the implementation level and liquidating related advances continue to be a problem. Therefore, **significant improvement** is needed in the management, timely use and liquidation of funds of the HSS grant.

## 1.2. Key Achievements and Good Practices

**Significant progress made in the fight against the three diseases.** The country has achieved major progress with the support of the Global Fund and partners. Approximately 25 million mosquito nets were distributed between 2015 and 2017, supporting the country's effort to transition from malaria control to pre-elimination/elimination at the sub-national level. About 280 districts have been earmarked as malaria free. The country achieved a more than 50% reduction in both malaria incidence and mortality between 2010-2015.<sup>2</sup> The tuberculosis (TB) program has met all the Millennium Development Goals, with a 50% decline in prevalence rates. With respect to the HIV program, the number of people on antiretroviral treatment increased by 27% from 333,000 in 2014 to 420,000 in 2016.

**Improved program oversight and coordination.** The Country Coordination Mechanism (CCM) is made up of relevant stakeholders including the government, civil societies, and health partners. The CCM oversight committee regularly reviews grant performance, including visits to service delivery points. Most of the programmatic challenges identified by the OIG were already known to the Global Fund Secretariat thanks to the supervision of the CCM oversight committee and the other assurance activities initiated by the Country Team. There is active coordination in designing and implementing the HIV, TB and malaria grants. The Global Fund engages actively with in-country stakeholders. The disease interventions are generally aligned with the country's Health Sector Transformation Plan and the operational plans of major donors such as the United States President's Malaria Initiative and the President's Emergency Plan for AIDS Relief. This helps to limit duplication across the various partners' interventions.

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<sup>1</sup> The World Bank 2016 data accessed in July 2017, <http://data.worldbank.org/country/ethiopia>

<sup>2</sup> World malaria report (WMR), 2016

**Better availability of services at the community level.** The country's Health Extension Workers Program, which uses trained non-medical staff to provide primary health care in areas where access is limited, has significantly increased the availability of health services at the community level, including for HIV, TB and malaria. These workers are trained and deployed in the communities to provide health care services to compensate for the shortages in professional human resources for health. This approach has also enhanced treatment adherence under the HIV and TB programs. It has also greatly contributed to improvements in the management of the diseases at the community level under the malaria program.

**Measures underway to improve data quality on the portfolio.** The Global Fund and other partners are supporting the country to roll out a District Health Information System to address the limitations in the current health management information system. This will increase transparency, availability and the reliability of data for decision making.

### 1.3. Key Issues and Risks

**Limitations in the underlying systems, processes and controls within procurement and supply chain management.** The Pharmaceuticals Fund and Supply Agency (PFSA) is responsible for the procurement, storage and distribution of medicines and health products for Global Fund grants. The multiplicity of both manual and automated systems in the procurement and supply chain limits the visibility and traceability of medicines. In the audit sample, around 20% and 54% of anti-malarial and TB medicines respectively could not be traced due to the multiplicity of systems at the central level. The inventory management system has duplicate records for medicines and automated controls have not been fully activated, which does not allow adequate monitoring of changes to stock balances. For instance, stock balances are often adjusted in the system without adequate approval. There are delays in the procurement processes. The implementer could use available storage space and vehicle fleets within the distribution network more optimally. Expired medicines had also accumulated in various PFSA warehouses and health facilities for the last four years, with increasing storage costs for unusable medicines.

These challenges are due to inadequate governance and oversight of supply chain activities by the Ministry of Health and PFSA. At the time of the audit, the country had initiated measures to address them with leadership changes at PFSA and technical assistance provided by partners to improve efficiency in the supply chain.

**Gaps in the design and management of the HSS grant.** The activities financed by the grant have not been adequately designed to ensure effective implementation. Overall, the business needs for 56% of the HSS grant had not been adequately defined at the time it was signed. This led to the inclusion of various preconditions in the grant. Most of the preconditions could not be met by the Federal Ministry of Health which resulted in 55% of grant activities being changed during implementation. Grant revisions are normal to reflect changes in business needs and the country's operating environment. However, effective management of these revisions is necessary to ensure that the programs remain on track to achieve the core objectives. The Country Team made these changes without approval from the Global Fund's Grants Approval Committee, contrary to the Operational Policy Note on grant revisions. This is due to limited clarity in the guidelines and systems to monitor grant revisions at the Secretariat. Nor were the initial performance framework and the key grant tracking measures revised despite the significant changes in the grant itself. As a result, 51% (20/39) of the milestones in the work plan tracking measures monitored by the Secretariat are no longer relevant; and 42% of the relevant new activities of the grant are not being monitored through routine mechanisms by the Secretariat.

Moreover, 60% of the new activities cannot be completed by the grant end date of 31 December 2017. These challenges are due to gaps in the grant's implementation arrangements as well as the absence of a comprehensive work plan that collates all donor HSS investments, irrespective of the channel.

The Global Fund's request for improvements in implementation arrangements are yet to be fully addressed by the country.

**Significant delays in using and liquidating funds have affected absorption rates.** Only 56% of funds had been spent at the time of the audit with seven months until the end of the grant implementation period. As of May 2017, Ethiopia still had US\$133 million awaiting disbursement from the Global Fund in addition to an in-country cash balance of US\$154 million.<sup>3</sup> The country risks losing this money, which could significantly affect programs in the next implementation period. Low absorption is not having any material programmatic impact in the current period. This is because the country has been allowed to carry forward remaining cash balances from previous grants to the current implementation period as part of the allocation methodology. But this shows that low fund absorption is a recurring issue.

Difficulties in using and liquidating resources are due to significant delays in the country's disbursement processes as well as gaps in planning activities at the various levels of program implementation. This affects the timely use of the funds once they are received. Gaps in record-keeping and sub-optimal supervision activities further limit the ability of the regions, zones and districts to submit statements of expenditure to the Principal Recipients and liquidate the funds when activities have been completed.

**Limited monitoring and effectiveness of joint risk and assurance planning.** The Global Fund, in collaboration with in-country partners, developed a joint risk and assurance plan in 2016. Relevant risks were identified and mitigation measures assigned to various partners. However, the stakeholders have made limited progress on the agreed actions due in March 2017. The outstanding actions have not been discussed at the CCM meetings since June 2016. The Secretariat has no leverage to hold the in-country partners accountable when mutually agreed actions are not implemented. One of the proposed actions required stakeholders to develop a mutual accountability framework which is yet to be implemented. This has contributed to the delays in the resolution of identified systemic issues in the health sector.

#### 1.4. Rating

	<p><b>Objective 1: Efficiency and effectiveness of the procurement and supply chain processes and systems.</b></p> <p>The supply chain is able to distribute medicines to health facilities and no major stock-outs were noted at the service delivery point. However, there are limitations in the underlying systems and inefficiencies in procurement and supply chain management processes. This is therefore rated as <b>partially effective</b>.</p>
	<p><b>Objective 2: Adequacy and effectiveness of processes and controls within funded disease programs in delivering quality services to intended beneficiaries.</b></p> <p>The quality of services is <b>partially effective</b>. Challenges in the delivery of quality services to beneficiaries are well identified by the country through assessments conducted with the support of Global Fund and partners. But effective measures are still needed to address these challenges.</p>
	<p><b>Objective 3: Effectiveness of the HSS grant in supporting the funded disease programs.</b></p> <p>The HSS grant was not adequately planned and executed in the current implementation cycle to support resolution of the identified challenges. <b>Significant improvement</b> is needed to effectively design and implement the HSS grant.</p>
	<p><b>Objective 4: Adequacy of governance, oversight and assurance mechanisms within the financial management processes in supporting the timely use and liquidation of grant funds.</b></p> <p>The country continues to face significant challenges in addressing delays in disbursement of funds to implementation level and liquidation of related advances. This has resulted in about US\$150 million in outstanding cash balance with just seven months to the end of the implementation period.</p>

<sup>3</sup> The undisbursed amount has reduced to 68 million as of October 2017.

## 1.5. Summary of Agreed Management Actions

The Global Fund Secretariat has plans to address the risks identified by the OIG through the following actions:

- The development of an oversight and implementation plan to improve inventory management systems as well as the establishment of key performance indicators to improve efficiency at PFSA.
- Improvements in diagnosis and laboratory services under the three programs (including finalization of a HIV testing algorithm) and measures to monitor the progress against agreed actions from program reviews.
- The design of a HSS grant aligned to investments from other partners in the next funding cycle and strengthening the Grant Management Unit under the Ministry of Health to oversee and coordinate implementation of the grant. Performance indicators will also be tailored to enable better monitoring of HSS activities.
- The development of tools to strengthen processes to ensure key activities are agreed and approved before funds are disbursed to regions, zones and 'woredas' (districts) to improve the timeliness of in-country disbursements and subsequent use of funds. A risk-based supportive supervision plan will be developed and executed to address liquidation challenges at the national and sub-national levels.

## 2. Background and Context

### 2.1. Overall Context

Ethiopia is a federal republic with nine regions and two city administrations, 68 zones and over 770 districts, known as ‘woredas’. The federal structure places significant authority at the regional level to deliver health services. The country is ranked 174<sup>th</sup> out of the 188 countries in the 2016 United Nations Development Program Human Development Index. Transparency International’s 2016 Corruption Perceptions Index ranks the country at 108 out of a total of 176.

Fund for Peace’s Fragile States Index rates Ethiopia as one of “the most worsened” countries in 2017 due to economic disparities, poor access to internet and communications, and challenges in health infrastructure. The human resources for health professional density is reported at three doctors, nurses and midwives per 10,000 people which is below the World Health Organization’s (WHO) recommendation of 23.<sup>4</sup> The country experienced severe drought in 2015 requiring emergency food and aid, which also had an impact on health care delivery in some of the affected regions.

Despite these challenges, Ethiopia has made significant progress toward achieving the Millennium Development Goals including against HIV, TB and malaria. The country’s Health Extension Workers Program has ensured continuous available health care services at the community level and is generally praised as a success story in health care delivery.

### 2.2. Differentiation Category for Country Audits

The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: focused, core and high impact. These categories are primarily defined by size of allocation amount, disease burden and impact on the Global Fund’s mission to end the three epidemics. Countries can also be classed into two cross-cutting categories: Challenging Operating Environments and those under the Additional Safeguard Policy. Challenging Operating Environments are countries or regions characterized by weak governance, poor access to health services, and manmade or natural crises. The Additional Safeguard Policy is a set of extra measures that the Global Fund can put in place to strengthen fiscal and oversight controls in a particularly risky environment.

Ethiopia is:

- ☐ Focused: (Smaller portfolios, lower disease burden, lower mission risk)
- ☐ Core: (Larger portfolios, higher disease burden, higher risk)
- ☒ **High Impact: (Very large portfolio, mission critical disease burden)**
- ☐ Challenging Operating Environment
- ☐ Additional Safeguard Policy

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<sup>4</sup> [http://www.who.int/hrh/resources/strengthening\\_hw/en/](http://www.who.int/hrh/resources/strengthening_hw/en/)



## 2.3. Global Fund Grants in the Country

The Global Fund has signed over US\$2.1 billion and disbursed US\$1.9 billion since 2003 to Ethiopia. There are currently four active grants in the country:

Principal Recipient	Grant Number	Component	Grant period	Grant Signed Amount (US\$)
HIV/AIDS Prevention and Control Office	ETH-H-HAPCO	HIV	July 2015 - December 2017	253,841,136
Federal Ministry of Health of the Government of the Federal Democratic Republic of Ethiopia	ETH-M-FMOH	Malaria	July 2015 - December 2017	115,599,987
	ETH-S-FMOH	Health system strengthening	July 2015 - December 2017	46,956,501
	ETH-T-FMOH	TB	July 2015 - December 2017	58,177,462
	<b>Total</b>			<b>474,575,086</b>

The active grants are managed by the Federal Ministry of Health (in charge of the malaria, HSS and TB grants) and the Federal HIV/AIDS Prevention and Control Office, an autonomous and independent government entity responsible for the HIV grant. The two Principal Recipients work with the national structures through their regional and district offices as well as with other sub-recipients.

Approximately 70% of the grants are spent on the procurement of medicines and health products. The PFSA, a legal entity established in 2007 by the Government, is responsible for procurement, storage and distribution of medicines and health products under the grant. Direct distribution is made to 1,500 of the 3,562 health facilities. The other facilities (mostly providing TB services) collect medicines from the regional warehouses of PFSA.

## 2.4. The Three Diseases in Ethiopia



**HIV/AIDS:** Ethiopia has a low intensity generalized epidemic across key and general populations. HIV prevalence is estimated at 1.1% and is concentrated mainly in urban areas and major transport corridors. HIV in Ethiopia represents 2.3% of the world's disease burden.

The country's treatment programme is implemented in line with the latest WHO guidelines.<sup>5</sup>

The United States Government is the largest donor to the country's HIV response (51%) with 26% provided by the Global Fund.<sup>6</sup> Global Fund grants support 100% of the antiretroviral medicines and the majority of HIV test kits needed by the country.

**413,076** People currently on antiretroviral therapy  
**718,000** People living with HIV<sup>7</sup>

<sup>5</sup> 2015 WHO guidelines Test and Treat all already infected with HIV or diagnosed regardless of CD4 count

<sup>6</sup> 2011/12 reported expenditure data (NASA). Projected budgets for 2015 to 2017 indicate 63% and 26% from the United States Government and the Global Fund respectively.

<sup>7</sup> EPHI.2017. HIV Related Estimates and Projections for Ethiopia based on spectrum modeling.



**Malaria:** The country accounts for approximately 2% of the global malaria burden.<sup>8</sup> Over 280 districts are reported as being malaria free and the country is embarking on a sub-national malaria elimination. Malaria transmission in Ethiopia is highly variable because it is influenced by altitude, climatic factors and human settlement.

Malaria program benefits from the Integrated Community Case Management through the health extension workers.

Global Fund's 41% contribution to the country's malaria response makes it the largest donor with United States President's Malaria Initiative contributing 27%.<sup>9</sup>

**25,895,100** Insecticide-treated nets distributed  
**Malaria prevalence:** 0.5%  
**Malaria cases:** 1,962,996 reported cases in 2016.  
**Malaria mortality:** 510 malaria deaths recorded in 2016<sup>10</sup>



**Tuberculosis:** WHO classifies Ethiopia as a high burden country for TB, TB/HIV and multi-drug resistant TB. In 2015/16, TB ranked sixth among top ten causes of patient deaths in the country.<sup>11</sup>

24% of the resources for TB response is from Global Fund with 18% from the United States Government.<sup>12</sup>

**TB cases notified:** 125,836<sup>13</sup>  
**TB incidence:** 192 per 100,000  
**Treatment success rate**  
**drug sensitive TB:** 92%  
**Private sector** accounts for 10% of notified cases.

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<sup>8</sup> As per 2017-2020 Global Fund allocation methodology

<sup>9</sup> As per projected budgets for 2015 to 2017 in the 2015 concept note

<sup>10</sup> As per reported health management information systems data

<sup>11</sup> FMOH, 2015/16 Health and Health Related Indicators.

<sup>12</sup> As per projected budgets for 2015 to 2017 in the 2015 concept note

<sup>13</sup> Number of cases notified in 2016 as per HMIS data

## 3. The Audit at a Glance

### 3.1. Objectives

The audit sought to provide reasonable assurance that Global Fund grants are adequate and effective in ending the epidemics in Ethiopia. Specifically the audit assessed the:

- efficiency and effectiveness of the procurement and supply chain processes and systems to ensure availability of quality assured medicines and health products to patients;
- adequacy and effectiveness of program processes and controls to support the delivery of quality services to intended beneficiaries;
- effectiveness of the HSS grant in supporting the funded disease programs; and
- adequacy of governance, oversight and assurance mechanisms within the financial management processes in supporting the timely utilisation and liquidation of grant funds.

### 3.2. Scope

The audit was performed in accordance with the methodology described in Annex B covering the period from July 2015 to March 2017. Where relevant, the period was extended to enable the auditors to assess progress made by the implementers in addressing identified issues. The audit covered grants implemented by the two Principal Recipients – the Federal Ministry of Health and the Federal HIV/AIDS Prevention and Control Office- and their sub-recipients, including the PFSA.

The OIG visited seven regions, 14 zones, 20 districts and 54 sites across the country. These sites included 25 health facilities, 12 warehouses and 19 mosquito net distribution points. The auditors engaged with in-country partners during the audit planning and fieldwork stages.

This audit did not assess the reliability of data and related systems. The country had initiated the roll-out of District Health Information System with the support of Global Fund and other in-country partners. This is expected to improve the limitations of the current health management information system and address data quality issues.

### 3.3. Progress on Previously Identified Issues

The OIG audited this portfolio in 2012 and performed a pre implementation review of the proposed Resource-Based Financing Strategy in 2014. In the end, the Global Fund did not adopt Resource-Based Financing in Ethiopia. Most of the risks identified in the 2012 audit have since been addressed including improved oversight by the CCM and capacity strengthening of the Principal Recipients in program delivery. The country is still experiencing challenges in the following areas identified in the 2012 audit:

- *Use and liquidation of funds received from Global Fund:* The in-country cash balance on the portfolio decreased from US\$250 million in 2015 to US\$150 million in June 2017, due to a cash optimization strategy adopted by the Global Fund. However, the underlying issues of delayed transfer of funds from the Principal Recipients to the regions and the use and liquidation of the resources are yet to be addressed.
- *Procurement and supply chain challenges:* The Global Fund and partners have invested in capacity building of the national entities responsible for procurement and quality assurance. However, delays in procurement and gaps in quality assurance of medicines across the supply chain are yet to be effectively addressed.

#### **Previous relevant OIG audit work**

GF-OIG-10-014,  
Audit of Global Fund Grants to the  
Federal Democratic Republic of  
Ethiopia.

GF-OIG-15-004  
Pre-implementation review of  
Global Fund Grants to the Federal  
Democratic Republic of Ethiopia.

## 4. Findings

### 4.1. Limitations in underlying processes, systems and data delay procurement and effective traceability of medicines across the supply chain.

**The procurement and supply chain arrangements are able to procure and distribute medicines and health products to health facilities. There were no major stock-outs of medicines at the service delivery points. However, there are weaknesses in inventory management systems and practices which result in inefficiencies across the supply chain.**

PFSA, the entity responsible for procurement and distribution of medicines, has grown significantly from an average annual throughput of US\$0.3 billion in 2010 to US\$1 billion in 2015/16. Its hubs have equally increased from five in 2009 to 17 (55 warehouses) in 2017 with the support of the Global Fund and partners.<sup>14</sup> However, the rapid growth in PFSA's operations has not been accompanied by improvement in its underlying systems and processes. This has limited its ability to trace medicines and to efficiently use existing storage and distribution capacities.

***Difficulty in traceability of medicines due to gaps in record keeping, multiplicity of systems and weak inventory management practices.*** In-country stakeholders supported PFSA in procuring a Health Commodity Inventory Management System in 2012 to improve traceability of medicines at the central level. However, most of the functionalities in the system were not enabled at the time of the audit. Where controls have been activated in the system, the operations continue to be manual, thus circumventing the automated controls. Manual inventory records are not adequately completed and filed, which limits the ability to trace and to determine stock balances at the central and regional offices of PFSA. This resulted in an unreconciled system balance of US\$4.2 million for a sample of commodities selected from July 2015 to July 2017. As a follow-up on the discrepancies identified in the audit, PFSA has undertaken a manual reconciliation of the stock balances. This reconciliation has not yet been completed as of the date of this report. These differences are likely related to inadequate record keeping at the central and regional offices of PFSA. There were stocks issued to facilities which had not been recorded in the inventory management system at PFSA. For instance:

- At the central level, 21% and 54% of sampled anti-malarial and TB medicines could not be traced due to multiplicity of record keeping systems.
- An average of 38% and 25% of reagents and malaria test kits could not be reconciled to records across the seven regional offices visited by the audit team.

Thirty-five users at the central level have access rights to record receipts but lists of medicines are not predefined in the system, which results in duplication of entries. Adjustments are made to inventory balances in the system without approval by the Executive Director or the Board of Directors as required by PFSA's manual. For instance, there were 50 downward adjustments to HIV medicines in the inventory management system in 2016 without any approval or underlying justification. Similarly medicines and health products were deleted from the inventory management system on 7 July 2017 after a stock count without any justification or approval.

At the facility level, goods received notes (referred to as Stock Transfer Vouchers) are not reviewed and signed off by management of the facilities at the point of receipt of medicines. It takes an average of 313 days (ranging from 260 to 544 days) for facilities to review and submit the signed goods received notes to PFSA. This limits the ability to identify and resolve discrepancies in deliveries throughout the supply chain. For instance, discrepancies in quantities and batch numbers of medicines delivered by PFSA to four hubs and 10 facilities had not been identified and resolved before the OIG audit.

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<sup>14</sup> Includes 25 rented warehouses in Addis Ababa and Adama.

The above challenges result in inaccurate stock balances in supply planning which could have contributed to an oversupply of medicines under the malaria grant. There is an estimated US\$2.3 million of malaria medicines at risk of expiry by March 2018 at PFSA warehouses due to incorrect stock balances used in previous supply planning decisions. The CCM is monitoring the stock levels to ensure they are effectively utilized in anticipation of the major malaria transmission season. The active engagement of the stakeholder-led HIV Technical Working Group resulted in a downward revision of antiretroviral medicines proposed for procurement by PFSA which significantly addressed potential waste under the HIV grant. Similarly, the Global Fund Country Team rightly did not approve additional procurement of medicines in 2017 because the existing stock levels could not be accurately determined by PFSA. The Malaria Technical Working Group also needs to manage more closely the antimalarial medicines.

***Inefficiencies noted in procurement, warehousing and distribution arrangements:***

The PFSA currently has many warehouses in different locations and over 165 trucks to distribute medicines to the health facilities. There is the need to optimise the use of these resources.

*Delays in procurement and clearing of goods.* The existing procurement processes are adequately followed by PFSA. However, there were several instances where the procurement period was beyond the recommended duration in the country's Public Procurement Manual. Sixteen procurements out of the 20 reviewed in the audit were delayed by an average of seven weeks in comparison to the expected times in the manual. The longest delay observed in the OIG sample was 25 weeks. An average of 25 days of delay was also observed in the customs clearing process instead of the 10 days recommended by the World Bank for lower income countries. The above delays affect the timely use and liquidation of funds disbursed by the Global Fund (refer to finding number 4.4 for details).

*Underuse of storage spaces:* The utilisation rate of the PFSA's central warehouse at the time of the audit was 65%.<sup>15</sup> Nine out of the 10 regional warehouses visited had severely damaged floor space, which limits their ability to use the available racks in those warehouses. Also, most of the stores in health facilities visited had up to one third of storage space filled with expired medicines. Expired medicines at PFSA's owned and rented warehouses and all health facilities visited have accumulated over five years. Resources were earmarked for the procurement of incinerators in 2017 to support the destruction of the expired medicines. PFSA continues to rent storage facilities at a cost of US\$1.9 million<sup>16</sup> a year despite the fact that existing warehouse capacity is under-utilized.

*The existing distribution network could be better optimized.* Medicines are distributed through a network of 165 long and short haul trucks ranging from 20-32 tons trucks to 1.0 ton vans. A fleet management plan has not yet been developed, including distribution schedules to ensure that existing vehicles are optimally used and maintained. The OIG could not determine the utilization rate of the existing fleet because relevant fleet management documentation is not maintained by PFSA. Notwithstanding the above, PFSA has engaged third party logistic providers to support the distribution of medicines.

***In-country quality assurance of commodities:*** Generally, medicines and health products financed by the Global Fund are procured from WHO-prequalified suppliers. The Food, Medicines and Health Care Administration, the body responsible for quality assurance of medicines and health products in Ethiopia, is ISO 17025 certified.<sup>17</sup> The Global Fund has also supported the in-country quality assurance process through the construction of laboratories, the provision of equipment and staff training. However, post-shipment quality assurance of medicines needs to be improved. For instance, only 149 of the agreed target of 350 batches of medicines and health products were tested in the first half of 2017. The OIG was unable to find any evidence of quality assurance work done in

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<sup>15</sup> As per calculated usage of available storage space at the central warehouse

<sup>16</sup> As per store rent costs recorded in the unaudited 2015 financial statements

<sup>17</sup> International Organization for Standardization (ISO) accreditation is an international certification. Laboratories that are accredited to this international standard have demonstrated that they are technically competent and able to produce precise and accurate test and/or calibration data.

2016. There had been no post market surveillance despite the availability of funding in the existing grants.

***Limitations in supply chain are primarily attributable to inefficiencies*** in PFSA's organization and to the ineffective supervision and monitoring of its activities. Structurally, various improvements in the agency's underlying structures, systems and processes that were outlined in a business process re-engineering review are yet to be implemented. Systems supporting the supply chain management process are fragmented as several financial, supply planning and logistics management systems have been supported by various partners with limited integration. For example finance records are maintained through Sage 50, Peachtree and MS Excel in the different hubs while both automated and manual systems are used for inventory management. The inventory management system requires manual entry of the names of the medicines. This allows staff to enter a particular receipt more than once in the system by different users. There were at least five different names for the same medicines and related quantities manually recorded in the system by different users. This creates multiple receipts of the same medicine in the system and affects subsequent stock reconciliations. These systems have not been aligned to enhance the reliability of financial and stock information provided by PFSA. There were also gaps in the supervision of supply chain activities at PFSA's regional offices and health facilities. The national and regional disease programs do not routinely supervise supply chain activities at the lower levels of implementation. From an oversight perspective, an institutional external audit of PFSA has not been conducted since 2012. Whilst an internal audit department has been established, it lacks a mandate, plan and is therefore limited in its ability to monitor PFSA's activities.

A new Director General for PFSA was appointed in March 2017 to oversee the agency. The Director General has since undertaken some initiatives to improve the transparency and the traceability of medicines. For instance, a directive has been issued to eliminate all manual delivery notes from July 2017. Technical assistance has also been procured with the support of USAID to help PFSA reconcile all opening stock balances as of July 2017 and activate all functionalities in the existing inventory management system. A mobile application for the delivery of commodities at health facilities is also being piloted to ensure real time availability of distribution data at the central level. The above measures are still in their early stages and will require continuous monitoring to ascertain their effectiveness.

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### **Agreed Management Action 1**

The Secretariat, in coordination with partners will support the Ministry of Health to:

- a) develop an oversight and implementation plan to improve inventory management systems and related controls across the procurement and supply chain;
- b) establish Key Performance Indicators to track the performance of PFSA which will cover the effectiveness and efficiency of procurement and supply chain activities; and
- c) monitor the reconciliation of the stock balances and resolution of the inventory differences identified in the audit.

Owner: Head of Grant Management

Due date: 30 September 2018

## 4.2. Improvements are needed to address the quality of service challenges

**There has been significant improvement in the implementation and management of disease interventions but progress is still needed to address challenges in quality service delivery to patients.**

Ethiopia has made significant progress in the fight against the three diseases as noted above. The country is currently at sub national pre-elimination of malaria with 280 districts earmarked as malaria free and 146 at low levels of transmission out of 845 districts.<sup>18</sup> The TB program has met all the Millennium Development Goals with a 50% decline in prevalence rates. With respect to the HIV program, the number of people on antiretroviral treatment increased by 27% from 333,000 in 2014 to 420,000 in 2016.<sup>19</sup> Despite this, quality of service issues are yet to be fully addressed.

***Challenges in implementation of the HIV testing services*** – The country has not had an approved HIV testing algorithm for four years and continuously revises its operational HIV testing algorithm to accommodate the available test kits. The health facilities are currently implementing an interim algorithm because the Ministry of Health has not finalized a national algorithm yet. This has resulted in three changes of the operational algorithm in the last three years with health facilities currently implementing the interim algorithm. The existing algorithm requires a confirmatory test to be done before patients are enrolled on treatment and a tie-breaker test in the event of discordant results from the first two tests.

There is limited ability to check compliance with the existing algorithm due to gaps in the registers at the health facilities. The registers are not designed to record all the tests. For instance, in 20 out of 25 facilities visited, the available registers were only able to record one test. In the five facilities that clearly recorded the three tests performed, the testing algorithm was not consistently complied with. The facilities performed all the three tests on patients irrespective of the results of the first and second test. On the other hand, 28% (seven out of 25) of the facilities visited initiated patients on antiretroviral treatment without documented evidence of a confirmatory test as required by the national HIV testing guidelines.

The frequent changes in the HIV testing guidelines coupled with delays in training of health workers in the revised guidelines and gaps in registers contributed to the above challenges. Training of health workers has started and is expected to be completed by December 2017.

***Limitations in infrastructure and equipment impact the ability to effectively deliver certain HIV interventions to patients:***

Early infant diagnosis tests HIV in infants of four to six weeks of age, treats those with HIV and gives access to HIV prevention to those who test negative. The health facilities are able to collect the blood samples of HIV-exposed infants within 45 days as per national guidelines. These samples are transported to designated laboratories in the country. However, in the sample of facilities visited in five out of seven regions, it takes an average of five months for results to be transmitted to the health facilities due to the limited availability of testing laboratories, sample transportation challenges and a breakdown of the system for delivery of test results. The electronic results delivery machine was not working for an average of five out of 12 months in those five regions. In addition, blood samples from 28% of the facilities visited were rejected by the laboratories due to their poor quality. These have contributed to a low achievement of paediatric antiretroviral treatment targets, with only 22% of the annual target achieved as of 2016 and increasing to 33% as of June 2017 (due to revision of the denominator by in-country stakeholders during the 2017 national estimates).

Monitoring of patients on antiretroviral treatment has been inconsistent. Contrary to the country's guidelines for antiretroviral therapy, the required tests prior to initiating treatment (baseline) and subsequently during treatment (routine monitoring) have not been consistently done. This is due to the limited availability or the breakdown of the existing machines. Seven out of the 25 facilities visited had not conducted CD4 tests for newly initiated patients in 2016 in line with national guidelines. Where tests had been done, results had been delayed by three months. Similarly, there



were delays of more than six months in the receipt of viral load testing results in the visited facilities due to the limited availability of machines and slow transportation of samples.

**Gaps in implementation of the Orphans and Vulnerable Children's Program** – There are national guidelines to support the effective implementation of Orphans and Vulnerable Children's interventions, which account for 21% of HIV program activities (excluding health commodity procurements). The interventions have been affected by:

- Variations in implementation across all the regions – The packages provided to the children varied from in-kind items such as books, pens and school uniforms to cash support including payment of school fees and subsistence allowances across all the seven regions visited. This is contrary to the guidelines provided by the sub-recipients to the sub-sub-recipients.
- Limited supervision of the program - The Principal Recipient does not conduct regular spot checks of activities of the sub-recipients. Similarly, the sub-recipient does not supervise the nine sub-sub-recipients and over 100 other implementers involved in the program. The multiple layers of implementers involved in the program increases the administrative expenses of the grant. For instance, US\$1.2 million out of the US\$1.6 million (70%) of funds earmarked for the interventions were spent on administrative and service delivery expenses with US\$0.4 million used in direct support to beneficiaries.

The country has initiated a process to support the transition of the Orphan and Vulnerable Children activities from the grant to the communities and set up trust funds to sustain the program in future. There is the need to evaluate the strategic importance of the program in the context of funding constraints since most of the earmarked resources are not directly spent on the intended beneficiaries and its impact is difficult to be measured.

**Balance between prevention and treatment components for the HIV program:** Most of Global Fund grant money is used to buy commodities for the country with the expectation that other activities, such as enabling and prevention, will be financed by the government and partners. The government and other partners have indeed supported some HIV prevention activities such as the procurement of condoms and the use of health extension workers to disseminate prevention messages at the community level. However, whilst the Global Fund is delivering on its core commitment to provide commodities, the impact of the prevention activities supported by the government and other partners appears limited. A demographic and health survey in 2016<sup>20</sup> shows that knowledge of HIV prevention amongst young men and women (15-24 yrs.) is low, at 39% and 24% respectively.

**Measures underway to address some challenges in the TB program.** An external midterm review of the TB strategic plan was led by WHO with the support of other in-country partners. The review measured progress against the national strategic plan; identified key achievements, weak areas requiring strengthening actions; and strategic and programmatic gaps in relation to global and regional TB control focus. The review, which ended in January 2017, identified a number of success stories and challenges faced by the program. At the time of the OIG audit (July 2017), the Ministry of Health and in-country partners were prioritizing the recommendations from the review and evaluating action plans. For instance, guidelines for management of TB in prisons were launched in April 2017 and as a result 65 out of the 120 prisons have now been prioritized for TB screening.

**Sub-optimal management of mosquito net distribution.** The Global Fund and partners supported the country in distributing mosquito nets to households. There is a need to improve the micro planning and the management of the distribution once the nets have been procured. There is currently limited visibility of the total number of nets actually distributed by the national malaria program. While all 25 million nets were reported to Global Fund as distributed in June 2016, the OIG observed that some nets were not distributed until April 2017 in the four regions visited. At the time of the audit, the national program was yet to compile data on nets distributed across the entire country which raises questions on the number of nets reported to Global Fund as distributed. Moreover, existing nets held across zones and districts for replacement campaigns were stored in poor conditions across all zones and districts visited. In some cases, the nets were stored with broken

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<sup>20</sup> ETHIOPIA Demographic and Health Survey 2016 Key Indicators Report Central Statistical Agency Addis Ababa, Ethiopia

bottles, furniture and exposed to direct sunlight which reduces the efficacy of the insecticides in the nets.

***Challenges in the external quality assessments for malaria.*** The country has made significant progress in conducting quality assurance of the HIV program. Most of the health facilities visited had undertaken and passed proficiency testing in HIV diagnostic services. However, there are challenges in the other diseases, especially for malaria. External quality assessments for malaria microscopy diagnosis were yet to be conducted in 60% (15 out of the 25) of the facilities visited. Similarly, proficiency testing for rapid diagnostic test for malaria have not been performed due to capacity challenges.

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## **Agreed Management Action 2**

The Secretariat, in collaboration with partners, will support the Ministry of Health in developing an action plan to strengthen quality of services across HIV, TB and malaria programs in Ethiopia. Specifically, this plan will include measures to:

- a) improve diagnosis and laboratory services under the three programs (including finalization of HIV testing algorithm);
- b) monitor progress against actions agreed in the TB midterm review; and
- c) address challenges in the bed nets distribution.

Owner: Head of Grant Management

Due date: 30 September 2018

#### 4.3. Sub-optimal design and implementation arrangements have delayed execution of health systems strengthening activities

**The effectiveness of the HSS grant is affected by gaps in design of the proposed activities. The performance framework and work plan tracking measures are not aligned with the revised grant activities.**

The Global Fund signed a grant of US\$47 million to support HSS activities from July 2015 to December 2017. The activities were expected to address some of the systemic challenges affecting service delivery such as renovating laboratories to improve the quality of diagnosis, strengthening health management and financial management information systems to improve liquidation of funds by the regional and zonal offices. However, the grant could not be effectively implemented due to limitations in design of the interventions, challenges in implementation arrangement and gaps in the Secretariat's grant revision processes.

**Deficiencies in designing of planned activities:** the need assessment of 56% of the activities had not been completed at the time of the grant signing which resulted in preconditions in the grant. This limited the implementation of the grant with 43% of in-country funds used with only six months left before the end of the implementation period. The Secretariat and in-country stakeholders have revised the grant activities to support timely implementation. However, 60% of the new activities cannot be completed within the grant end date of 31 December 2017. The anticipated completion dates of these activities are shown in the table below:

Activity	Amount US\$	Scheduled completion date
CCTV Camera Security & Fire Alarm systems	3,768,000	7 February 2019
Procurement of GPS and GPS Server for trucks	584,740	30 April 2018
Warehouse Floor repairs	3,100,000	30 March 2018
Construction of 15 new laboratories	8,213,001	30 April 2018
<b>Total</b>	<b>15,665,741</b>	

**Significant grant revision without review by the Grants Approval Committee:** The Global Fund has revised its Operational Policy Note on grant revisions but related controls are yet to be instituted to enforce the requirements. The Country Team reallocated 55% of the grant budget to new activities during implementation without approval from the Grants Approval Committee. The grant was revised because the Principal Recipient could not meet relevant preconditions after the grant signature or because the previously approved activities had been supported by another donor. The development of the country's Health Sector Transformation Plan, subsequent to grant approval, also required changes to align the grant to the country's priorities. For instance, the Principal Recipient did not assess fleet management, which was a precondition to use approximately US\$2 million earmarked for the procurement of vehicles. About US\$2.5 million budgeted for the inventory management system was reallocated by the Country Team because another donor was supporting the activity. Similarly, US\$8.2 million that had been approved to renovate and upgrade 50 high volume hospital laboratories and establish 12 maintenance centers was changed to construct 15 new laboratories at the same cost. The OIG acknowledges the need to revise grants in line with changing circumstances at the country level. However, the Secretariat's Operational Policy Note on grant revisions requires that significant changes in a grant be reviewed and approved by the Grants Approval Committee. Such a review and approval by the designated governance body ensures both effective allocation of limited resources to the areas of highest need and also continued accountability. In the case of the HSS grant, this review and approval were not sought due to limited clarity in the guidelines and systems to monitor grant revisions at the Secretariat. The Secretariat is enhancing its systems to generate key management information to improve monitoring of grant

revisions at the corporate level. This is expected to provide further clarity on grant revisions and required approval levels.

In addition, the grant's performance framework and work plan tracking measures were not updated to reflect the significant revisions in the grant activities. This has limited the ability of the Secretariat to effectively monitor this grant. For instance, the new activities accounting for 43% of the revised grant are not formally monitored and assessed through either the performance framework or the work plan tracking measures. On the other hand, 51% (20/39) of the milestones in the work plan tracking measures are no longer supported by the grant because the earmarked resources have been reallocated to new activities. This misalignment between the revised grant activities and the outdated tracking measures presents a significant risk that the grant rating, which is currently "B1" ("adequate performance"), may not reflect the true performance of the grant.

***Better coordination among donors is needed to design and implement HSS activities.***

Coordination between the Global Fund and in-country partners has improved. This is due to the active engagement between the Ministry of Health, in country partners and the Global Fund Country Team through the different coordination mechanisms in Ethiopia. However, the coordination of HSS activities is limited by the absence of a comprehensive work plan that collates investments of all donors irrespective of the funding channel for cross-cutting activities. There are potential duplications in the activities proposed by the Ministry of Health and supported by the Global Fund and other partners. For instance, the cost of the establishment of 12 maintenance centers proposed in the Global Fund budget was fully supported by the pooled funding provided by other donors partly due to over estimation of the costs. The Global Fund Secretariat rightly instituted measures to prevent double payments following the grant signature but, with improved coordination upfront, the resources dedicated to this activity could have been reprioritized during grant negotiations for other unfunded activities.

***Rationalization of implementation arrangements is needed for smooth execution of the HSS grant.***

The HSS grant has many activities that are executed by nine key implementers, including six directorates within the Federal Ministry of Health and three independent agencies. The Grant Management Unit at the Ministry of Health is responsible for coordinating the implementation of the grant. There are limitations in its capacity to oversee and coordinate all the implementing directorates. Structurally, the Unit is at a level below the directorates and agencies involved in the grant, which limits its ability to provide the requisite oversight, direction and coordination of the activities. For instance, two directorates under the Ministry of Health are implementing Virtual Private Networks, without coordination, to link information management systems in laboratories to various health facilities. A similar project referred to as the Woreda Health-Net system is also being supported under the Global Fund's HSS grant but there is limited coordination between the implementers to identify potential synergies.

The Country Team's recommendations to address gaps in the implementation arrangements are yet to be addressed by the Ministry of Health.

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### **Agreed Management Action 3**

The Secretariat will support the Ministry of Health to

- a) design a HSS grant aligned to investments from other partners in the next funding cycle;
- b) develop an implementation and monitoring plan for the grant; and
- c) strengthen the Grant Management Unit and define performance indicators tailored to the grant to monitor the ongoing RSSH activities to ensure timely implementation.

Owner: Head of Grant Management

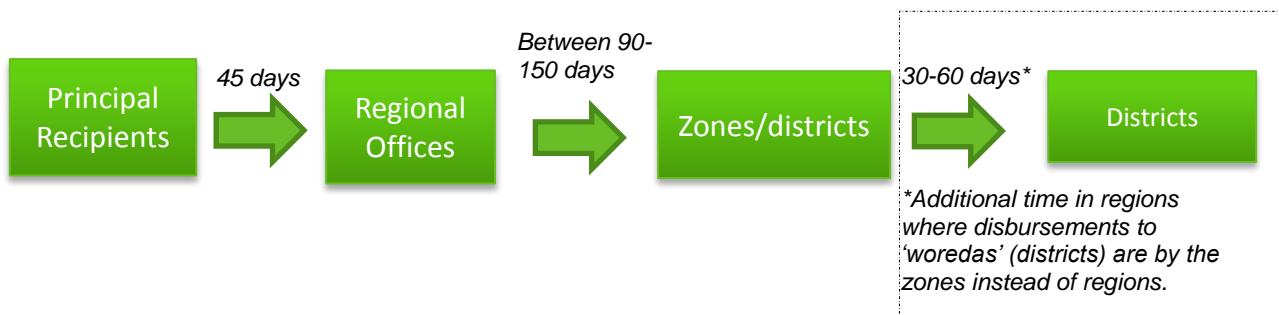
Due date: 30 September 2018

#### 4.4. Delays in use and liquidation of funds by Principal Recipients affect subsequent disbursement by the Global Fund

**There are delays in the use and liquidation of funds disbursed by the Global Fund due to protracted in-country fund transfer processes and the inability of the regions to submit required statements of expenditures to the Principal Recipients on time. This has resulted in a low absorption of grant funds, which is estimated at 56% with only seven months before the end of the grants. As of May 2017, the country still has US\$133 million yet to be disbursed by Global Fund in addition to in-country cash balance of US\$154 million.**

The Ministry of Health and CCM are strengthening their oversight of the use and liquidation of Global Fund resources. Since January 2017, funds at the regional levels are now monitored by Principal Recipients on a monthly basis. The recipients prepared an accelerated plan to optimize the use of existing resources in line with the CCM's request. The country's ongoing effort to enhance fund utilisation is beginning achieve some results with undisbursed funds reduced from US\$133 million in May 2017 to US\$68 million in October 2017. However, in-country challenges still require attention. Ineligible and unsupported transactions identified through Global Fund-initiated reviews are promptly refunded to the grants by the Principal Recipients. Three out of the seven regions visited demonstrated improved financial management practices including detailed financial supervision of zones and districts. This resulted in relatively timely use and liquidation of funds for those specific regions. About 51% of the existing in-country funds of US\$151 million has been outstanding for more than six months (including US\$58 million for health commodities).

**Significant delays in the in-country disbursement processes:** The Global Fund has enhanced its financial management systems and is able to disburse funds to countries within few days if all the required documentation is submitted by the implementers. However, there are protracted delays in the transfer of funds from the Principal Recipients to the various regions and other lower levels where actual implementation happens. It takes an average of five months for funds to reach the districts once the Principal Recipients have received the resources from the Global Fund. The delays inherent in the country's disbursement processes are illustrated the diagram below.



With respect to procurement activities, which account for about 70% of the grants, it takes the Principal Recipients between 33 to 68 days to disburse funds to the PFSA on receipt of the purchase orders.

**Gaps in planning at implementation levels delay the use of the funds upon receipt.** The Federal HIV/AIDS Prevention and Control Office (HAPCO) has signed memoranda of understanding with the regional offices which define the activities to be implemented. Disbursements from HAPCO to the regions generally include detailed activities to be implemented at the regional level. However activities to be implemented at the zonal and 'woreda' (district) levels are not defined. The regional offices do not communicate those activities to the lower level when disbursements are made. Such activities are defined by the districts upon receipt of funds from the regional offices, which further delays the use of funds.

Unlike HAPCO, the Ministry of Health does not have memoranda of understanding with the regional offices. Grant activities at the different levels of implementation are not predefined. Consequently,

disbursements are made to the regional and zonal offices with limited clarity in activities to be implemented at each stage.

As indicated under finding 4.1, the delays in PFSA's procurement processes affect its ability to use the funds on time. The procurement process takes between nine months and two years to complete. Upon receipt of goods, it takes between 15 to 64 days for PFSA to complete and submit the statements of expenditure to the Principal Recipients.

**Gaps in record-keeping and sub-optimal supervision activities prevent the lower levels from submitting the statement of expenditure to the Principal Recipients when the activities are completed.** Global Fund resources were deposited in pooled accounts at the zonal and district levels in all the regions visited by the OIG. Separate general ledger or cash books for Global Fund grants were not maintained in eight out of the 14 zones and 13 out of the 20 districts visited. This limits the ability of the zonal and district offices to identify and report transactions that relate to Global Fund grant activities.

Supervision activities incorporated in the grants to support the regional, zonal and districts in record keeping, including the submission of statements of expenditures, were sub-optimal in four of the seven regions visited. Guidelines and required tools have been developed for integrated supervision visits across all levels, but implementation has not been effective. For instance, supervision visits at the federal and regional levels did not identify the systemic issues of gaps in record keeping, planning of activities and delays in disbursement to the lower levels.

Current Global Fund grants have supported over 70 finance officers across the country to address liquidation issues, but limited progress has been made. Their effectiveness has largely depended on the capacity of the staff. In a particular instance, over 12 finance officers in one region are Monitoring and Evaluation officers with a limited knowledge in finance.

The delays in use and liquidation of grant resources have not had material programmatic consequences because Ethiopia was allowed to carry forward unused resources from the rounds-based funding model to the subsequent grant implementation period as part of the allocation methodology. For instance, US\$78 million in unused funds from the previous grants were spent in current allocation period activities. At the time of the OIG audit, the country risks losing approximately US\$90 million in unused funds from the 2017-2019 implementation period, due to the high level of undisbursed funds still held at the Global Fund and its large cash balances already in country. The Global Fund is aligning the grant cycle to the country's fiscal period for improved use of resources in the next implementation period.

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#### **Agreed Management Action 4**

The Secretariat will support the Ministry of Health to:

- a) develop tools and strengthen processes to ensure key activities are agreed and approved before funds are disbursed to regions, zones and woredas to improve the timeliness of disbursements in country;
- b) define clear key performance indicators on disbursements and liquidation of funds within the country;
- c) implement a risk-based supportive supervision plan that addresses challenges in liquidation; and
- d) review the roles and responsibilities of the grant finance officers to include a key performance matrix.

Owner: Head of Grant Management

Due date: 31 December 2018

## 5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
<p>1. The Secretariat, in coordination with partners will support the Ministry of Health to:</p> <ul style="list-style-type: none"> <li>a) develop an oversight and implementation plan to improve inventory management systems and related controls across the procurement and supply chain;</li> <li>b) establish Key Performance Indicators to track the performance of PFSA. These KPIs will cover effectiveness and efficiency of procurement and supply chain activities; and</li> <li>c) monitor the reconciliation of the stock balances and resolution of the inventory differences identified in the audit.</li> </ul>	30 September 2018	Head of Grant Management
<p>2. The Secretariat, in collaboration with partners, will support the Ministry of Health to develop an action plan to strengthen quality of services across HIV, TB and malaria programs in Ethiopia. Specifically, this plan will include measures to:</p> <ul style="list-style-type: none"> <li>a) improve diagnosis and laboratory services under the three programs (including finalization of HIV testing algorithm);</li> <li>b) monitor progress against actions agreed in the TB midterm review; and</li> <li>c) address challenges in the bed nets distribution.</li> </ul>	30 September 2018	Head of Grant Management
<p>3. The Secretariat will support the Ministry of Health to:</p> <ul style="list-style-type: none"> <li>a) design an RSSH grant aligned to investments from other partners in the next funding cycle;</li> <li>b) develop an implementation and monitoring plan for the grant;</li> <li>c) ensure that budget reallocations are reviewed and approved at the right level; and</li> <li>d) strengthen Grant Management Unit and define performance indicators tailored to the grant to monitor the ongoing RSSH activities to ensure timely implementation.</li> </ul>	30 September 2018	Head of Grant Management
<p>4. The Secretariat will support the Ministry of Health to:</p> <ul style="list-style-type: none"> <li>a) develop tools and strengthen processes to ensure key activities are agreed and approved before funds are disbursed to regions, zones and woredas to improve the timeliness of disbursements in country;</li> <li>b) define clear key performance indicators on disbursements and liquidation of funds within the country;</li> <li>c) implement a risk-based supportive supervision plan that addresses challenges in liquidation; and</li> <li>d) review the roles and responsibilities of the grant finance officers to include a key performance matrix.</li> </ul>	31 December 2018	Head of Grant Management

## Annex A: General Audit Rating Classification

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



## 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.