34th Board Meeting

Risk Management Report and Assurance Statement

GF/B34/05
Board Information

PURPOSE: To provide the Board with the first assurance statement and updated management report for Risk.

The Global Fund

I. Relevant Past Decisions

1. The following summarizes relevant past decision points:

Relevant past Decision Point	Summary and Impact
GF/B32/DP05: Approving the Governance Plan for Impact (November 2014) **Full decision point**[1]	This Board decision put in place a new Board and Committee oversight model for crosscutting issues including Risk. It provides that all committees are involved in and contribute towards the management of risk and that each has a full picture of the risk universe. The Chief Risk Officer (CRO) is responsible for the consolidation and presentation of the risk report to the Board, twice a year, and the presentation of an *Annual Assurance Statement*.
GF/B32/DP11: Approval of the Risk Management Policy (November 2014) **Full decision point**[2]	This Board decision approved an entirely new and comprehensive risk management policy, replacing the previous one from 2009. The risk management policy is accompanied by an Enterprise Risk Management Framework that describes how the Policy is put into practice.
GF/B32/DP11: Applying Risk Differentiation (November 2014) **Full decision point**[2]	This Board decision established the key principles, methodology, and processes for applying risk differentiation in Global Fund grant management and supporting processes. It also established thresholds and upper and lower limits for the corporate key performance indicator that measures the overall level of risk in the Global Fund's grant portfolio.

II. Assurance Statement from the Chief Risk Officer

Introduction and background

2. In accordance with the Board's oversight arrangements concerning risk management[1], as set out in the Global Fund Enterprise Risk Management Framework, this first assurance statement provides the Board with the Chief Risk Officer's ('CRO') independent view on the robustness and effectiveness of the Secretariat's risk management and mitigation steps taken and whether the risk profile is acceptable, is improving or deteriorating.

3. In order to align with the annual assurance statements that the Board receives from the other assurance providers, notably the Office of the Inspector General, the Ethics Officer and the external auditor, the next assurance statement will be issued in connection with the April 2016 Board Meeting. Subsequently, an assurance statement will be issued before each spring meeting.

4. As described in the Global Fund's enterprise Risk Management Framework, the Risk Management Department is independent from the Secretariat's other divisions and departments, including those that create and manage grants, and as such performs a 'second line of defense' role (management forming the first line, and the Office of the Inspector General and the external auditor constituting the third line of defense). In addition, it is expected that the CRO will flag any material matters where the Executive

[1] GF/B32/DP05 - http://www.theglobalfund.org/Knowledge/Decisions/GF/B32/DP05/
[2] GF/B32/DP11 - http://www.theglobalfund.org/Knowledge/Decisions/GF/B32/DP11/

Director and the CRO have a fundamental difference of opinion. This relatively high degree of independence is an important enabling factor for this assurance statement.

5. The two main functions of the Risk Management Department are to (a) support the organization in designing, implementing and maintaining risk management processes and tools, and (b) to monitor the compliance in practice by management and other personnel with the established risk management processes. Approximately one-third of the department's time is spent on the department's compliance role which forms the primary basis for this assurance report.

6. In the preceding year, there have been no material matters where the Executive Director and the CRO had a fundamental difference of opinion.

7. Board engagement in risk oversight has been strengthened: in line with the governance arrangements over risk adopted by the Board last November, risk management is now a recurring topic on Committee agendas including that of the Coordinating Group, as well as of each regularly scheduled Board meeting. A good example also of this strong Board engagement is the Developing Country NGO Constituency's initiative to organize regional Risk Management Forum meetings for implementers described below, in paragraph 42.

The robustness and effectiveness of the Secretariat's risk management and mitigation steps taken

8. Although many important improvements in risk management have been implemented in the past few years, most notably in the area of operational risk, management has identified and is working on further improvements that need to be put in place, the most important of which relate to the following:

a. The way in which **assurance** is obtained with respect to all grants – the required improvements in how the Secretariat plans, obtains and uses assurance, are currently being developed through the Risk and Assurance project;

b. A more optimal allocation of the Secretariat's grant management resources, through simplification; better differentiation; and better matching of resources to areas of risk, such as procurement and supply management;

c. The Secretariat's approach more generally to developing, implementing and maintaining fit-for-purpose core business processes and supporting tools, and enabling its people to execute those processes. There are two broad areas for improvement: **skills**, such as project management and coordination, end-to-end process and internal control design and supporting IT development, and staff training; and **cultural aspects** such as collaboration and accountability for results;

d. Integrating risk management more into the day-to-day processes and decision-making, especially around the management of grants;

e. Other areas for improvement worth noting are: portfolio-wide management of risks, in addition to on a grant-by-grant basis; promptness of implementation of agreed management actions stemming from reports from the Office of the Inspector General; and management information and focus on programmatic progress and performance.

9. With respect to 8 out of the 19 grant-related risks, stronger risk mitigation measures are being defined and/or implemented by management, in order to reduce their levels from 'High' to 'Medium'. This concerns the following risks, as described in more detail in the organizational risk register as of Q2, 2015 that provides an overview of the most significant risks that the organization faces. It is a

combination of operational risks, i.e. risks in the programs that we help fund, and Secretariat process risks and is attached as Annex 1:

a. Treatment disruptions;

b. Quality of health programs and services;

c. Availability and quality of strategic results and impact data;

d. Impact in three of the highest disease burden countries;

e. Under-use ('under-absorption') of grant funds;

f. Sustainability / transition risk;

g. Poor financial reporting by implementers;

h. Drug and insecticide resistance.

10. Based on management's assessments as documented in the organizational risk register and elsewhere; the Risk Management Department's own work; and on the reports issued from time to time by the Office of the Inspector General on their audits and investigations, it is our conclusion that:

a. **Risk identification** is currently satisfactory; management has an adequate view of the most important risks facing the organization;

b. Due to the number and relative importance of the outstanding issues described above, **risk mitigation** needs further improvement.

11. Because most of the risks described in paragraph 9 are particularly difficult to manage, and in addition are only partially under the control of the Secretariat, relying to a large extent on the actions of implementers and partners, achieving the desired risk levels in most cases will take up to several years' time. In the meantime, it is important that the Secretariat maintain an adequate view of the risk levels and takes corrective action where necessary. What is positive is that there is a clear view on the relevant risks and that the Secretariat is taking concrete steps towards achieving better risk mitigation in the near-to-medium term.

12. Improvement actions include the launch, or re-launch, of several important projects, including on re-defining grant making and grant management processes and their enabling IT platform; achieving better differentiation, also tailored to risk; and removing bottlenecks to grant implementation. Management is also putting in place an over-arching project coordination capability, will strengthen project management skills within the Secretariat and has committed to accelerating the pace of implementation of agreed management actions stemming from OIG reports.

Is the risk profile acceptable, and is it improving or deteriorating?

13. The most important measure of risk employed by the Global Fund is the Portfolio Risk Index (the 'PRI'), which indicates the composite level of risk in the grant portfolio. As of Q2, 2015, the PRI value was 1.94, about the same level as a year earlier, which is at the midpoint of the Board-approved range of 1.7 to 2.1. As such, the risk profile is acceptable at the present time with respect to the organization's key operational risks.

14. Given the continuous improvements noted in risk identification, the steps being taken by management to improve risk mitigation, and absent significant negative developments in the external

environment that would impact on the organization's risk profile, the risk profile can be said to be improving. That said, some of the root causes for the current weaknesses in risk mitigation described in paragraph 6 will take appreciable sustained effort to fully remediate.

III. Risk Management Report

Executive Summary

15. The risk management report allows each Board Committee to focus on the risks most relevant to it, according to the respective charters, by segmenting the attached organizational risk register among the Committees. The report also provides summarized information about each of the four oversight responsibilities that the Board has with respect to risk management.

16. There is no need to amend the Framework for Risk Differentiation that the Board approved last November based on the first year of implementation, although as a result of a number of initiatives that are currently in progress at the Secretariat, including several aimed at better differentiation of grant design and grant management processes, this should be revisited next year.

17. The single most important indicator of risk in the grant portfolio, being the Portfolio Risk Index, remained stable in 2015 compared to last year, and is well within the Board-approved range for this KPI.

18. Although many improvements to risk management have been realized in the past few years, several important initiatives are in progress that are needed to further elevate the maturity of organizational processes to effectively manage risk. The most important of these are (1) *integrating risk management* more into the day-to-day processes and decision-making, especially around the making and management of grants; (2) strengthening *project-management* and *collaboration* across the Secretariat; (3) *better differentiation* in the core grant making and grant management processes; and (4) improvements to how Country Teams and their managers plan, execute and use the outcomes of *assurance*[3] activities in grant management to help ensure that grants achieve their objectives.

19. The last initiative, called the *Risk and Assurance Project*, has experienced some delays over the summer period, primarily due to summer vacations and delays in responses to requests for information from Principal Recipients and other implementers, which has prompted more senior management attention and closer monitoring.

20. The assurance plans are based on the application of an analytical process that is grounded in the grant objectives, inherent and residual risks, and in the quality and reliability of the implementers' own assurance systems.

21. One category of risk that is receiving more attention than in the past is that of *Strategic Risks*. At the request of the Strategy, Investment and Impact Committee, the CRO presented an overview of the ten most important strategic risks in the Committee's June 2015 meeting. The aim of the exercise was to assist the Committee in ensuring that the main strategic risks would be taken into account in the development of the Global Fund 2017-2021 Strategy.

22. At the October SIIC meeting, an update was presented to the Committee with management's views on each of the ten strategic risks. One of those risks relates to the Global Fund's business model, and the question as to whether this model is still optimal to support the new strategy. The Audit and Ethics Committee also touched on this risk in its October meeting. This and the other strategic risks will be

[3] Assurance is defined as "the objective and independent review of grant activities by internal and external assurance providers to ensure the achievement of each grant's objectives".

reflected in the development of the new strategy and in the related documents that will be submitted to the Board in due course.

23. The Organizational Risk Register as of June 30, 2015, attached as Annex 1 provides the overview of the most significant risks that the organization faces. It is a combination of operational risks, i.e. risks in the programs that we help fund, and Secretariat process risks.

24. The Register has become a stable and balanced tool to document the organization's key risks. Its use as a management tool still needs to be improved, but at least there exists now a good repository of risk information that allows senior management and the Board and Committees to have a complete view of the key risks and of the actions management is taking to improve risk mitigation.

25. The most important operational risks, covered in this report as well as more extensively in the annual *Grant Risk Management Report*[4] are Treatment Disruptions; Poor Quality of Health Services; Poor Financial Reporting; Principal Recipient Governance and Reporting Risks; Monitoring & Evaluation and Data Quality Risks; and Substandard Quality of Health Product. Other key risks in the register that are not related to grants include future funding / replenishment, and the ability of the Secretariat to carry out major new initiatives and projects.

Background

26. The Board's new oversight model for risk management requires semi-annual risk reporting to the Board and Committees by the CRO. Two previous reports have been issued, in November 2014 and March 2015.

27. The report was first provided to the Strategy, Investment and Impact Committee; the Audit and Ethics Committee; and the Finance and Operational Performance Committee. Input taken from each committee has been incorporated. In addition to these committees, the Coordinating Group ('CG') has recently also taken on a more pro-active role with respect to risk management.

28. This report is based on the work done by the Risk Management Department during the period March-August 2015. The main areas of focus during that period were: (1) supporting the Secretariat in the management of operational risks in grants; (2) leading the Secretariat's so-called Risk and Assurance project, that aims to significantly improve the way in which the Secretariat obtains objective evidence that risks in grants are being adequately managed; and (3) supporting risk management in the Secretariat's processes in general.

29. Attached to this report as an appendix is the *Organizational Risk Register* as of June 30, 2015 that describes the status and evolution of the Global Fund's most significant risks and is updated each quarter. In order to better support the Committees, including the Coordinating Group, the register is now segmented according to the Committees' respective Charters, so that every Committee can focus on the risks that are most relevant to it while still having visibility to the other risks as well.

Discussion

30. This chapter is organized according to the four responsibilities that the Board has with respect to risk management.

[4] The Grant Risk Management Report is available on the *BoardEffect* platform.

01 Understanding the organization’s risk philosophy and approving the framework for risk differentiation

31. Last year November, the Board approved a comprehensive new risk management policy as well as a new framework for risk differentiation. The risk management policy sets out, among other things, the Global Fund’s risk philosophy. During the period under review, there have been no important changes affecting this philosophy.

32. In order to further support the Board and Committees in maintaining the organization’s risk philosophy, the Secretariat offers a training session in risk management on a regular basis to Board, Committee and Board Constituency members. The first such training was conducted on March 30, 2015 (the day before the March-April Board meeting) and was attended by approximately 40 individuals.

33. The framework for risk differentiation provides for thresholds for differentiation in risk management as well as upper and lower limits for the corporate key performance indicator that measures the overall level of risk in the grant portfolio. Information on the current level of this KPI is included in section 3 of this chapter.

34. Applying risk differentiation is an important element of risk management. It guides the organization in making decisions on the types and levels of risk exposure to accept, and not to accept, and where to subject these decisions to a higher level of management scrutiny. Risk differentiation helps to ensure that risks are managed appropriately, and that resources are utilized effectively.

35. On a country-by-country basis, the Board-approved risk differentiation policy assigns upper and lower thresholds, beyond which a higher degree of management scrutiny is required to be applied. Among the 112 individual grant risk assessments performed during the past year, 21 (19%) were outside the risk threshold values. Of these 21, 8 grants are above and 13 are below the established values. In line with the risk differentiation policy, these grants are subject to heightened monitoring by the Secretariat, including by the operational risk committee.

36. Based on the experience in the past year with the implementation of the Board-approved risk differentiation policy, there is currently no need to amend either the policy itself nor the risk threshold values set at the end of 2014. However, given the number and scope of current initiatives to further improve grant and Secretariat process management, including through better differentiation, it is not unlikely that the policy will require updating in the coming year.

02 Knowing the extent to which management has established effective risk management

37. The Board relies on representations from management that effective risk management is in place. This report contains management’s representations, for example that the risk management and risk differentiation policies have been effectively implemented and that the attached risk register is a complete and accurate reflection of the organization’s key risks, as well as the views of the Chief Risk Officer.

38. The Risk Management Department’s headcount was increased in 2015 from seven to ten to enable the function to lead the piloting and implementation of the Risk and Assurance work as well as expand its scope to in-country work.

39. The Secretariat 2014 Staff Engagement Survey identified ‘Risk’ as the area of Secretariat operations that had improved the most since 2012. The new Risk Management Policy and Framework for Risk Differentiation, as well as the new Board oversight model for Risk, each approved by the Board in November 2014, have further supported the strengthening of risk management by the organization.

40. Through September 2015, the CRO and other Risk Management Department staff undertook in-country travel to assess the quality of risk management in programs in Indonesia, Sudan, Somalia and Lesotho. Further travel will take place during quarter 4 of 2015. These visits serve to augment the Risk Management Department's understanding of how the Secretariat, implementers, CCM and partners manage risk in grants. So far, experiences have been very positive.

41. One of the Secretariat's Operational KPIs measures compliance with the requirement to maintain an up-to-date risk assessment for qualifying (high value/high risk) grants. As of June 30, 2015 this KPI stood at a disappointing 67% (target: 100%). Measures have since been taken to significantly improve this performance, including more senior management attention (managerial pre-approval is now required if a country team wants to go beyond the agreed timeline) and tighter monitoring including by the Risk Management Department. In the third quarter, compliance did reach 100% and most of the grants that were past due before 'caught up' so that, by September 30, 98% of required grants did have updated risk assessments.

42. The Developing Country NGO constituency initiative to jointly organize regional risk management workshops for civil society and government implementers, CCM members, partners and Secretariat staff continued in 2015. Following two workshops held in 2013 in Bangkok and Cape Town, two more were held in Istanbul and Dakar. The final workshop, for the Latin America and the Caribbean region, is currently being planned.

43. These workshops are part of a set of activities to strengthen risk management at the implementer level. Other initiatives include the updating and distribution of a risk assessment methodology and supporting tool designed specifically for implementers, and the establishment of a knowledge-sharing platform around risk management for actors in Global Health, which had its second face-to-face meeting in Geneva, hosted by UNDP, in April 2015.

44. Notwithstanding the many improvements in risk management that have been realized in the past several years, there are several important initiatives in progress that are needed to further elevate the maturity of organizational processes to effectively manage risk. The most important of these are (1) *integrating risk management* more into the day-to-day processes and decision-making, especially around the making and management of grants; currently, risk management is often carried out as separate activities from the other grant management processes which is sub-optimal; (2) strengthening *project-management* and *collaboration* across the Secretariat: several projects have recently been hampered by a lack of adequate project management and collaboration and management, acknowledging this, has taken steps to address these weaknesses; (3) *better differentiation* in the core grant making and grant management processes: although this has been an important Secretariat priority for some time, progress has not yet been adequate as also pointed out in recent TERG and TRP reports; and (4) improvements to how Country Teams and their managers plan, execute and use the outcomes of *assurance*[5] activities in grant management to help ensure that grants achieve their objectives.

45. The following paragraphs provide an update on this last initiative, called the *Risk and Assurance project* that is being managed by the Risk Management Department.

46. The Risk and Assurance Project was initiated in 2014, then under the name "Combined Assurance". The first phase resulted in a blueprint of improvements to the way assurance is planned, obtained and used by the Secretariat in making and managing grants. These improvements include a requirement to develop assurance plans during grant-making, updated during grant implementation, that outline how country teams will obtain assurance over the accomplishment of key grant objectives; more differentiation in how, and how much, assurance is obtained, depending on risk levels; and the

[5] Assurance is defined as "the objective and independent review of grant activities by internal and external assurance providers to ensure the achievement of each grant's objectives".

creation of Secretariat regional risk and assurance committees that will approve the assurance plans and maintain oversight over their implementation. The second phase started in 2015, through initiating eight pilots in a representative set of countries[6].

47. The pilots are being executed by the Country Teams together with the respective risk owners for Procurement and Supply Management, Monitoring and Evaluation, Finance, and Grant Management. They are supported by the Risk Management Department who has put together a team that includes assurance, risk management and grant management professionals.

48. Each pilot consists of two phases: (1) development of a tailored assurance plan and (2) execution of the plan for an appropriate amount of time to make sure it works effectively in practice. The assurance plans are based on the application of an analytical process that is grounded in the grant objectives, inherent and residual risks, and in the quality and reliability of the implementers' own assurance systems.

49. As of the date of this report, three pilot countries (Zambia, Somalia and Sudan) are in advanced stages of analysis and preparation of their assurance plans. The deadline for the completion of the assurance plans was moved several times. This is due in part to summer vacations and delays in responses to requests for information from Principal Recipients and other implementers.

50. Senior Management engagement on the project has increased as the pilots experienced delays, in order to ensure sustained focus and attention on this corporate priority. As a result, key members of the Management Executive Committee are meeting every few weeks to monitor progress and provide the requisite support. The delays in the project have resulted in several Agreed Management Actions stemming from OIG reports becoming past-due. Further detailed information on Agreed Management Actions is provided in Board document GF/B34/07, which is the OIG's status update report on agreed management actions as of September 2015.

51. Part of the project is exploring the use of alternative and new assurance providers. One promising source of assurance that has been applied from time to time but only on an ad-hoc basis in Global Fund grants, are community-based feedback mechanisms. The Global Fund is currently engaging an expert in such mechanisms to assist the Secretariat in piloting their use as part of the Risk and Assurance project. If deemed successful, the use of such mechanisms in addition to, or instead of, more traditional assurance providers will become more systematic and 'deliberate' than in the past.

52. One category of risk that is receiving more attention than in the past is that of *Strategic Risks*. At the request of the Strategy, Investment and Impact Committee, the CRO presented an overview of the ten most important strategic risks in the Committee's June 2015 meeting. The aim of the exercise was to assist the Committee in ensuring that the main strategic risks would be taken into account in the development of the Global Fund 2017-2021 Strategy.

53. At the October SIIC meeting, an update was presented to the Committee with management's views on each of the ten strategic risks. One of those risks relates to the Global Fund's business model, and the question as to whether this model is still optimal to support the new strategy. The SIIC should ensure that all key strategic risks are explicitly considered in the documents, proposing the new strategy that will be submitted to the Board.

54. As noted in risk number 13 in the attached risk register, implementation of Agreed Management Actions stemming from OIG reports has been consistently slow, which is an undesirable situation. Management has committed to making substantial progress on timely implementation, which is also an operational Key Performance Indicator.

[6] The pilot countries are Burkina Faso, Cambodia, Chad, Mozambique, Somalia, Sudan, Timor Leste and Zambia.

03 Reviewing the portfolio of risk and considering it against the approved risk thresholds

55. The Organizational Risk Register as of June 30, 2015, attached as Annex 1 provides the overview of the most significant risks that the organization faces. It is a combination of operational risks, i.e. risks in the programs that we help fund, and Secretariat process risks.

56. Overall, operational risk as expressed by the Portfolio Risk Index (the "PRI"), one of the corporate key performance indicators, stands at 1.94 as of June 30, 2015 on a scale of 1 to 4, 1 being the lowest. This is up slightly from a year earlier, when it was 1.86. It is well within the Board-approved risk threshold range of 1.7 - 2.1. Risk has analyzed the main movements and obtained satisfactory explanations.

57. This indicator is calculated based on individual risk assessments performed by the Secretariat's country teams with respect to the 19 different operational risks and covers 43% of the grant portfolio in value terms.

58. The Risk Management Department annually facilitates the preparation of a *Grant Risk Management Report*[7] that analyzes the grant related risks, mitigation actions and trends, which is shared across the Secretariat. More details on the main operational risks are provided in the next report section.

59. The Organizational Risk Register has become a stable and balanced tool to document the organization's key risks. It is a good repository of risk information that allows senior management and the Board and Committees to have a complete view of the key risks and of the actions management is taking to improve risk mitigation. Use of the register as a management tool will be further improved by having more in-depth reviews of the individual risks in senior management meetings, in addition to reviewing the register in its totality in quarterly meetings as has so far been the practice. It is also important to have more visibility to instances when risks materialize so as to learn from those events and improve controls further. That part of 'the feedback loop' does not yet exist on a systematic basis.

04 Being informed about the most significant risks and whether management is responding appropriately

60. The attached Organizational Risk Register as of June 30, 2015 contains twenty-six risks, segmented by Board Committee. These risks are monitored on an ongoing basis by senior management and the Register is updated on a quarterly basis.

61. Fifteen of the twenty-six risks are operational in nature, i.e. related to the effectiveness and efficiency of grants. The *Grant Risk Management Report*[8] analyzes the main operational risks and provides the following information on the risks that have consistently ranked the highest.

62. **Treatment Disruptions** remains the number one risk for three years in a row. There has not been a clear trend in the risk level during that period and it is essentially at the same level in 2015 as it was in 2013. The contributing factors are many and diverse, which puts the risk high in many different contexts. The lack of reliable Logistics Management Information Systems (LMIS) and consumption data is consistently cited as the major contributing factor to treatment disruptions. There is also evidence of poor oversight and lack of visibility of stock levels for key products at different levels of the in-country supply chain. This also gives rise to the risk of overstocks and excessive expiries of pharmaceuticals in the supply chain. It is important to keep addressing this risk by strengthening Global

[7] The Grant Risk Management Report is available on the *BoardEffect* platform.
[8] The Grant Risk Management Report is available on the *BoardEffect* platform.

Fund engagement with partners, by increasing investments in LMIS, by improving coordination and visibility via the provision of regular stock status reports, and by reinforcing regular reviews of quantification and procurement planning for better informed decisions. In addition to these mitigation actions, a systematic annual review and approval by the Secretariat of forecast and quantification is in place for all High Impact countries. The Rapid Supply Mechanism managed by the Sourcing department is also fully operational and enables the Global Fund to respond quickly and proactively to imminent shortages, stock-outs, or treatment disruptions faced by countries. Finally, joint efforts from donors and technical agencies should continue to aim in 2015 towards greater convergence of investments and technical support with the overall aim of strengthening in-country supply-chain systems. These efforts are channeled through an Inter-Agency Group (including the WHO, USAID, Global Fund, GAVI, UNICEF, UNFPA, the Bill & Melinda Gates Foundation, the World Bank and KFW) that meets on a quarterly basis.

63. **Poor Quality of Health Services** has a very important bearing on health outcomes. To this end, understanding proximal factors that could explain the consistently high risk rankings over the last 3 years is essential to good program management. According to the risk assessment data available, the main causes of poor quality of health services are: insufficient numbers of qualified staff; the absence of mechanisms/ referral systems to link patients with services essential to the comprehensive management of the disease; and weak monitoring systems for integrated services. Existing controls such as capacity building through Technical Assistance provision to implementers; increased collaboration between the Secretariat's Country Teams and partners (e.g. through the TB Situation Room); close follow-up during grant implementation using service quality assessment tools; and partner assessments, help in addressing this risk. However, over time, the observed risk trends highlight the need to do more as there has not been a noticeable improvement over the past three years. For 2015, the focus is on working with partners on a joint quality of care approach, with regular implementation across all portfolios of high risk / high impact in a differentiated manner.

64. **Poor Financial Reporting** has its roots in the Global Fund's non-prescriptive approach to Principal Recipient and Sub-Recipient financial reporting. A wide variability in the quality of accounting systems and staffing underscores the inconsistency in reporting, with Sub-Recipients in general having the bigger quality gaps. Weak Principal Recipient oversight of Sub-Recipients only adds to this problem. The Finance Step-up project, which has seen a substantial improvement in the Secretariat's own internal financial systems, also aims to make improvements in recipient financial reporting. Two key things are changing in this regard. First, there will be a gradual transition to the use of a standard on-line reporting package whereby implementers will have to report in one standard format against the agreed grant budget, using standard budget categories. This will increase consistency in reporting. Secondly, the Secretariat has been focusing more attention on helping countries to improve their financial systems to address reporting weaknesses. Following extensive planning and consultation with key partners and technical service providers, a so-called Financial Management Capacity Building team will now implement a project to consult with a significant number of High Impact countries before the end of 2015, with all remaining High Impact countries to be covered by the end of 2016. Each country will undergo a diagnostic examination and will benefit from a plan, possibly including Technical Assistance, to improve financial reporting within a certain timeframe.

65. **Principal Recipient Governance and Reporting Risks** are highly linked and contribute to poor program implementation, less impact, and potential fraud and wastage of funds. These risks stem mainly from inadequate management information systems and reporting infrastructure and to the high complexity of grant implementation arrangements in terms of number and/or geographic spread of Principal Recipients, Sub-Recipients, and Sub-Sub-Recipients, access to Sub-Recipients, and the breadth/scope of activities. In mitigating these risks, emphasis has been placed on strengthening financial management and accountability, often through the installation of financial management software for more comprehensive and timely financial reports and better tracking of funds to the provincial and district levels. This is often accompanied by the drafting of new Financial Procedures

Manuals which list appropriate use of bank accounts and signatories; grant requests and receipting; financial aspects of performance-based funding; procedures for making disbursements to sub-recipients and disbursement reporting etc. Implementation mapping is another useful tool that can provide Principal Recipients and Country Teams with greater insight into program structure, controls and oversight.

66. **Monitoring & Evaluation and Data Quality Risks** are critical to informing performance based funding decisions and to supporting programmatic course management of grants. Since 2012, Country Teams have consistently ranked Monitoring & Evaluation related risks as high. This relates not so much to compliance with Global Fund reporting requirements as it concerns the basic data capturing and reporting functions throughout the programs that should enable implementers to manage programs. Major contributing factors are the lack of staff capacity, coordination and funding, as well as significant instability in countries. To contain Monitoring & Evaluation related risks, data mapping, data quality and Monitoring & Evaluation systems assessments are being instituted. These are also followed up with strategic investments in data systems and joint progress monitoring with partners. It is essential to keep improving data quality to better inform policy and process in order to respond quickly and operate effectively where disease burden is particularly high and the implementation environment complex and changing.

67. **Substandard Quality of Health Products.** This risk largely arises during in country management of health products. The lack of Standard Operating Procedures for storage, distribution and product quality monitoring, and insufficient technical and testing capacity and capability are consistently cited as the major contributing factors. According to the Secretariat risk owner, the GF needs more in-house expert resources to strengthen its oversight activities and support CTs in guiding implementers in their quality assurance activities, including proper budgeting in the grants for capacity strengthening of in-country institutions. Risk Management agrees with this assessment, as compared to for example the number of financial specialists or general grant managers, the number of health product management specialists is small, also considering the size of the risks involved in supply chain and procurement. One initiative that is hosted by the Global Fund that aims to further reduce this risk is the JIATF – the Joint Inter-Agency Task Force for Drug Theft, Diversion and Counterfeiting. It does market surveys in high impact countries to detect stolen, counterfeited and diverted pharmaceuticals.

68. Other key risks in the register that are not related to grants include future funding / replenishment, and the ability of the Secretariat to carry out major new initiatives and projects, and the manner in which it more generally defines, implements and maintains its core processes and enabling information technology. Relevant in that context is also the observation that, currently, more than half of the agreed management actions that stem from OIG reports are past due. This is not a desirable situation and should be addressed within a reasonable timeframe.