The Global Fund's Approach to Risk Management

An Aidspan Report

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of the Global Fund

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Aidspan (www.aidspan.org) is an international NGO based in Nairobi, Kenya, whose mission is to reinforce the effectiveness of the Global Fund. Aidspan performs this mission by serving as an independent watchdog of the Fund, and by providing services that can benefit all countries wishing to obtain and make effective use of Global Fund financing.

Aidspan also publishes news, analysis and commentary articles about the Global Fund in its Global Fund Observer (GFO) newsletter and on GFO Live. To receive GFO Newsletter, send an email to receive-gfo-newsletter@aidspan.org. The subject line and text area can be left blank. To see articles on GFO Live, go to www.aidspan.org/page/gfo-live.

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Preface

Aidspan (www.aidspan.org) is an international NGO based in Nairobi, Kenya, whose mission is to reinforce the effectiveness of the Global Fund. Aidspan performs this mission by serving as an independent watchdog of the Fund, and by providing services that can benefit all countries wishing to obtain and make effective use of Global Fund financing.

This report is one of several Aidspan reports available at www.aidspan.org/page/research. Other reports recently published by Aidspan include:

- *New Funding Model Allocations: An Aidspan Analysis: Nov 2014*
- *Aidspan's Guide to the New Funding Model May 2014*
- *Expenditure reported by national Tuberculosis programs in 22 high burden countries between 2010 and 2012: what is the Global Fund's contribution? Oct 2014*
- *Options for Reforming the Global Fund Board April 2014*
- *Procurement Cost Trends for Global Fund Commodities: Analysis of Trends for Selected Commodities 2005–2012, April 2013*
- *Global Fund Principal Recipient Survey: An Assessment of Opinions and Experiences of Principal Recipients, April 2013*

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Acronyms

CCM	Country coordinating mechanism
GMD	Grant Management Division
HSS	Health systems strengthening
LFA	Local Fund Agent
NFM	New funding model
OIG	Office of the Inspector General
ORC	Operational Risk Committee
ORM	Operational risk management
PR	Principal recipients
PRI	Portfolio risk index
PSM	Procurement and Supply Management
RSM	Rapid Supply Mechanism
QUART	Qualitative Risk Assessment, Action Planning and Tracking
SR	Sub-recipients

Section 1

Introduction

1.1 Background and Purpose

The Global Fund recently adopted a new Risk Management Policy to replace the Risk Management Framework that had been in place since 2009. The new policy is part of a comprehensive approach to risk management at the corporate level.

This report seeks to describe in lay terms the Global Fund approach to corporate-level risk management; a policy for country-level risk management is currently under development. To understand the parameters of the new policy, it is also important to understand the terminology as it is being used by the Global Fund. The next section is a brief glossary of terms.

1.2 Glossary

Risk

The Global Fund defines "risk" as "the effect of uncertainty on the achievement of the organization's objectives." Another definition (Aidspan's definition), which is a little more broad, is as follows:

> "the potential for adverse events that could expose the Fund to misuse or misappropriation of its investments, or to the failure to achieve its objectives at the level of individual grants and in terms of the organization as a whole."

Risk management

"Risk management" refers to the processes put in place to identify, analyse and mitigate risks.

Mitigate

To "mitigate" means to lessen in severity. Thus, in the context of risk, to mitigate means to reduce the potential of an adverse event occurring or, if the event occurs, to reduce the severity of the adverse consequences.

Risk differentiation

"Risk differentiation" refers to principle that the Global Fund is prepared to accept a different level of risk in different contexts (e.g. the Fund would accept a higher level risk in a country engaged in a civil war).

Risk thresholds

"Risk thresholds" refer to the range of risk which the Global Fund deems acceptable in the pursuit of its objectives.

Assurance

"Assurance" refers to being able to know or confirm the risks identified, and to show that risks are being effectively managed.

1.3 Elements of the Global Fund's approach to risk management

The Global Fund's approach to risk management at the corporate level consists of the following elements:

1. Risk management policy
2. Operational risk management
3. Internal control
4. Organizational risk register
5. Risk differentiation framework
6. Risk assurance
7. Governance arrangements for risk management

In the balance of this report, we devote a section to each element.

1.4 Sources

Much of the information for this report comes from five documents submitted to the Global Fund Board at its 32nd meeting in Geneva in November 2014. The documents can be found on the Fund's website here. The following is a list of the documents:

GF/B32/12 – Report on Risk Management

This document discusses the Fund's approach to risk management in general terms.

GF/B32/12: Annex 1 – TGF Risk Register 2014 Q3

This document contains the most recent organizational risk register to have been made public

GF/B32/13 – Risk Management Policy

This document contains the new risk management policy (see Annex 3). It also describes the different elements of the Fund's approach to risk management (see Annex 1).

GF/B32/14 – Applying Risk Differentiation

This document describes the risk differentiation framework being employed by the Fund.

GF/B32/15 – Proposed Changes to the Global Fund Risk and Assurance Processes

This document discussed the Fund's project on combined assurance (now called "risk and assurance").

Section 2

Risk Management Policy

This section describes the main elements of the Risk Management Policy.

The Global Fund's risk management policy was adopted by the Board on 21 November 2014. The policy states that the Fund's approach to risk management is based on a series of principles, including the following:

- Risk management facilitates, rather than encumbers, the achievement of objectives.
- Risk management is integral to normal organizational processes and decision making. It should use simple language, straightforward concepts and encourage common sense thinking.
- Risk management needs to be coordinated between the different responsible entities within the Global Fund to avoid gaps and redundancies.
- Risk management is transparent and inclusive, allowing decision makers at all levels of the organization to participate and stakeholders to be represented.
- Risk management is a dynamic and ongoing process.

In making decisions about how to manage risk, the effect of those decisions on the ultimate goal – to achieve maximum impact on the three diseases – needs to be carefully balanced. In other words, the benefits should outweigh the costs.

The policy identifies different categories of risk: internal, external and strategic.

Internal risk covers both grant management processes and supporting processes. Examples of internal risk areas include the use of financial resources; systems; staff safety; legal liability and regulatory compliance; and ethical behaviour.

Examples of external risk areas include donor policy and the dynamics of the epidemic.

Examples of strategic risk areas include the achievement of strategic objectives; partnerships; and the reputation of the Global Fund.

The policy states that "with respect to the specific risk of misuse of funds, the Global Fund has a 'zero-tolerance' policy, which means that the Global Fund does not tolerate corruption, fraud, misappropriation or abuse of any kind in relation to its grants."

The policy spells out the roles and responsibilities of various players for managing risk – the Board, the Secretariat, the Office of the Inspector General (OIG), implementers, country coordinating mechanisms (CCMs) and partners.

The Board is ultimately responsible to the Global Fund's stakeholders for overseeing the implementation of effective risk management. Responsibility for day-to-day risk management rests with the Secretariat. Within the Secretariat, with respect to grants, primary responsibility rests with the management and staff of the various divisions and departments that jointly form the country teams. The local fund agents (LFAs) also play a role but they do not have decision-making authority with respect to grants and so are not formally responsible. The Legal Counsel has a specific role in the management of legal, regulatory and reputational risk.

The policy states that the Global Fund has a risk management function led by the Chief Risk Officer.

The OIG is responsible for advising the Global Fund on whether existing controls and processes to manage risks are effective.

Implementers have the primary responsibility to manage risks in the grants they implement. Implementers includes principal recipients (PRs) that are managing sub-recipients (SRs) and SRs that are managing other implementers.

As part of their oversight of grant implementation, CCMs play a role in managing risk by detecting weaknesses in performance or control systems and promoting remedial action.

While partners do not have specific responsibility for risk management, they nevertheless play an important role by providing technical assistance to applicants and implementers; and by providing feedback on risks to the Secretariat and advice on how to mitigate those risks.

Ultimately, the Global Fund wants to mainstream risk management. It sees risk management as an integral part of grant implementation.

Section 3

Operational Risk Management

This section describes the processes that have been put in place at the corporate level to manage risks in individual grants.

3.1 Risk management at the corporate level

The Global Fund's core activity is to provide funding to fight the three diseases. Therefore, the core of the Fund's risk management approach is the identification, assessment and mitigation of grant-related risks. "Operational risk management" (ORM) is the name given to a methodology that has been developed specifically for this purpose.

Under the ORM, 19 risks that may impact on a grant's success have been identified. They are divided into four categories. See Table 3.1 for details.

Table 3.1: List of grant-related risks, by category

Category			
1. Programmatic and performance risks	**2. Financial and fiduciary risks**	**3. Health services and products risks**	**4. Governance, oversight and management risks**
1.1 Limited program relevance	2.1 Low absorption or over-commitment	3.1 Treatment disruptions	4.1 Inadequate CCM governance and oversight
1.2 Inadequate M&E and poor data quality	2.2 Poor financial efficiency	3.2 Substandard quality of health products	4.2 Inadequate PR governance and oversight
1.3 Not achieving grant output targets	2.3 Fraud, corruption or theft of Global Fund grants	3.3 Poor quality of health services	4.3 Inadequate PR reporting and compliance
1.4 Not achieving program outcome and impact targets	2.4 Theft of diversion of non-financial assets	3.4 Inadequate access and promotion of equity and human rights	4.4 Inadequate Secretariat and LFA management and oversight
1.5 Poor aid effectiveness and sustainability	2.5 Market and macro-economic losses		
	2.6 Poor financial reporting		

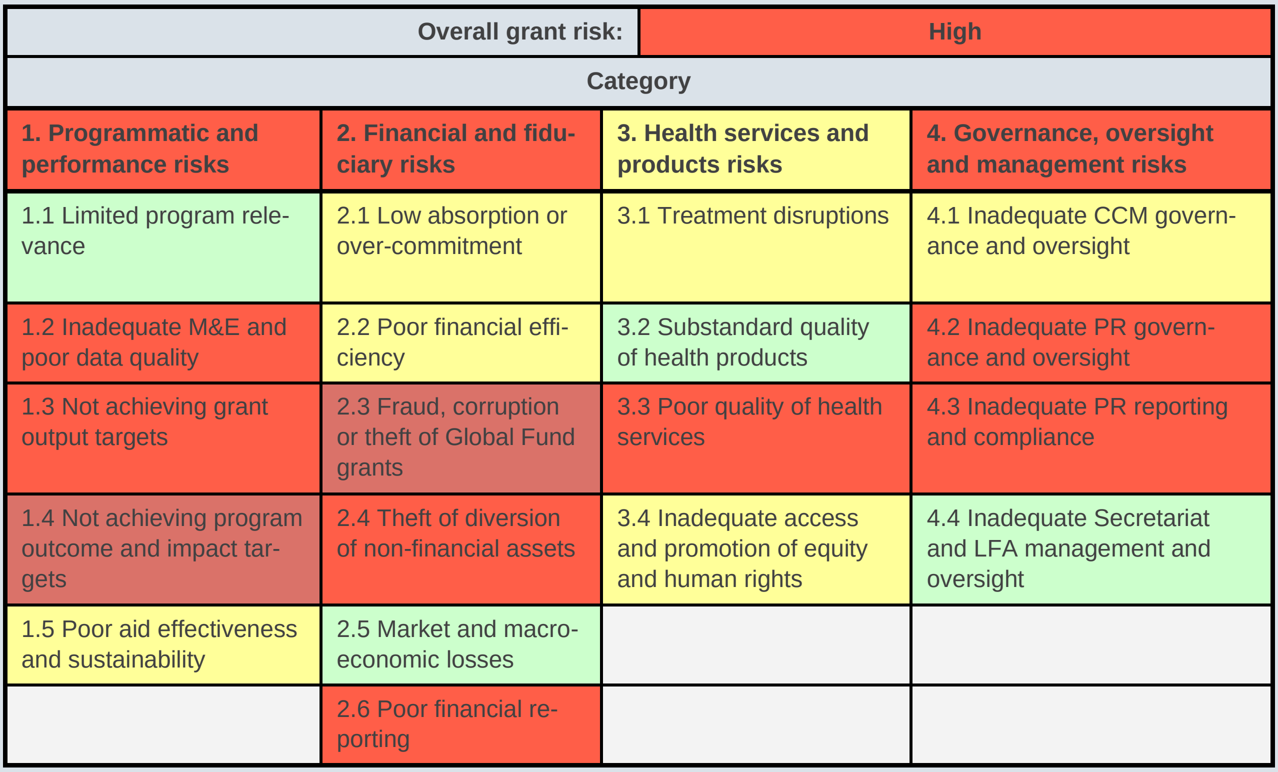
When a grant is assessed, the relevant country team documents its assessment of each of the 19 risks and records how the risks are being addressed. Not every grant is assessed; only the highest risk ones. In 2014, this led to a coverage of about 70% of the grant portfolio in terms of dollar value.

The country teams use a tool called QUART (Qualitative Risk Assessment, Action Planning and Tracking) to assess the factors that contribute to each risk and to evaluate their likelihood and severity. The QUART tool is complemented by an analysis of the various entities implementing the grant. The main implementers' actual performance on the key risks are evaluated.

The ORM assessment produces one of four ratings for each risk: very high, high, medium or low. The assessment may also include a narrative component. The Secretariat has developed standardized templates, embedded in an IT tool, for the country team to document its assessment. The assessments are required to be done at least once a year.

One output of this process is a heat map which uses color coding to denote the risk level for each of the 19 risks. Table 3.2 shows an example of what a heat map might look like. This example is not based on any particular grant.

Table 3.2: Example of a heat map



Overall grant risk:		**High**	
Category			
1. Programmatic and performance risks	**2. Financial and fiduciary risks**	**3. Health services and products risks**	**4. Governance, oversight and management risks**
1.1 Limited program relevance	2.1 Low absorption or over-commitment	3.1 Treatment disruptions	4.1 Inadequate CCM governance and oversight
1.2 Inadequate M&E and poor data quality	2.2 Poor financial efficiency	3.2 Substandard quality of health products	4.2 Inadequate PR governance and oversight
1.3 Not achieving grant output targets	2.3 Fraud, corruption or theft of Global Fund grants	3.3 Poor quality of health services	4.3 Inadequate PR reporting and compliance
1.4 Not achieving program outcome and impact targets	2.4 Theft of diversion of non-financial assets	3.4 Inadequate access and promotion of equity and human rights	4.4 Inadequate Secretariat and LFA management and oversight
1.5 Poor aid effectiveness and sustainability	2.5 Market and macroeconomic losses		
	2.6 Poor financial reporting		

Brown = very high risk, Red = high risk, Yellow = medium risk, Green = lower risk

As is evident, in addition to each risk being rated and color-coded, a risk level and a color is applied to the overall category. Finally, a risk level and color is applied to the grant.

Another output of the ORM assessment is the preparation of an implementation arrangements map. For existing grants this is done by the country teams in the Secretariat. For new grants (under the NFM) the CCM and PRs are responsible for preparing and providing this mapping of risk.

The implementation arrangements map identifies the main implementers of the grant and depicts the flow of funds and commodities down to the ultimate beneficiary level. Typically, an implementation arrangements map will show who is responsible for (a) procurement; (b) for storage and distribution and central and district levels; (c) for delivery of services; and (d) for implementing major training initiatives. It may also show how much money is being budgeted for each of the implementers and/or activities on the map. A generic example of an implementation map is shown here.

The country team also prepares an action plan that describes how each risk is being addressed. See Table 3.3 for an example of what a generic action plan might look like for the fictitious country of Ruritania:

Note: Action plans are usually more detailed, and a summary such as the one described above are presented to the ORM. Typically, there is much more information on actions, deliverables, timelines and responsibilities given in the full action plans. For each grant and for each of the 19 risks identified, a "owner" of that risk is specified from inside the country teams. The "risk owner" assumes responsibility for implementing the various actions in the action plan unless there is need to involve someone outside the country teams to bring expertise to resolve some issue.

Table 3.3: Sample risk mitigation action plan for a grant[1]

Category	Action
Program and performance	Revisit targets for PMTCT and provision of ARVs.
	Have country team conduct spot checks during visits.
	Complete gender and human rights assessment.
	Develop capacity building plans for key implementers.
	Providing missing baseline data on key populations (PR to prepare).
Financial and fiduciary	Hire fiscal agent.
	Direct contracting of external auditor by Global Fund.
	LFA to conduct site visits to SRs.
	Review guidelines for the annual internal audit of the PR.
Health services and products	Transfer procurement of health products from the PR to pooled mechanism.
	Prepare action plan for strengthening supply chain.
	Secretariat to facilitate emergency procurements.
	PR to prepare plan for avoiding stock outs.
Governance, management and oversight	Country team document problems observed with performance of LFA.
	PR capacity development plan to be endorsed by CCM.
	Establish new CCM oversight committee.
	Allocate full-time FPM to the portfolio.
	Develop action plan to strengthen capacity of national HIV program.

The assessments and action plans are reviewed by the managers of the various members of the country team and, for selected grants, by an Operational Risk Committee (ORC) that is co-chaired by the Head of Grant Management and the Chief Risk Officer. The first time a grant is assessed, the ORC reviews the assessment and action plan. Subsequently, the ORC only reviews grants that are outside the risk thresholds (see Section 6) and selected other grants.

Information from the risk assessments for the different grants is aggregated by disease, by region, by type of implementer, by size of grant and by other factors that may be considered relevant to determine whether there are any trends of hot spots that should be brought to the attention of relevant managers in the Secretariat to help the organization better manage risk.

3.2 Risk management at the country level

Up to now, the Global Fund has concentrated on the Secretariat's management of risk, as described in the previous section. The Fund says that in the next phase, in 2015, it will be refining its risk management approach at country level. Specifically, the Fund says that it will be developing requirements for country teams to engage with implementers, CCMs and partners concerning managing risks in-country. Some country teams have already started this process although no formal guidance has been issued by the Risk Management Department. The civil society constituency has been organizing, with participation from the Secretariat, regional workshops to familiarize country stakeholders with the concepts of risk management.

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[1] This is a fictitious example, not based on any particular grant.

In addition, the concept note form includes a section where applicants are asked to discuss the main risks in the programs for which they are seeking funding.

Finally, the Global Fund has established a risk management working group composed of Secretariat staff, technical assistance providers, some larger implementer organizations, and Global Fund donors, to discuss possible tools and approaches, and to develop some guidance concerning risk management practices at country level.

The Global Fund says that it does not plan to make any tool or particular practice mandatory. Rather, it will define some minimum standards and make some tools available for country stakeholders to make use of if they so choose.

Section 4
Internal Control

This section describes how the Global Fund deals with risks in the processes of the Secretariat.

The Global Fund plans to develop a bottom-up approach to Secretariat process risks similar to the ORM approach. This work has not yet been completed because most of the attention so far has been on grant-related risks.

In the interim, however, the Fund is using a top-down approach to identify Secretariat process risks that it believes should be included in the organizational risk register (see next section).

This top-down approach involves systematically assessing the Secretariat's processes against a series of benchmarks. Examples of Secretariat processes include conducting the grant risk assessments; staffing the country teams and assigning roles and responsibilities within the teams; providing support to the country teams; preparing guidance documents; preparing communications materials; assessing the capacity of staff and undertaking training to build capacity; and budgeting.

Section 5
Organizational Risk Register

This section describes the risk register that has been created to document and track the organization's main risks.

The organizational risk register includes grant-related risks that have emerged from the ORM process (risks that are common to many grants) but it also includes risks not directly related to grants, such as Secretariat process risks.

For each risk on the register, the following information is shown:

- a description of the risk;
- who owns the risk;
- the likelihood of it occurring;
- the likely impact should it occur;
- the speed at which action would be required to respond to the risk;
- relevant internal and external developments;
- mitigation actions being undertaken;
- whether the risk has increased, decreased or remained stable since the last update of the register; and
- the level of residual risk (classified as either 'high', 'medium' or 'low') after mitigating actions are taken into account.

In future, the register will also include deadlines for any mitigation actions listed.

For each risk, the risk owner is responsible for monitoring the implementation of mitigating actions.

There are four types of risks in the register:

1. Funding and sustainability
2. Strategic investments and programs
3. Governance and operations
4. People

In early 2015, the latest risk register covered Quarter 3 of 2014. See here for a copy of the register (look for Document GF-B32-12). See Annex II for an extract from the register.

There is no limit to the number of risks that can be included in the register. In the register for Quarter 3 of 2014, there are 20 risks listed.

The register is compiled by the Risk Management Department and reviewed by the Management Executive Committee on at least a quarterly basis. Every division and department in the Secretariat is required to provide input into the register. Some divisions and departments may develop a version of the register for their own area of responsibility, but this is not a requirement. The risk register is shared with the Board and its committees at least once a year. At the end of the Board meeting at which the register is presented, it becomes a public document.

Section 6

Risk Thresholds and Differentiation

This section how the Global Fund applies the concepts of differentiation and risk thresholds to managing risks.

Establishing risk threshold levels is an important element of risk management. These thresholds establish the range of risk within which the Global Fund decides to operate. The process of determining the thresholds is referred to as "risk differentiation."

The purpose of establishing thresholds is to ensure that risks are not over- or under-managed and that the organization's resources are effectively utilized. Reducing risk involved in the pursuit of an objective usually involves incurring costs; the lower the risk threshold, the higher the cost will tend to be. At the other end of the range, failing to set risk thresholds at the right upper level would mean that the organization is not adequately protected and is exposing itself to the possibility that it will incur unacceptable losses or that it will fail to meet its objectives.

In November 2014, the Board adopted a framework for risk differentiation. The framework covers risks related to grants as well as risks related to processes that support grants.

6.1 Grant-related risks

For grant-related risks, the Global Fund uses a measurement called the "portfolio risk index" (PRI). This index comes from the individual grant ratings. It is used now as a corporate key performance indicator and it represents or measures a summarized, overall level of portfolio risk. The minimum achievable value for the PRI is 1 and the maximum is 4 – from low to high risk levels. The use of 4 levels is arbitrary but it is how the Fund has chosen to categorise the thresholds. An index, by definition, makes these categories more graduated and subtle to describe different levels of risk. Because the level of risk is expressed in a single metric, the index can be used to track risk management performance over time. The PRI is also being used to determine the Fund's approach to risk differentiation.

As of November 2014, the value of the PRI was 1.86; the acceptable range has been set at +/- 10%, meaning 1.7 – 2.0.

The Global Fund is willing to accept higher levels of risk in grants that are being implemented in environments that are inherently riskier (for example in fragile states), than for grants in relatively lower-risk settings.

The first step is operationalizing risk differentiation is to categorize countries based on their contextual risk level. The categories are "very high", "high", "medium," and "lower." When setting risk thresholds for country portfolios, a composite index is used that provides a reliable proxy of this contextual risk level[2]. The index combines ten different authoritative indices that measure aspects of the contextual risks that grants face. The ten indices consist of:

1. The Fund for Peace's Failed States Index
2. Transparency International's Corruption Perception Index
3. The World Bank's Ease of Doing Business Index
4. The UN's Safety and Security Index
5. The Institute for Economics and Peace's Global Peace Index

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[2] This index helps to determine the risk level of the whole portfolio. For example, if contextual risk increases, we can expect to see an increase in the risk level of the whole portfolio, all other things being equal. Similarly, for risks that are inherently easier to manage, the Fund's threshold level will be lower than for risks that are harder to control, such as supply chain or sustainability-related risks.

and the following indices used by the World bank:

6. Government Effectiveness Index
7. Regulatory Quality Index
8. Rule of Law Index
9. Control of Corruption Index
10. Voice and Accountability Index

The methodology incorporates an adjustment factor for current developments that are not accounted for in the indices, due to the typical updating time lag.[3]

Table 6.1 shows the distribution of countries as per this contextual risk index .

See Annex I for a list of the countries in each category.

Different risk threshold ranges are allocated to each of these categories of countries. The higher the contextual risk level in a country, the higher the risk threshold levels. Ranges are established for (a) individual grants; (b) the portfolios for each disease in a given country; and (c) the overall country portfolio (including health systems strengthening). See Table 6.2 for the threshold ranges for each risk category.

Table 6.1: Distribution of Global Fund–eligible countries by contextual risk category as of August 2014

Contextual risk category	No. of countries
Very high	15
High	25
Medium	50
Lower	36

The ranges are the same for all countries in each category. The ranges will be revisited annually.

Additional management scrutiny – over and above the scrutiny that occurs during the ORM process -– is applied to all grants and portfolios that fall outside the risk threshold ranges.

Among the more than 180 individual grants for which detailed risk assessments are maintained, 30 are outside the risk threshold ranges. Details are provided in Table 6.3.

Management is required to file reports periodically on these "outliers" to the regional operational risk committees. (There will be an operational risk committee for each region in the Grant Management Division structure.)

Any grant, disease portfolio or country portfolio that exceeds the agreed risk threshold ranges will be reviewed by the regional operational risk committee. The committees will decide on an appropriate course of action. Possible actions include further strengthening controls; reducing the underlying risk exposure; accepting the higher (or lower) risk levels; or some combination of the above.

Table 6.2: Risk threshold ranges per risk category as of 14 August 2014

Contextual risk category	Risk threshold ranges		
	Grant	Country disease portfolio	Overall country portfolio
Very high	1.6 – 2.6	1.5 – 2.5	1.5 – 2.5
High	1.4 – 2.6	1.4 – 2.5	1.3 – 2.4
Medium	1.2 – 2.5	1.3 – 2.4	1.2 – 2.3
Lower	1.2 – 2.2	1.2 – 2.3	1.2 – 2.2

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[3] For example, the Palestine/Gaza and Ukraine ratings are adjusted to account for political unrest; and adjustments are made to the Sierra Leone and Liberia ratings to account for the Ebola outbreak.

Table 6.3: Number of grants and portfolios outside the threshold ranges

Contextual risk category	No. of grants or portfolios outside the threshold ranges					
	Grants		Country disease portfolios		Overall country portfolios	
	Above	*Below*	*Above*	*Below*	*Above*	*Below*
Very high	6	0	2	0	0	0
High	4	9	0	4	0	0
Medium	3	4	2	1	1	0
Lower	1	3	0	3	0	1
Totals	**14**	**16**	**4**	**8**	**1**	**1**

Some country teams have had more resources assigned to them as a result of this process.

The Global Fund believes that when a grant, disease portfolio or overall portfolio is operating below the threshold range, this could mean one of two things:

1. The assessment may be incorrect or too optimistic, and the risks are greater than the country team thinks – in which case, not enough may be done to mitigate the risks.
2. It could mean that too much effort is being expended to mitigate risks down to a level that is not necessary, which would be inefficient.

The regional committees will review trends and developments, and where the committees think these require further discussion, they will be sent forward to the Secretariat Risk and Assurance Committee. Relevant analyses will be prepared and disseminated quarterly.

Some of this information will be included in an annual ORM report which is sent to the Board and then becomes public. The report will include what we see as the main developments and trends as captured by the risk management process from the different risk owners across the organization.

6.2 Risk related to the processes that support grants

The Secretariat's various supporting processes also present different degrees of risk to the organization, so the Fund will be setting risk threshold ranges for these processes. This work has only just begun. Currently, the Secretariat is measuring the extent to which the various supporting processes comply with the benchmarks in the COSO Framework, the standard for internal control that has been adopted by the Global Fund.[4]

As of February 2014, 10 of the approximately 60 Secretariat processes were being assessed. Once the assessments are completed, the Secretariat will proceed to establish the risk threshold ranges. The Secretariat Risk and Assurance Committee has oversight responsibility for this work.

6.3 Setting targets

Targets are being set at three levels in the grant portfolio: (a) individual grants; (b) each disease portfolio in a given country; and (c) the entire portfolio (i.e. all three diseases and health systems strengthening) in a given country. Targets are also being set at regional levels and for individual risks across the entire portfolio (e.g. the 19 risks in the ORM heat map).

This is similar to how the PRI works. The Fund will be able to determine the average level of risk for each individual risk (for example the risk of sustainability) across the portfolio, and compare it to the PRI. Outliers, both high and low, can then be scrutinized more closely. The same approach will be used at the levels of the disease portfolios, the regions, and so on.

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[4] COSO stands for Committee of Sponsoring Organizations of the Treadway Commission. It has established an Enterprise Risk Management-Integrated Framework. According to the COSO website, this framework "is widely accepted and used by management to enhance an organization's ability to manage uncertainty, consider how much risk to accept, and improve understanding of opportunities as it strives to increase and preserve stakeholder value." The COSO website contains an executive summary of a document entitled Internal Control – Integrated Framework (see here).

The Fund has started to implement this approach by calculating the average risk scores for each GMD region.

6.4 Annual reviews

The use of the risk differentiation framework will be reviewed every year. The Risk Management Department and the Grant Management Division will jointly undertake this exercise and present their findings to the Risk and Assurance Committee.

Section 7
Risk Assurance

This section describes the Global Fund's new Risk and Assurance Project.

As one component of its approach to risk management, the Global Fund has embarked on a Combined Assurance project which has been re-named the "Risk and Assurance Project." The purpose of the Risk and Assurance Project is to ensure that there are mechanisms in place to assess whether risks are being effectively managed. The project may result in improvements being incorporated in the grant management process and in the governance arrangements around risk management. Assurance planning and execution will be required to be formally documented; and decisions on assurance will be subject to more management scrutiny.

The Global Fund believes that there are three primary levels where assurance should be obtained:

1. at the level of country systems, through the actions of the PR in managing and overseeing grant implementation; and the work of the country teams and LFAs in providing oversight;
2. at the level of the oversight provided by the Chief Risk Officer in the Secretariat; and
3. at the level of the Office of the Auditor General, through its audits and investigations.

Assurance can also be obtained from the Fund's partners, who have a good understanding of the risks within grants. Finally, external, independent assurance providers could be used when assurance and information from partners is insufficient.

One of the objectives of the Risk and Assurance Project is to ensure that there is a process in place for country teams to escalate key issues to senior management that could affect grant outcomes and, therefore, strategic impact.

A dedicated team of three assurance and risk management experts from the Risk Management Department will be piloting the improvements identified in 2014 and reported to the 32nd Board meeting by the Risk and Assurance Project in about a half dozen countries. Following the pilot, the improvements will be implemented across the portfolio. The Global Fund expects this process will take at least two years, because it involves all country team members and many assurance providers.

Once the Risk and Assurance Project is completed, improvements to the Fund's current approach to assurance will be integrated into the risk management process.

Section 8
Governance arrangements

This section describes where in the organization the responsibility lies for managing risk.

The Global Fund believes that the Board and senior management have a shared responsibility to nurture a risk-aware culture that encourages prudent risk-taking within established risk thresholds.

The Board is ultimately responsible for overseeing the implementation of effective risk management. It does so by understanding the organization's risk philosophy; overseeing the extent to which management has established effective risk management; and regularly reviewing the "portfolio of risk" [5]and assessing it against the risk thresholds.

At the Secretariat, risk management oversight is the responsibility of the Risk and Assurance Committee, chaired by the Executive Director and comprising all the members of the management executive team who share responsibility for creating and managing grants. In addition, regional risk and assurance committees review and approve grant-related risk management assessments and risk mitigation plans.

At a divisional and departmental level, each team is responsible for the identification, assessment, mitigation and monitoring of risks inherent in its activities. At an organizational level, for each risk there is an "owner" who is primarily accountable for the ongoing assessment, mitigation and reporting of that risk. Because the Global Fund is a matrix organization, the management of most risks usually involve at least two different departments and, as a result, it is crucial to maintain effective cross-departmental collaboration.

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[5] This includes the risks in the organizational risk register as well as the 19 risks that are used in the ORM process for assessing individual grants.

Risk Management Department

A Risk Management Department, led by the Chief Risk Officer, has been established in the Secretariat to ensure coordination of, and consistency in, risk management activities across the organization. This is done by using a consistency in process design and documentation; by establishing processes and setting standards; by establishing common terminology; by ensuring transparent risk reporting; and by forming cross-Secretariat risk management teams.

The Risk Management Department is also responsible for monitoring compliance with the established processes and standards. This involves performing routine and ad-hoc verifications, including in-country visits.

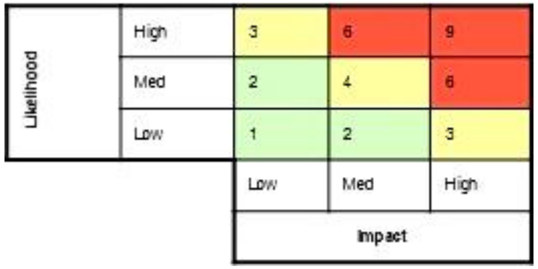
Twice a year, the department provides regular progress reports to senior management and the Board. Board reports are made public at the conclusion of the Board meetings. Although the Risk Management Department provides guidance and support, detailed risk management remains the responsibility of line management.

Annex I
List of the countries in each category of the contextual risk index

Category (no. of countries)	**Countries**
Very high risk (15)	Afghanistan, Burundi, Central African Republic, Congo (Democratic Republic), Guinea-Bissau, Iraq, Korea (Democratic Peoples Republic), Libya, Nigeria, Palestine/Gaza*, Somalia, South Sudan, Sudan, Syrian Arab Republic, Yemen
High risk (25)	Angola, Chad, Congo, Cote d'Ivoire, Egypt, Eritrea, Guinea, Haiti, Honduras, Iran, Kenya, Lebanon, Liberia*, Mali, Mauritania, Myanmar, Niger, Pakistan, Sierra Leone, Tajikistan, Uganda, Ukraine*, Uzbekistan, Venezuela, Zimbabwe
Medium risk (50)	Albania, Algeria, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bolivia, Cambodia, Cameroon, Colombia, Comoros, Djibouti, Dominican Republic, Ecuador, El Salvador, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Guatemala, Guyana, India, Indonesia, Jamaica, Kazakhstan, Kosovo, Kyrgyzstan, Lao, Madagascar, Malawi, Maldives, Moldova, Mozambique, Nepal, Nicaragua, Papua New Guinea, Paraguay, Peru, Philippines, Russian Federation, Solomon Islands, Swaziland, Tanzania, Thailand, Timor-Leste, Togo, Turkmenistan
Lower risk (36)	Argentina, Bhutan, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burkina Faso, Cape Verde, China, Costa Rica, Cuba, Georgia, Ghana, Jordan, Lesotho, Macedonia, Malaysia, Mauritius, Mexico, Mongolia, Montenegro, Morocco, Namibia, Panama, Romania, Rwanda, Sao Tome and Principe, Senegal, Serbia, South Africa, Sri Lanka, Suriname, Tunisia, Uruguay, Viet Nam, Zambia

Annex 2 Extract from the Organizational Risk Register for Quarter 3 of 2014

(1) Risk identification					(2) Risk assessment		(3) Risk management				
#	**Risk type**	**Risk description**	**Strategic obj**	**Risk owner**	**Inherent risk**	**Onset of risk**	**Existing controls in place to manage risk**	**Residual risk**	**Direction of travel**	**Further risk management actions needed**	**Risk owner review comments Oct 2014**
5	Strategic Investments & Prog-rams	Weak country data systems leading to risk that quality of the data is not reliable or timely enough to monitor prog performance or demonstrate impact	1 3	Osamu Kunii (Head, SIID)	High	On-going: Country Dialogue, Concept Note development and grant implementation	The epid review is being done with partners. Data mapping, data quality and M&E systems assessments are being instituted, and followed by strategic investment in data systems, and joint progress monitoring with partners. Impact Profiles generated and annually updated, with assessment of progress towards impact, identification of key data gaps and need for investments. Investments into HMIS with partners to generate routine data.	Medium	⇨	Revised data quality assessment methodology together with partners and increased coverage of yearly sampling. Review methodology for regular implementation of data quality assessments and identify appropriate service providers according to context. Work-streams to address these issues include Combined Assurance and Program Quality Hub.	Look to KPI for further information in tracking data.
6	Strategic Investments & Prog-rams	Treatment disruption due to inadequate supply management	3	Mark Edington (Head, GMD)	High		There is national forecasting and quantification or national coordination committee in place in each High Impact and PSM high-risk countries that review available information and update forecasting. Health Products Management Specialists embedded in each Country Team actively monitor outcomes. They, or the LFA may, attend forecasting committee meetings. For High Impact countries, approval by the Secretariat of the forecast and quantification of health products is moving toward a systematic annual approval process. High Impact countries are required, and others strongly encouraged, to have an active national PSM coordination mechanism. CTs may increase involvement of the LFA where treatment disruption risks are high. CTs mitigate lack of capacity in management by ensuring that SOP tools are in place and staff receive training through TA services and LFA oversight – eg spot checks on stock records.	High	⇨	Allocate sufficient LFA resources in 2015 budget where PSM related risks are high. As part of the differentiation process in managing grants, there will be a review of levels of effort and resourcing across the grant portfolio. The Sourcing Department is operationalizing the Rapid Supply Mechanism ('RSM') - a new capability that enables the Fund to respond quickly to stock-outs, or treatment disruptions. RSM will be fully operational in 2015 Q1.Joint efforts from donors and technical agencies in aligning better effort and investments to support and develop national supply chain systems through a supply chain Inter Agency Group. The Group is optimizing support for supply chains system strengthening in priority countries, such as Nigeria and DRC.	



Likelihood				
	High	3	6	9
	Med	2	4	6
	Low	1	2	3
		Low	Med	High
		Impact		

Risk ranking matrix: The color-scheme uses the traffic-light phased approach from green means low, through yellow to red meaning high.

Independent observer
of the Global Fund

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