

Audit Report

Global Fund Fraud Risk Management Maturity Assessment

GF-OIG-22-010
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Geneva, Switzerland

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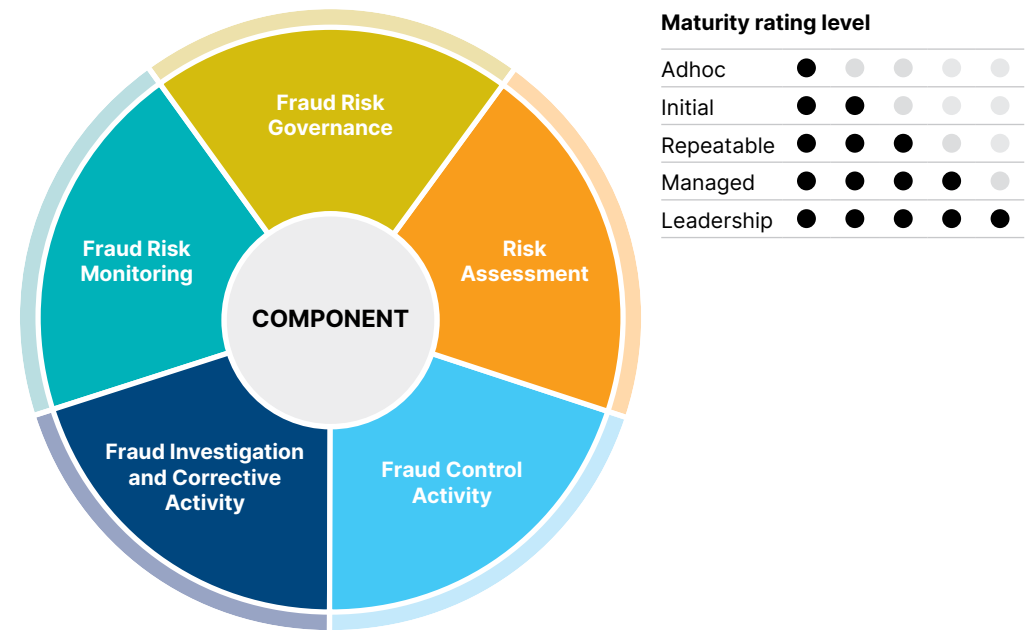
1. Executive Summary

The Global Fund's Policy to Combat Fraud and Corruption¹ (PCFC) highlights that fraud and corruption impede the organization's mission by corroding public health institutions and systems, and by facilitating human rights abuses, ultimately hurting the quality and quantity of grant programs. Fraud and corruption also reduce trust, which is critical to donors and to the success of the Global Fund's partnership and delivery model.

The Global Fund's mission requires the organization to work in extremely challenging environments which present multiple risks, including of fraud and corruption. Most countries supported by the Global Fund rank below average on Transparency International's Corruption Perceptions Index.² The ability to prevent, recognize, investigate and respond to fraud and corruption at an early stage is therefore critical.

We assessed the maturity of the Global Fund's fraud risk management framework against the five core components of the ACFE/COSO guide³ on fraud risk management. We also rated each component using the five-point scale from the *Enterprise Anti-Fraud Maturity Assessment Model* ⁴ (see figure 1).

FIGURE 1: FRAUD RISK COMPONENTS AND FRAUD MATURITY RATING SCALE



1 The Global Fund Policy to Combat Fraud and Corruption 15 November 2017, as approved by the Board in November 2017 under decision point GF/B38/DP09 and as set forth in Annex 4 to GF/B38/06 - Revision 2, https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf

2 [Corruption Perceptions Index report by Transparency International](#), (accessed February 2022).

3 *Fraud Risk Management Guide*, joint publication by The Association of Certified Fraud Examiners (ACFE) and The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2016.

4 From *Anti-Fraud Playbook: The Best Defense Is A Good Offense*. 2020 Grant Thornton LLP and ACFE.

1. Executive Summary

Overall maturity assessment

The five components are at different maturity levels, ranging from 'Initial' to 'Managed'.

- **Fraud Risk Governance** is at “repeatable” level. The Global Fund has defined structures, frameworks, policies and guidelines for fraud risk management. These are documented and, where appropriate, publicly available. To further mature, the Secretariat will need to define overall ownership and accountability in addressing fraud risk as a cross-functional issue, as envisaged in the PCFC.
- **Fraud Risk Assessment** is at “repeatable” level. The Global Fund’s fraud risk assessment processes are part of its Integrated Risk Management framework and are generally aligned with its internal and external environment. These processes are standardized and documented. To reach the next maturity level, the fraud risk assessment approach will need to be adapted to ensure proactive identification of fraud schemes, as well as related mitigation measures and comprehensive consideration of programmatic fraud risks at grant level.
- **Fraud Control Activities** are standardized and can be tailored to different context, and are hence rated as “repeatable”. However, anti-fraud mechanisms tend to be more reactive, with less emphasis on preventative controls, especially for programmatic fraud risks. Moving to the next level will involve strengthening preventative controls and strengthening implementer capacity to identify and report red flags.
- **Fraud Investigation and Corrective Action**⁵ is at “managed” level. The Global Fund has an independent investigation function that is independently assessed for continuous improvement every three years. The organization takes corrective actions, including recovery of assets from fraud. To further mature in this area, the Secretariat will need a structured approach to synthesize and learn lessons from the suspected and actual fraud cases brought to their attention by the investigation function, and to strengthen its sanction processes.
- **Fraud Risk Monitoring** is at “initial” level. The Secretariat implements monitoring activities at the portfolio level. However, there are not sufficient processes at enterprise level to ensure end-to-end monitoring of fraud risk across the organization. The execution of monitoring activities varies significantly across departments and portfolios. To further mature in this area, the organization will need to define and execute a standardized approach in monitoring the effectiveness of its fraud risk management.

Key achievements and good practices

- **Relevant policies and structures to support fraud risk management**

The Board has approved relevant frameworks and policies which set broad expectations in managing fraud risk. These include the Ethics and Integrity Framework, approved in 2014, the PCFC approved in 2017, and the Code of Conduct for suppliers and implementers, last updated in 2021. These publicly available documents recognize that ethics and integrity are central to the Global Fund’s mission, and that fraud risk is cross-functional, covering financial and programmatic risks. Grant agreements, codes of conducts, Whistleblowing policies and procedures and the OIG charter enable independent investigation of alleged fraud and corruption cases. An Ethics Office, established in 2016, supports the design and implementation of ethics and integrity-related policies, codes and requirements to address defined misconduct. The Secretariat has developed guidelines and operational policy notes to support implementation of Board-approved frameworks and policies. The Secretariat’s financial statements and grants funds are audited annually by independent external auditors.
- **Fraud risk forms part of the integrated risk management framework**

Fraud risk assessment is part of the Global Fund’s integrated risk management framework, which covers both Secretariat and grant-level activities. In 2019, the Secretariat enhanced the assessment of fraud risk in its enabling functions by including it in routine business process reviews. Fraud risk inherent in grants is considered during grant making and updated throughout the grant lifecycle.
- **Strong detection and response mechanisms**

The Global Fund has mature systems and structures to detect and address fraud risks when they occur. Investigation of alleged fraud cases is managed by an independent function and reported to the Board. The Secretariat and the OIG agree on actions to address identified fraud cases. The Secretariat has a number of measures for responding to fraud risks, including the use of fiscal agents and other assurance providers. Through the Recoveries Committee chaired by the Chief Risk Officer, the Secretariat seeks recovery of lost funds and/or assets.

The Secretariat routinely adapts its response mechanisms to the changing operating context. The Secretariat has updated its risk appetite and assurance activities due to the increasing risks occasioned by the COVID-19 pandemic. The risk appetite for Grant-Related Fraud and Fiduciary was increased from “moderate” to “high”, with the expectation of returning to “moderate” by end of 2022. The Secretariat proposed various mitigation actions and assurance activities to reach this target.

⁵ Because OIG activities were included in the scope of this section, the OIG used the findings of the External Quality Assessment (EQA) to form the basis of opinion for this component. This was done with explicit permission from IFACI, the External Quality Assessment provider.

1. Executive Summary

■ Ongoing Secretariat initiatives to improve fraud risk management

The Secretariat recognizes the increased fraud risk during the pandemic. It retained an external firm in 2021 to perform a fraud risk assessment for identified portfolios, to inform mitigation measures. The Secretariat outlined, for the purpose of this engagement, existing fraud risk assessment processes, control activities and response mechanisms across key Secretariat and grant related processes which should improve its ability to address related risk holistically.

Opportunities for improvement

■ Limited ownership and accountability in addressing cross-functional fraud risks

The PCFC recognizes that fraud and corruption infiltrate not only financial management but also strategic decision-making, governance, public health systems, program quality, and reporting. While the Global Fund has matured its financial management processes, increasing its ability to manage financial fraud risk, limited progress has been made in managing the wider programmatic areas envisaged in the PCFC. Ownership and accountability for implementing the PCFC has not been defined, delaying planned PCFC activities. While the Secretariat developed an implementation plan in early 2021 to address this issue, mitigation activities had not started by December 2021, the target implementation date for updating guidelines and tools to reflect the cross-functional dimension of fraud risk.

The Global Fund lacks specific guidelines to prevent or reduce fraud and corruption risks inherent in managing medicines and health products at country level, which account for about 60% of investments. Where fraud materializes, the Global Fund leverages its financial management process to recover losses, but preventive and detective measures need to be prioritized.

■ Opportunities exist to enhance fraud risk assessment

The Risk Department performs fraud risk assessments of Secretariat internal processes. Fraud risk is also considered in the Key Business Process Reviews performed by the Risk Department.

At grant level, the Capacity Assessment Tool used to assess implementers at the inception of grants does not comprehensively cover programmatic fraud risks. There is a need to improve documentation of fraud risk considerations during the life cycle of grants. For example, the rationale for fraud risk ratings in the risk management system is either not documented or unrelated to the risks. This reduces teams' ability to understand the drivers of fraud risk in their portfolios, and impedes the effective roll-out of relevant mitigation measures.

■ Need for improved due diligence and capacity building of implementers to strengthen preventive fraud measures

The Secretariat has developed and deployed a risk-based integrity due diligence ("IDD") approach for most counterparties. However, the requirements for Principal Recipients to perform IDD on their staff, sub-recipients and suppliers, where material risks exist, remain outstanding. In seven of eight sampled portfolios, Country Teams did not conduct background and due diligence checks on the key positions within implementers' program implementation units. While management integrity is listed in the organizational risk register as a root cause, the risk is not being mitigated proactively.

All the international non-governmental organizations (iNGOs) that are grant Principal Recipients in the sampled countries have anti-fraud policies and independent oversight departments with investigation capacities. They also periodically conduct fraud awareness training for staff. In contrast, 8 of the 14 local NGO and government implementers in the sampled countries do not have required anti-fraud measures and have not been trained on fraud risk management in the last five years. This contributes to the Secretariat instituting supplementary measures, such as Fiscal Agents or additional safeguards to support grants in challenging environments, which is unsustainable in the long-term.

■ No mechanisms to monitor the fraud risk program at enterprise level

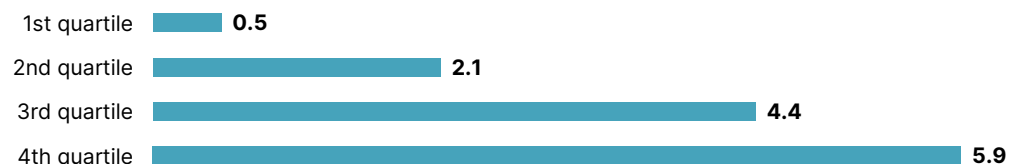
Periodic monitoring is critical to inform changes to the risk management framework, based on the evolving fraud landscape and inherent risks in grants. At portfolio level, the Secretariat implements various monitoring activities, such as the Country Portfolio Review. However, the Global Fund has not yet developed or approved a formal fraud risk monitoring approach which could provide central-level visibility on trends in fraud activities across portfolios and trigger an appropriate response. As part of the PCFC implementation plan, the Secretariat is expected to evaluate its anti-fraud programs in 2023. Presently, different teams monitor fraud with varying degrees of maturity, with most focus on financial and fiduciary risks.

2. Background

Most Global Fund grants are inherently risky and require robust oversight

The Global Fund operates in challenging environments which expose its programs to fraud and abuse. Most countries supported by the Global Fund are ranked below average on the [Corruption Perceptions Index \(CPI\)](#) published by Transparency International. About US\$6 billion of Global Funds go to countries in the bottom 45 of the 180 countries (4th quartile) in the CPI report, as shown in figure 2 below. Eligible Global Fund countries in the bottom half of the CPI score account for 83% (US\$10.3 billion) of Global Fund allocations.

FIGURE 2: GLOBAL FUND ALLOCATIONS TO CPI REPORT COUNTRIES
USD (Billions)



The COVID-19 pandemic and changes in working practices have increased opportunistic fraud in programs, requiring strong monitoring mechanisms.

Definition and scope of fraud and related policies at the Global Fund

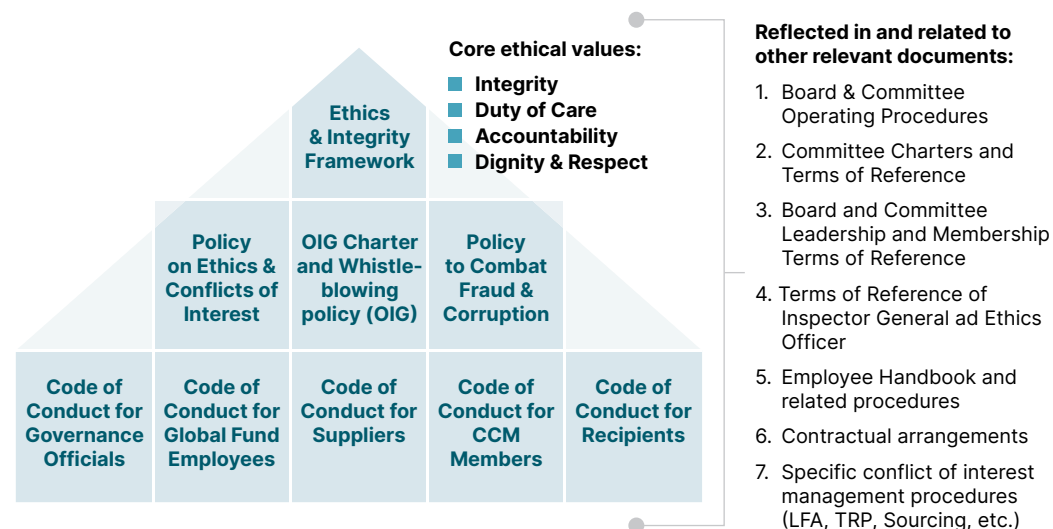
The Global Fund’s risk management policy issued in 2014 requires proactive and shared responsibility from the Board, staff and implementers in managing risks. It recognizes the integral nature of risk management in the organization’s culture, strategic planning, decision making and resource allocation.

In 2017, the Board, in approving the [Policy to Combat Fraud and Corruption \(PCFC\)](#), defined fraud as any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. The definition of fraud risk was widened to consider programmatic as well as financial risks: specifically, section 3.3 of the PCFC states that *“The Global Fund recognizes that fraud and corruption infiltrate not only financial management, but also strategic decision-making, governance, public health systems, program quality and reporting.”*

For the purposes of this review, programmatic fraud refers to fraud other than financial frauds, such as “health product substitution and counterfeiting, as well as misrepresentation or manipulation of any information arising from or relating to Global Fund Activities such as proposals, plans, evaluations, performance data, epidemiological data, reports, and audits” (PCFC, section 4.3).

As well as these key frameworks, the Global Fund Board and its Committees have approved several policies and guidance documents relevant to fraud risk management (figure 3 below).

FIGURE 3: MAIN ANTI-FRAUD POLICIES AND GUIDELINES AT THE GLOBAL FUND



2. Background

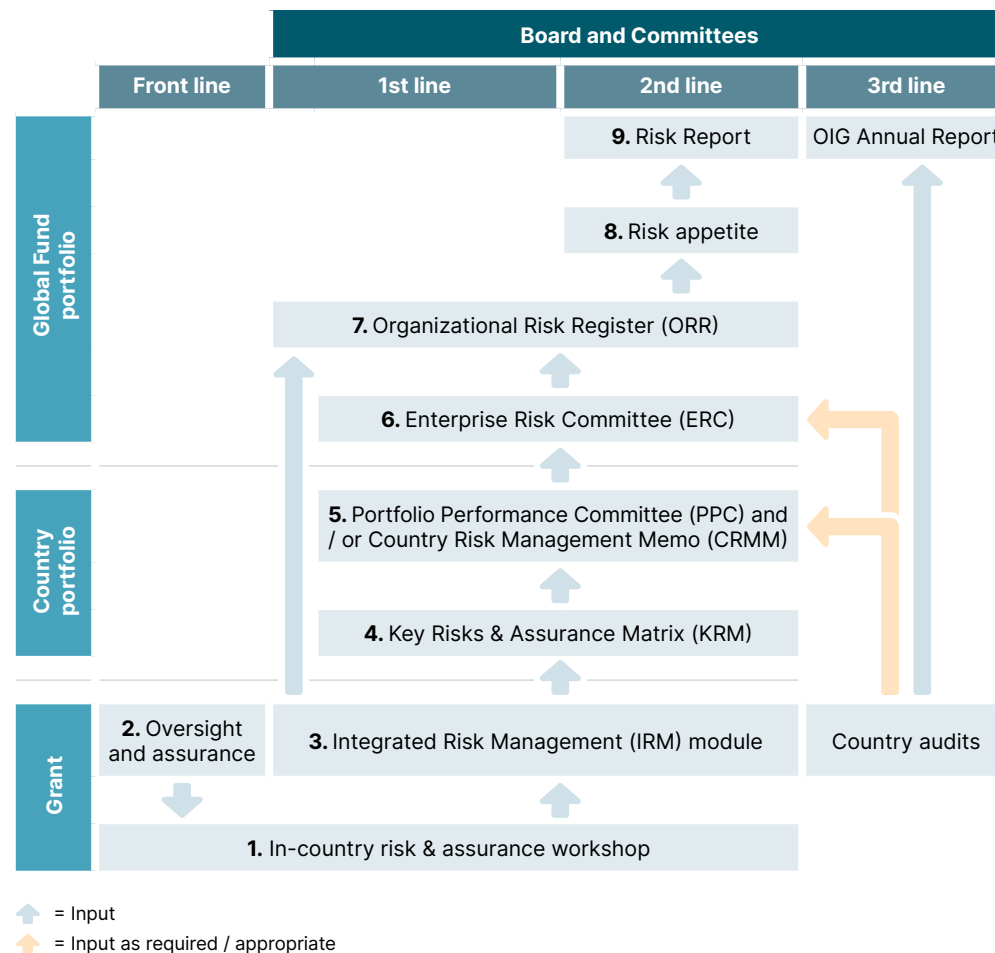
Fraud Risk Maturity Assessment

Fraud risk approach at the Global Fund

Fraud risk approach at the Global Fund Fraud risk management is part of the Global Fund Integrated Risk Management framework, which is built on three lines of defense: a first line that includes the Country Team and support of in-country assurance providers; a second line made up of Risk Department and other risk owners, such as the Technical Advice and Partnerships team, Finance Department and Supply Operations, and a third independent line which includes the OIG and the external auditor, who report to the Board or its Committees.

Throughout the grant lifecycle, fraud and other risks are assessed and documented in the integrated risk management module (IRM), from which a Key Risk and Assurance matrix (KRM) is generated for monitoring. Risk management structures include two governance bodies: the Portfolio Performance Committee (PPC) ensures key risks over grants are proactively identified, prioritized and properly mitigated; and the Enterprise Risk Committee (ERC) looks at overall risks faced by the organization. The risk management approach is shown in figure 4.

FIGURE 4: GLOBAL FUND RISK MANAGEMENT STRUCTURE



2. Background

Fraud trends at the Global Fund: types of allegations and sources

During 2019-2021, the OIG opened 489 investigations into the following types of allegations:

- Theft of equipment, commodities and money, referred to as abusive practices (157 investigations, or 32% of cases);
- Fraudulent practices, which included data manipulation, misrepresentation and fraudulent documents (116 investigations, or 24% of cases);
- Price fixing, bid rigging and Conflicts of Interest, referred to as collusive practice (71 investigations, 15% of cases);
- Corrupt practices including bribery (66 investigations, 13% of cases).

Fraudulent and corrupt practices therefore collectively accounted for 37% of cases investigated by the OIG in this period.

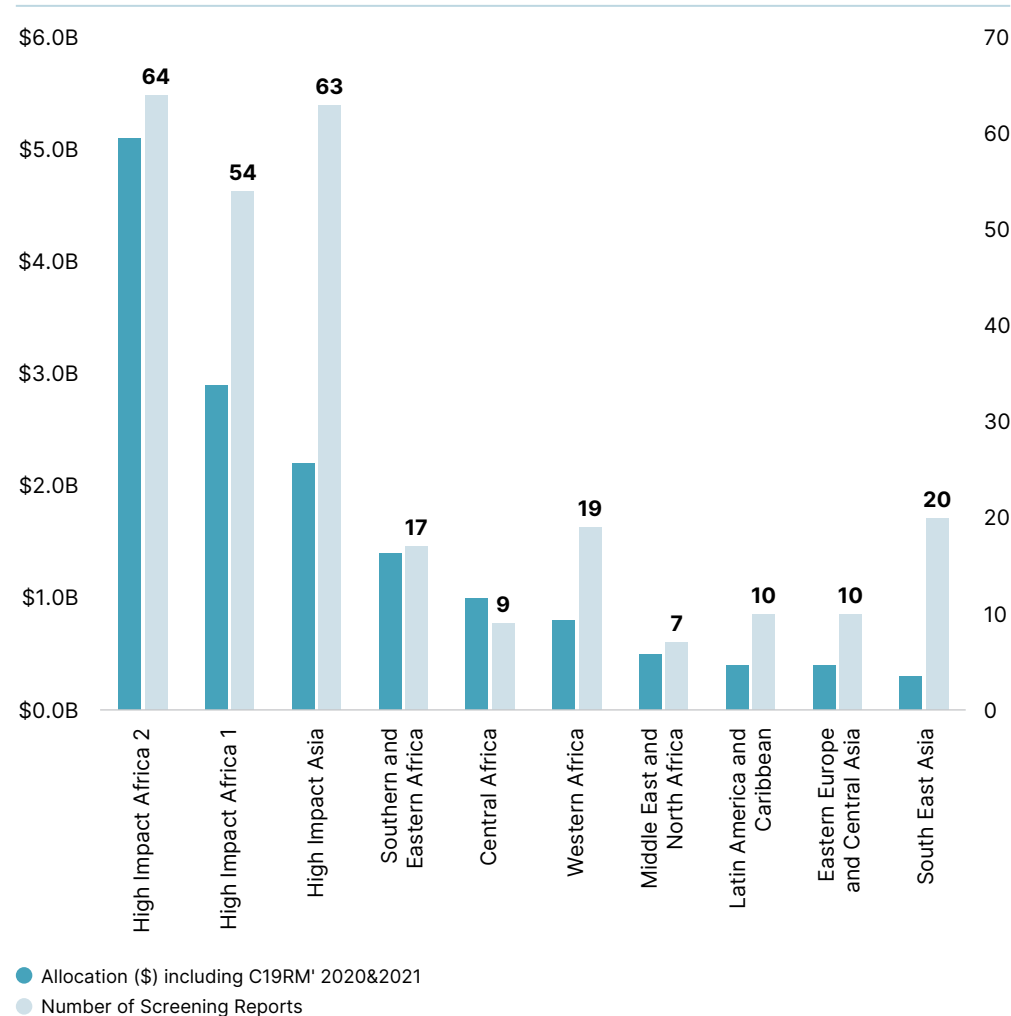
Not all investigations result in a published report; the OIG issues case closure memoranda when the investigation is inconclusive or an allegation is unfounded (the evidence does not support the allegations), not material, there has already been a proportionate response, risks have been mitigated, or deficiencies addressed.

OIG investigations produce Agreed Management Actions (AMAs) based on lessons learned from cases. AMAs included financial recoveries, sanctions of entities and individuals, and the strengthening of controls and processes.

The OIG identified non-compliant transactions totaling US\$143.2 million⁶ between 2019 and 2021, most of them due to fraudulent practices and theft. In the same period, the proposed recoveries of funds as a result of OIG investigations during that period was US\$14.4million. Principal Recipients (PRs) and sub-recipients (SRs) are most frequently the subjects of OIG investigations, respectively accounting for 42% and 23% of investigations.

The number of allegations generally aligns with the size of funds allocated by region, with most allegations affecting grants in the Global Fund's High Impact Africa 1, High Impact Africa 2, and High Impact Asia regions (see figure 5).

FIGURE 5: ALLOCATION AND NUMBER OF SCREENING REPORTS BY REGION



Assurance providers engaged by the Secretariat also identify non-compliant expenditures which are reported to the Board by the Secretariat. As at 31 December 2021, the Secretariat has reported US\$ 26.7 million as outstanding recoverable amounts resulting mostly from non-compliance expenditures and mismanagement.

⁶ US\$106 million relates to [one case](#), which is being considered by the recoveries committee.

3. Objectives and Scope

Objectives

The review sought to assess the maturity of the Global Fund's framework (including policies and procedures) on fraud and corruption, and position the organization in a rating scale for further improvement.

Specifically, the engagement reviewed the Global Fund's fraud risk management framework against the five components of the ACFE/COSO Fraud Risk Management Guide: Fraud Risk Governance, Fraud Risk Assessment, Fraud Control Activities, Fraud Investigation and Corrective Action, Monitoring & Reporting, as shown in the diagram opposite (figure 6).

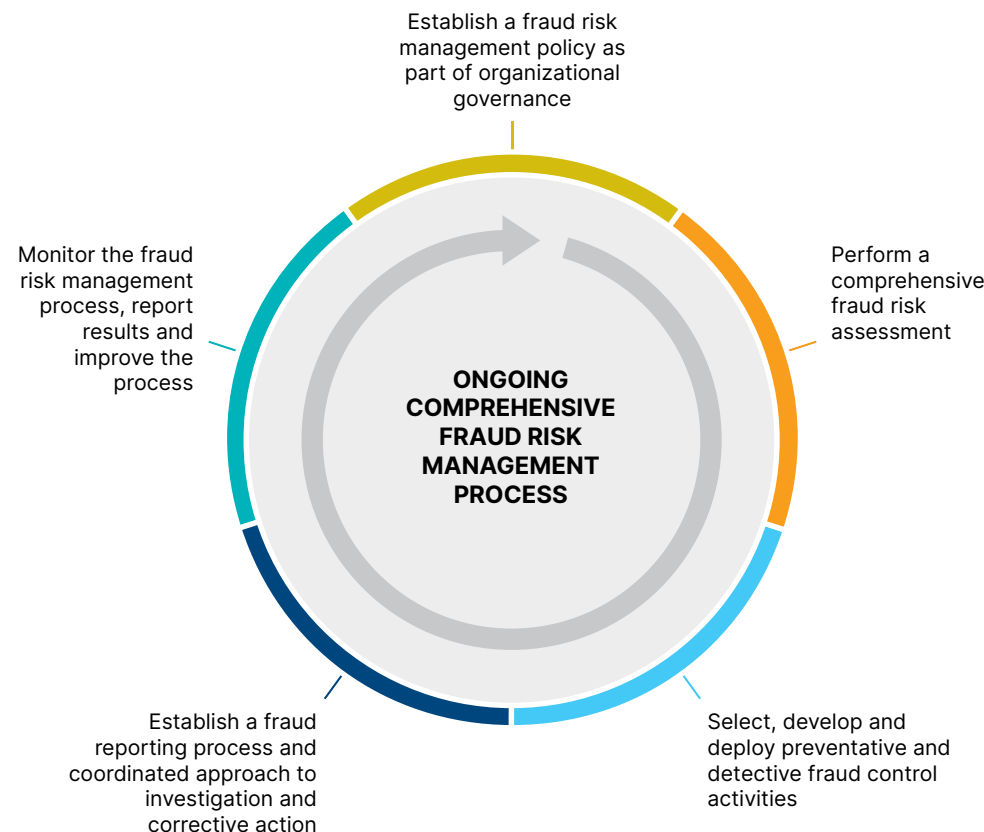
The model⁷ includes a five-point maturity scale for each of the above components: *Ad-hoc, Initial, Repeatable, Managed and Leadership*:

Scope

The main areas covered under each of the five components were:

- **Fraud Risk Governance:** this included fraud risk management policies, Board and top management commitment and support to the existing fraud risk management programme, the assignment of responsibilities to various stakeholders to provide governance, communication around fraud risk across the organization, and fraud risk culture.
- **Fraud Risk Assessment:** this included the assessment of fraud risk in Global Fund Secretariat internal processes and its operations at country level.
- **Fraud Control Activities:** the design and execution of existing processes to prevent and detect fraud.
- **Fraud Investigation and Corrective Actions:** investigation and actions taken after fraud cases are confirmed. Because this area includes OIG activities, the OIG leveraged the independent External Quality Assessment (EQA) performed in December 2021 by Institut Français de l'Audit et du Contrôle Interne (IFACI). Their conclusions have been incorporated into this review with their explicit permission.
- **Fraud Monitoring Activities:** this includes fraud reporting at the Global Fund, monitoring of the fraud risk management programme, and periodic management and stakeholder review of corporate and operation risks to keep risk categorizations current and relevant.

FIGURE 6: FIVE KEY FRAUD RISK MANAGEMENT PRINCIPLES



7 Rating scale as per [Anti-Fraud Playbook: The Best Defense Is A Good Offense. 2020 Grant Thornton LLP and ACFE.](#)

3. Objectives and Scope

Methodology and Approach

The assessment was conducted jointly by OIG audit, investigations, and professional service unit teams. The “fraud investigation” component of the ACFE/COSO fraud risk management guide was reviewed by an independent third-party consultant as part of the OIG’s EQA review. The results of the EQA review inform the findings and rating for the “fraud investigation and corrective actions” component (see section 4.4 for more details).

The OIG interviewed the leadership and selected members of all Board Committees, Management Executive Members, Secretariat staff, and in-country stakeholders (Country Coordinating Mechanism members, Principal Recipients, Fiscal Agents and Local Fund Agents).

Previous OIG audits and fraud investigations were leveraged to provide an understanding of fraud schemes and the root causes of fraud specific to the organization’s environment. Relevant policies and procedures, corporate documentation, assurance providers’ reports and in-country stakeholders documents were also reviewed. Detailed testing was performed in eight portfolios: Bangladesh, Democratic Republic of Congo, Malawi, Mali, Pakistan, Senegal, Sierra Leone and Zambia, leveraging where possible past audit work.

Leveraging the COSO/ACFE fraud risk management guide

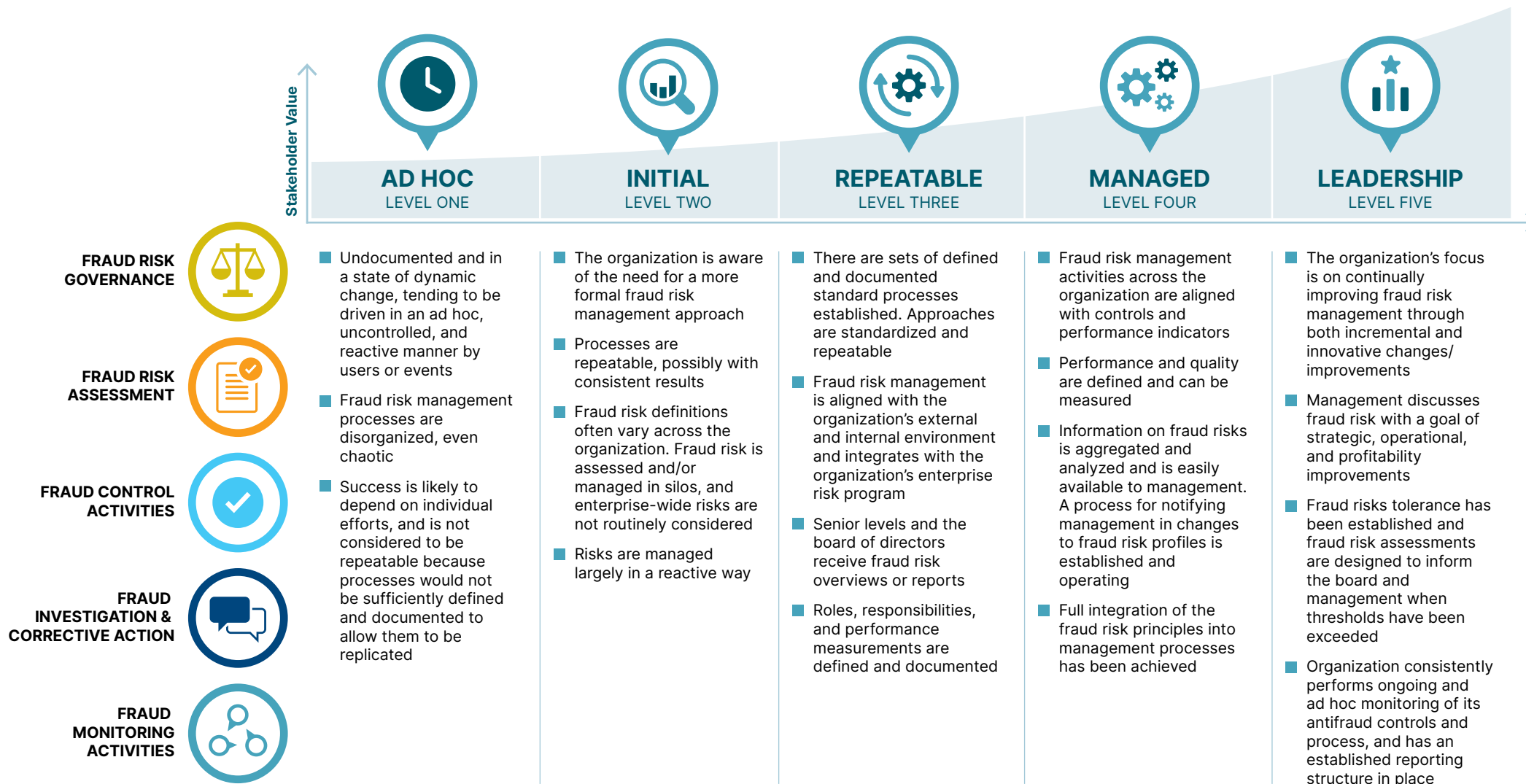
The American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and the Association of Certified Fraud Examiners (ACFE) sponsored and published the first major guide for establishing a comprehensive fraud risk management program in 2008. Further to this publication, referred to as “*Managing the Business Risk of Fraud: A Practical Guide*”, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the ACFE jointly released “the fraud risk management guide” in 2016. The guide is built on the five COSO internal control components, and includes five fraud risk management principles which are consistent with the 2013 COSO Framework’s 17 internal control principles.

The COSO/ACFE fraud risk management guide was the main guide for this fraud risk maturity assessment. The OIG leveraged the fraud risk management scorecard associated with the COSO/ACFE fraud risk management guide, tailoring it to the Global Fund’s context.

Grant Thornton and ACFE published *The Anti-Fraud Playbook: The Best Defense Is a Good Offense*, which details an Enterprise Anti-Fraud Maturity Assessment Model[®]. Instead of using the standard audit rating scale, the OIG used the assessment model to rate the maturity of the Global Fund fraud risk management framework and its underlying processes. Maturity is split into five stages – *ad-hoc*, *initial*, *repeatable*, *manageable* and *leadership*, as shown in figure 7.

3. Objectives and Scope

FIGURE 7: ENTERPRISE ANTI-FRAUD MATURITY MODEL FROM ANTI-FRAUD PLAYBOOK BY ACFE/GRANT THORNTON



4. Conclusions

Overall Maturity

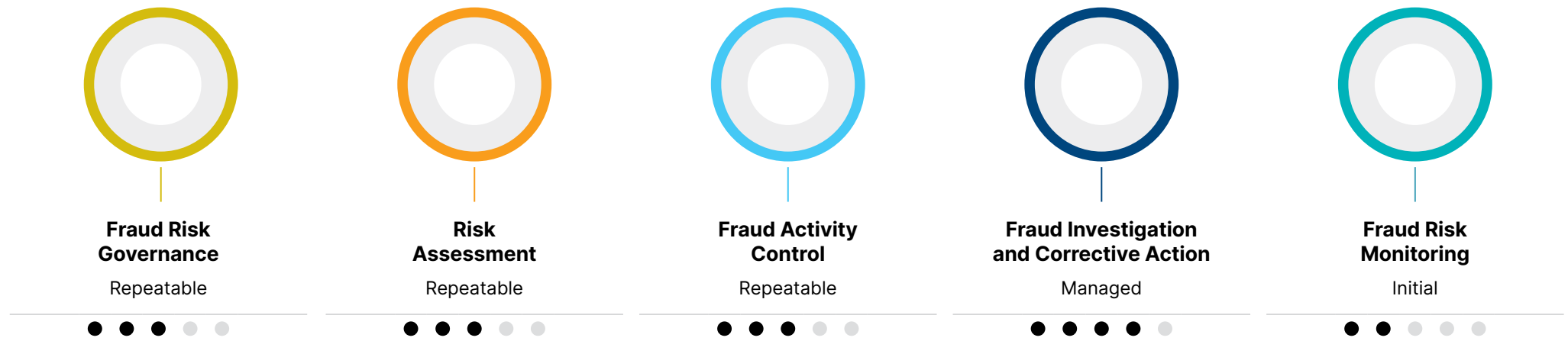
4. Overall maturity of Fraud Risk Management

The COVID pandemic and changing work practices have led to increased fraud risk. Agile risk management is needed to anticipate and institute preventive and detection controls to respond to potential fraud. The various elements of the Global Fund's approach are at different levels of maturity. As the fraud risk landscape evolves, the organization will need to strengthen its preventive and monitoring activities, and to put more focus on non-financial fraud.

Given that the components of the fraud risk program are at different levels of maturity, it is important that the Secretariat, in collaboration with the Board, sets maturity targets for each component to inform subsequent activities. The areas of focus are highlighted in the detailed conclusions on the following pages.

The maturity level for each component assessed by the OIG is shown in figure 8 below:

FIGURE 8: ASSESSED MATURITY MODEL OF FRAUD RISK MANAGEMENT COMPONENT



4. Conclusions

Governance

Fraud Risk Maturity Assessment

4.1 Fraud Risk Governance

PRINCIPLE 1:

The organization establishes and communicates a Fraud Risk Management Program that demonstrates the expectations of the board of directors and senior management, and their commitment to high integrity and ethical values regarding managing fraud risk.

Source: Fraud Risk Management Guide, joint publication by ACFE and COSO, 2016.

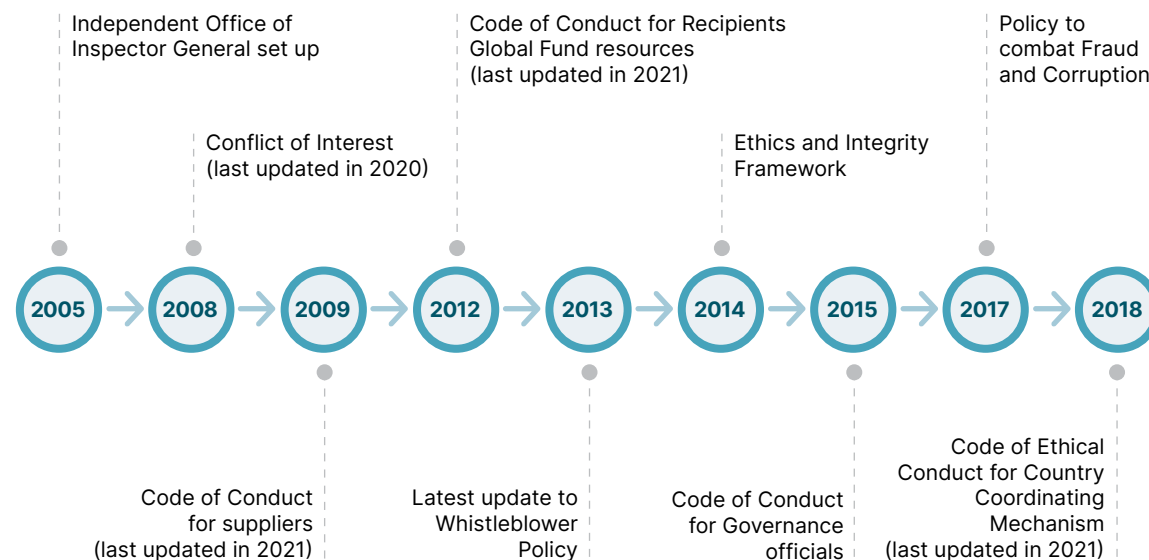
Fraud Risk Governance is assessed as “repeatable”. The Global Fund has defined frameworks, policies, structures and processes which direct the management of fraud risks and which support its zero tolerance of prohibited practices. While significant progress has been made regarding financial fraud risks, there is less consideration of programmatic fraud risks. The Secretariat needs to define overall ownership and accountability for fraud risk, and implement the PCFC plan.

The Global Fund has established structures and policies which demonstrate the Board and Management Executive Committee's commitment to integrity and ethical values, and an overall fraud risk management program, as recommended under the ACFE/COSO 2016 guide for managing fraud risks.

An Ethics and Integrity Framework was approved by the Board in November 2014, indicating that ethics and integrity are integral to Global Fund values, and setting out obligations for key stakeholders. It was further strengthened with the November 2017 Board-approved Policy to Combat Fraud and Corruption (PCFC) which covers a wider set of fraud risks (see figure 9). Both documents are publicly available on the Global Fund website.

The Board has set a clear tone at the top regarding fraud: the Global Fund has zero tolerance⁸ for prohibited practices that prevent resources from reaching those who need them. Similarly, the Management Executive Committee has developed several operational policies, guidelines and tools to support fraud risk management. Key parts of the Ethics and Integrity Framework and PCFC are included in employee and supplier Codes of Conduct, and in grant agreements with implementers.

FIGURE 9: EVOLUTION OF GLOBAL FUND POLICIES FOR ETHICS, INTEGRITY AND FRAUD MANAGEMENT



The Financial statements of the Secretariat and its implementers are regularly audited by external audit firms, in line with relevant international standards.

The Secretariat's Risk Department provides support and oversight over Country Team execution of risk management at grant level, leads enterprise-level risk management, and provides internal governance and reporting over risk management. The Global Fund has an independent oversight function, the Office of the Inspector General, that investigates allegations of fraud and reports directly to the Board. An Ethics Office supports the design and implementation of ethics and integrity-related policies, codes and requirements to address defined misconduct.

4. Conclusions

Governance

Need to address fraud risk as cross-functional issue, in line with the PCFC

The PCFC indicates that fraud risk infiltrates not only financial management, but also strategic decision-making, governance, public health systems, program quality and reporting.

Since its inception, and particularly over the past five years, the Global Fund has matured its financial management processes, increasing its ability to manage financial fraud risks. However, limited progress has been made in managing the programmatic fraud risk triggers as envisaged in the PCFC.

The Secretariat prepared a PCFC implementation plan following the OIG audit "[Managing Ethics and Integrity at the Global Fund](#)", presenting it to the Audit and Finance Committee in July 2021,⁹ however, actions such as updating existing guidelines and tools to reflect the cross-functional dimension of fraud risk had not started as of February 2022 (two months after its original due date). The Global Fund does not have guidelines to prevent or reduce the fraud risks inherent in the management of medicines and health products across the in-country supply chain, which account for approximately 60% of investments.

In September 2021, the Secretariat, through its update on Global Fund Risk Appetite, addressed the Audit and Finance Committee (AFC) on how financial and programmatic issues are considered in risk trade-off decisions¹⁰ and on the link between financial and programmatic performance. While fraud risk appetite is expressly determined as part of financial and fiduciary risks, there is limited consideration of fraud risk regarding programmatic risks.

Limited clarity in roles and responsibilities for programmatic fraud risks at committee and Secretariat level

At Board level: The AFC has oversight responsibilities over financial fraud risk, as well as matters raised in OIG audits/investigations. Similarly, the Ethics and Governance Committee has oversight responsibilities over Ethics and Integrity risks, in line with its Charter. The Strategy Committee has responsibility over strategy and programmatic risks. However, fraud as defined in the PCFC is cross-functional and therefore impacts the mandates of all committees. For such matters, it is usual for the Coordinating Group¹¹ to review cross-cutting risks, however to date this mechanism has not yet been used to review programmatic fraud risks across the Committees.

At Secretariat level: Responsibility for implementing the PCFC rests with the Executive Director (ED), while the Ethics Officer plays an oversight and coordination role. The overall ownership and accountability for implementing the PCFC at the Secretariat level has not been defined. Determining the owner(s) for implementing the PCFC is critical to promptly addressing any implementation challenges or bottlenecks, as indicated above.

During our review, the Secretariat prepared an analysis which provides an overview on the current fraud risk management approach for both enabling and core processes. If properly implemented across the wider organization, it will improve the cross-functional response to fraud risk.

⁹ https://www.theglobalfund.org/media/11539/bm46_06-recommended-updates-risk-appetite_paper_en.pdf

¹⁰ GF/AFC17/02_Rev.

¹¹ The Coordinating Group (CG) is a mechanism for coordination between the Global Fund Board and its Committees, to ensure effective collaboration, particularly regarding cross-cutting issues. The Board sub-committees that meet with the Board Leadership.

4. Conclusions

Assessment

4.2 Fraud Risk Assessment

PRINCIPLE 2:

The organization performs comprehensive fraud risk assessments to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.

Source: Fraud Risk Management Guide, joint publication by ACFE and COSO, 2016.

Fraud Risk Assessment is assessed to be “repeatable”. Associated processes are part of the Global Fund Integrated Risk Management framework and are generally aligned with its internal and external environment. The Global Fund has developed tools to support assessments in core functions, leveraging the work of assurance providers. To further mature, fraud assessment needs to proactively identify fraud scheme types, improve the implementation of mitigation measures, and consider grant-level programmatic risks.

Fraud risk assessment is part of the Global Fund’s Integrated Risk Management framework, which covers the entire grant lifecycle and underlying Secretariat processes.

The Risk Department performs the Key Business Process Review (KBPR) which includes a fraud risk assessment section for Secretariat processes and enabling functions such as Information Technology (IT), Procurement, Human Resources and Finance. The Risk Department uses two different approaches for monitoring internal controls for the 52 processes in the Performance and Accountability Framework.

■ **Prioritized processes:** Oversight of 25 prioritized processes selected by the Risk Department is performed through the **Key Business Process Review**. The Risk Department determines which Secretariat business processes are most business-critical, generally riskier, are material or complex, or involve high volumes of transactions. Following COSO framework principles, the Risk Department conducts KBPRs to assess whether internal controls exist, and whether they operate effectively to provide reasonable assurance that process objectives will be met.

■ **Non-prioritized processes:** Process owners (first line) are responsible for completing a **Risk Control Matrix** review, which provides the basis for determining how a risk should be managed. Systematic oversight by Risk Department is not mandatory and is performed in an advisory capacity.

Published in May 2021, the OIG audit of [Global Fund Key Organizational Controls](#) concluded that the overall methodology for prioritization of reviews needed to be updated, to ensure high-risk areas were adequately covered, highlighting that the completion rate of reviews was at 50% and 43% in 2019 and 2020 respectively.¹²

At grant level, fraud risk assessment is considered at various stages of the grant life cycle, as described in figure 10.

■ **During grant making,** Country Teams and assurance providers perform capacity assessment of Principal Recipients based on a predefined questionnaire in a **Capacity Assessment Tool (CAT)**. The CAT is completed for new implementers or in case of significant change in the scope of grants. The assessment seeks to determine if the Principal Recipient has adequate systems to implement the grant; it also helps to identify critical capacity gaps, with related capacity building measures to enhance the efficiency and effectiveness of program implementation. The assessment covers four functional areas - Monitoring and Evaluation, Procurement and Supply Management, Financial Management and Systems, and Governance and Program Management (including sub-recipient Management). As part of grant making, the Grants Approval Committee reviews the output of this assessment, including the risk analysis and related mitigation measures prepared by Country Teams.

■ **During grant implementation,** risk analysis and progress on related mitigation measures are considered in Annual Funding Decisions. A Country Portfolio Review, which takes a holistic look at all key risks on the portfolio including fraud, is expected to be conducted at least once per funding cycle for High Impact countries. Country Teams also leverage work performed by assurance providers during grant implementation to update the risk profile of their portfolios.

¹² The related agreed management action has already been implemented and closed.

4. Conclusions

Assessment

FIGURE 10: PROCESS FOR FINANCIAL FRAUD RISK ASSESSMENT

Stages	Fraud Risk Assessment Related Activities	Scope of Assessment	Main Focus of Risk Assessment
Grant Making	Capacity assessment of implementers	<ul style="list-style-type: none"> Human resources & payroll Cash & payment 	<ul style="list-style-type: none"> Conflict of interest management
Grant Implementation	<ul style="list-style-type: none"> Fraud risk analysis in IRM module Country portfolio review Assurance providers review Annual funding decision 	<ul style="list-style-type: none"> In-country procurements Assets management 	<ul style="list-style-type: none"> Internal control system and processes Assurance arrangement (internal audit and external audit)

Risk assessments for grants are documented in the online risk tracker and are expected to be updated on a needs basis. The Secretariat has pre-determined generic root causes for fraud risk to guide teams in their risk assessment.

There is an opportunity to enhance the Global Fund’s overall approach to fraud risk assessment, related tools, documentation of conclusions and timely implementation of mitigation actions, as follows:

Fraud risk assessment approach needs to be improved by identifying relevant fraud schemes to inform appropriate mitigation measures

Corporate enabling functions: the Secretariat has developed a self-assessment questionnaire (SAQ) for the KBPR which includes fraud risk identification, assessment of potential management override of controls, and mitigation actions. As of December 2021, fraud risk assessments had been completed for three of four enabling functions: employee lifecycle management, supply operations and information technology service & security. A KBPR for financial transactions management is planned for 2022. These four enabling functions are critical to the organization because they are the main support to the delivery teams. This approach is generally aligned with COSO’s principles on internal controls framework (2013). The Secretariat identified fraud schemes and related mitigation measures are documented in the Risk and Control Matrix of each process.

The external auditor also considers the impact of fraud risk at the Secretariat as part of Global Fund annual financial statements audit.

Implementer level: while the Secretariat has identified the lack of fraud risk assessment as one of the most common root causes of fraud,¹³ none of the Principal Recipients in the eight sampled countries have performed any comprehensive assessment to determine the specific fraud risks inherent in their programs, to inform related mitigation measures. In view of increasing fraud risks, the Secretariat has engaged a service provider to assess fiduciary fraud risk in the COVID-19 Response Mechanism (C19RM) implementation in five High-impact and Core countries as a pilot, with the intention to extend to other portfolios. The Secretariat has also been performing assessments on a few portfolios to better understand the fraud landscape, and design anti-corruption mechanisms and controls based on risk. The approach was initiated as a pilot in 2018 and is yet to be fully operationalized across portfolios.

13 List of root causes in “Risk definitions, grant facing corporate risks” published in September 2020.

4. Conclusions

Assessment

Tools, guidelines, and processes at grant level do not provide adequate visibility on fraud risk levels

The Global Fund has created tools and guidelines to support capacity assessment of implementers, but their design and effectiveness need to be improved. The Capacity Assessment Tool is not a fraud risk assessment tool and does not provide visibility on how risk could manifest at the implementer level. Rather, as mentioned previously, it focuses on whether an implementer has the capacity and systems to execute its role under the grant. Fraud risks could manifest in various forms including collusion, corruption, and management override of controls despite the implementer having capacity and systems in place. Hence, using the CAT to determine fraud risk ratings, particularly at the beginning of grants for new implementers, could underestimate the level of risk, or fail to identify the most significant risks.

In the eight sampled portfolios, 14 of the 20 implementers have not been subject to a Capacity Assessment in the previous and current funding cycle (New Funding Model 2 and 3), despite the assessment tool being revised in 2017 to include specific-fraud risk requirements. While this is in line with the Secretariat's existing guidelines, it reduces the ability of those portfolios to benefit from the revisions made in the tool.

Initial fraud risk considerations during grant making are expected to be updated based on assurance activities during grant implementation. However, documenting fraud risk considerations during the grant life cycle needs to improve.

- In 24 of 34 sampled grants, the basis for fraud risk root causes and ratings in the IRM module was either not documented or the explanation provided was 17 inadequate. Of the 24 grants, 12 did not consider fraud risk in subsequent portfolio decisions.
- Programmatic fraud is part of the predefined root causes in the Integrated Risk Module. However, Country Teams did not select it as a prioritized root cause in assessing fraud risk in 30 out of the 34 sampled grants for data management, and in 23 out of 28 grants for supply chain.¹⁴ This reduces teams' ability to proactively consider the drivers of fraud risk to inform the right mitigation measures, and could lead to unknown fraud risks materializing.

Improvements needed for implementing mitigation measures

As indicated in the OIG audit of [Global Fund Key Organizational Controls](#), implementation of Key Management Actions (KMA) remained low as of December 2020 at 28% for NFM 2 grants, against a 90% target. The rate increased to 64% as of July 2021. Similarly, only 5 of 20 mitigation measures related to portfolios with high fraud risk ratings had been implemented as of their due date of 31 December 2021. Two of the three mitigation actions to mitigate inherent fraud in the Secretariat's Human Resource Management processes have been outstanding since 2020. This is due to insufficient prioritization of fraud risk mitigation measures.

14 Out of the sample 34 grants, six were excluded from the testing because they did not have budget line for health commodities.

4. Conclusions

Fraud Control

4.3 Fraud Control Activities

PRINCIPLE 3:

The organization selects, develops, and deploys preventive and detective fraud control activities to mitigate the risk of fraud events occurring or not being detected in a timely manner.

Source: Fraud Risk Management Guide, joint publication by ACFE and COSO, 2016.

Fraud Control Activities, which include defined and documented standard processes, are deemed to be “repeatable”. Standardized anti-fraud mechanisms can be tailored to different contexts but tend to be reactive, with less emphasis on preventative controls, especially for programmatic fraud and integrity risks. Strengthening preventive controls and implementer capacities to better identify and report red flags will help the Global Fund to further mature.

Defined controls exist, but preventive controls over programmatic fraud risks need major improvement

The Global Fund has defined preventive measures to manage financial fraud risks, with different levels of effectiveness across portfolios. This includes the use of financial preventive control measures such as:

- **Use of fiscal agent services:** The Global Fund engages fiscal agents, which are independent agencies, to mitigate financial risks arising from weak financial management capabilities of implementers. There are currently fiscal agents in 15 high risk countries with a total allocation of US\$3.4 billion.
- **Enforcement of restricted cash policy:** This mitigation measure is meant to reduce or limit the amount of cash in the hands of implementers, while continuing grant implementation, through direct payment to vendors/beneficiaries or limited disbursement. It applies to sub-recipients operating in 25 countries where the Global Fund invokes its Additional Safeguard Policy.¹⁵ It can be enforced through a zero cash policy with payment made directly to vendors / beneficiaries. Under this Policy, the Global Fund could disburse funds on a reimbursement basis after implementers have submitted appropriate supporting documentation of expenses incurred. The Global Fund currently does not have consolidated visibility of countries under the restricted cash policy.

- **Use of procurement agents:** This consists in outsourcing the procurement of non-health products (e.g. vehicles, office equipment) to a third party, to mitigate the risk arising from weak or unreliable procurement systems at implementer level.
- **Use of Local Fund Agents:** Local Fund Agents are engaged by country teams to perform certain preventive activities. For instance, Local Fund Agents in some countries review selection of service providers to ensure adherence of due processes before contracts are signed by the implementers.

Unlike financial fraud risk, there are no defined measures to prevent programmatic fraud risks, partly because the related schemes have not been comprehensively defined, as detailed in section 4.2.

Controls over integrity risks are missing at the grant level

The Global Fund business model requires the engagement and use of external parties (e.g. implementers, Local Fund Agents, suppliers). This exposes the organization to integrity and ethics risks across its delivery chain, yet related due diligence checks to flag potential risks are not effectively performed at the grant implementation level, as indicated in the OIG’s 2019 Audit, [Managing Ethics and Integrity at the Global Fund](#).

The Secretariat has defined the scope and timelines for implementation of the Integrity Due Diligence (IDD) framework across all departments, except the Grant Management Division and its counter parties, such as implementers. The Grant Management Division was not involved in the corporate-wide IDD risk assessment and there is no established timeline to rectify this. As the main business of the Global Fund is carried out by implementers in various countries and with different profiles, inadequate IDD over these activities exposes the organization to ethics and integrity risks. The organization has not agreed on an approach for IDD checks and controls at grant level, where material risks exist, resulting in the related Agreed Management Action below remaining outstanding for 20 months as of 28 February 2022.

¹⁵ [Additional Safeguard Policy, GF/B7/7 Annex 4 taken at The Global Fund’s Seventh Board Meeting, March 2004.](#)

4. Conclusions

Fraud Control

Fraud Risk Maturity Assessment

The Ethics Office will complete the rollout of the ongoing IDD project, such that a risk-based approach is applied to all categories of Global Fund counterparties including implementers and suppliers. The accountabilities for triggering and performing due diligence and subsequent decisions based on the results will be developed.

Source: AMA number 6 from the Ethics Audit Report with initial due date of 30 June 2020.
Owner: Ethics Officer.

In seven of the eight portfolios sampled, Country Teams did not perform due diligence checks on key personnel positions at implementer level, to identify potential exposure and proactively institute mitigation measures.

The international non-governmental organizations sampled have relevant anti-fraud policies and periodically conduct fraud awareness training for financial fraud risks, but have limited controls for programmatic fraud risks. Government implementers and local non-governmental organizations in eight out of 14 local implementers from sampled countries, in contrast, do not consistently have any preventive controls in terms of capacity building and fraud awareness programme, requiring the Secretariat to increase its oversight and assurance on such portfolios.

Assurance activities need improvement to identify and escalate red flags

The Global Fund has defined, and routinely executes, assurance activities based on a portfolio's risk level. In the eight sampled portfolios reviewed, attention was paid to data quality through regular conducts of spot checks on program and grant data, but limited attention given to the diversion of medicines and health products.

The effectiveness of detective controls is often affected by capacity constraints at the assurance provider level, as well as by the scope of work and procedures performed:

- For example, in five out of eleven OIG investigation reports published from 2019–2021, assurance providers proved effective in detecting the specific fraud cases, with their initial findings resulting in OIG investigations. However, in two countries where the OIG recently conducted investigations, assurance providers failed to identify red flags early: in investigations in the Democratic Republic of Congo

(2019¹⁶) and [Liberia \(2022\)](#), Local Fund Agent (LFA) and Fiscal Agent mechanisms respectively were insufficient in detecting fraud identified through OIG investigations. Limited fraud risk consideration procedures are performed by LFAs in three of the eight sampled portfolios.

- Overall, the review procedures implemented by assurance providers are predictable, generally relying on paper-based supporting documentation with limited verification of the actual activity link. For example, in Zambia, Pakistan and Malawi, the value of transactions to be verified by the assurance providers are known by implementers and could facilitate perpetrators' ability to conceal fraud. Assurance providers also do not consistently compare costs against market prices, which can be useful to detect overpricing schemes and ensure value for money.
- The Fiscal Agent is an independent agency contracted directly by the Global Fund Secretariat to mitigate financial risks arising from weak financial management capabilities of implementers of Global Fund grants.¹⁷ Their teams often include fraud experts in teams based on the level of fraud risks in the sampled portfolios. However, LFAs do not consistently have fraud experts in their team structure, despite high fraud risk levels, and ensuring fraud expertise in LFA teams is not mandatory.

Prompt reporting of red flags by assurance providers and Secretariat is needed

Global Fund Grant Regulations and the Code of Conduct for Recipients require implementers to promptly notify the Global Fund of any integrity concerns. The Code of Conduct for Global Fund employees also requires staff to report fraud or corruption concerns regarding grant programs to the Office of the Inspector General. The Secretariat and assurance providers are expected to promptly escalate identified red flags and fraud cases to the OIG for further assessment and investigation. In three countries where OIG performed recent investigations, red flags identified by the assurance providers were not reported to the OIG by the Secretariat. For instance, in Pakistan¹⁸ the Country Team delayed reporting identified fraud, resulting in increased financial losses to the Global Fund. The Fiscal Agent in Sierra Leone¹⁹ and Liberia reported red flags to the Secretariat which were never referred to the OIG for assessment and investigation. This is partly due to limited internal processes and systems to ensure red flags reported to Country Teams by the assurance providers are promptly identified and escalated to relevant second-line functions at the Secretariat, and the OIG. As part of the Liberia investigation report, the Secretariat has committed to improve its exception management process to roll-out a robust incident reporting process for fraud, prohibited practices and other wrongdoings identified as a part of its risk management and grant implementation monitoring processes.

¹⁶ [Global Fund grants in Democratic Republic of Congo: Tender manipulation and overpricing in malaria grant.](#)

¹⁷ [The Global Fund Guidelines on Financial Risk Management \(November 2017\).](#)

¹⁸ [Global Fund Grant in Pakistan Prohibited practices compromised procurement in a tuberculosis program.](#)

¹⁹ [Global Fund Grants in Sierra Leone Fraudulent procurements and payments under Global Fund grants.](#)

4. Conclusions

Response

4.4 Fraud Risk investigation and Corrective Action

PRINCIPLE 4:

The organization establishes a communication process to obtain information about potential fraud and deploys a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.

Source: Fraud Risk Management Guide, joint publication by ACFE and COSO, 2016.

The Fraud Investigation²⁰ and Corrective Action component is assessed to be at a “managed” level of maturity. The Global Fund has established mechanisms to enable stakeholders to report fraud cases. An independent investigation function exists, which was recently independently assessed as operating in line with adopted guidelines and industry practices.²¹ The Global Fund takes corrective action to address findings from investigations, and to recover losses from all assurance providers. The Board is regularly updated on the status of actions taken and recovery efforts. To further mature in this area, the Global Fund needs a structured approach to synthesize and learn lessons from suspected and actual fraud cases, and to strengthen its sanction processes.

Established whistleblowing policy and system ensure allegations can be anonymously reported to the Global Fund

The Global Fund has a whistleblowing policy and reporting channels to enable stakeholders to anonymously report prohibitive practices, including fraud. Reporting channels include online platforms, telephone and emails that safeguard reporter anonymity. The OIG and the Secretariat raise awareness of these channels and encourage early reporting of suspected fraud cases. The OIG has developed an e-learning site, www.ispeakoutnow.org, which contains case studies, animated videos and quizzes about the different kinds of prohibited practices which Global Fund grants are exposed to, as well as a practical toolkit to help grant implementers fight fraud and corruption.

Quality assured function for investigation of alleged fraudulent practices

The Global Fund has an independent function that investigates suspected cases of fraud at the Secretariat and at grant level. The Investigation Unit (IU) of the OIG was evaluated in December 2021 by External Quality Assessors selected and appointed in consultation with the Audit and Finance Committee. The assessors concluded that the IU “continues to generally conform with industry best practices like the Uniform Guidelines for Investigations of the Conference of International Investigators”; and they “are confident that IU is functioning as optimally as can be within the current Covid-19 constraints”.

The external assessors’ report proposed suggestions for continuous improvement in the investigation function. These include: revising the OIG’s charter to clarify its mandate on Sexual Exploitation, Abuse and Harassment; addressing stakeholder concerns in issuing investigation reports faster; incorporating relevant elements of Standards issued by the International Organization for Standardization in IU standard operating procedure (SOPs); refining existing SOPs by linking them to specific clauses within the adopted Principles and Guidelines, and whenever possible using flow charts instead of text. The team also identified the need to clarify the roles of IU, Ethics Office and Human Resources Department with respect to employee misconduct.

The Secretariat, as part of the OIG’s Ethics and Integrity audit, agreed a management action that “the Ethics Officer and Head of Human Resource Department will prepare a paper reviewing misconduct investigation mandates and required resources across the Global Fund, and proposing options for decision by the relevant Committees, and if necessary the Board. This will incorporate input from the Office of the Inspector General. The terms of reference of the various functions will be updated, as needed, based on the decisions by the relevant Committees.”

This action, assigned to the Chief of Staff with a due date of 30 December 2020, is yet to be implemented.

20 Because OIG activities were included in the scope of this section, the OIG used the findings of the External Quality Assessment (EQA) to form the basis of opinion for this component. This was done with explicit permission from IFACI, the External Quality Assessment provider.

21 External Quality Assessment report on Investigation Unit.

4. Conclusions

Response

Actions in response to confirmed fraudulent practices and recoveries

The Secretariat together with the OIG agree on corrective actions to address confirmed fraudulent practices. These actions are implemented by the Secretariat, and reviewed and validated by the OIG upon completion. Progress in implementation of agreed actions, including those that are overdue, is reported regularly to the Audit and Finance Committee and the Board.

Confirmed losses occasioned by fraudulent practices are referred to the Recoveries Committee. Chaired by the Chief Risk Officer, the Committee evaluates the circumstances of the loss(es) and seeks recovery of the lost funds and/or assets. The Secretariat reports the status of its recovery efforts to the Audit and Finance Committee at every session, and to the Board twice a year. The process for recovering losses identified by the Secretariat's assurance providers was audited by the OIG in February 2019²² and found to be "partially effective", meaning internal controls, governance and risk management practices associated with the process are adequately designed and generally well implemented, but one or a limited number of issues may present a moderate risk.

Need for strengthened monitoring of sanctions

As a major financing institution in the fight against AIDS, tuberculosis and malaria, the Global Fund recognizes the importance of accountability for suppliers, and of transparency and predictability in its operations.²³ The organization has therefore put in place a mechanism to sanction supplier companies and their owners, who are involved in confirmed prohibited practices.

Applying sanctions is sub-optimal in some cases, however, which could reduce their effectiveness in deterring and discouraging fraud. For example:

- The process for applying sanctions against suppliers takes a long time in most cases. Out of four cases considered for potential sanctions (see figure 11 below), one case was reviewed within 6 months, another one took 12 months for a final decision and the two other cases are still pending one year after OIG report was issued. The long time taken by the sanctions process is due to the delayed referral of cases by the Secretariat to the Sanctions Panel after OIG report publication (6 and 12 months in two cases) and circumstances beyond the Sanctions Panel's control. The Secretariat implemented remedial actions to address prohibited practices by suppliers while cases were under review by the Sanctions Panel.

FIGURE 11: TIMELINE OF SANCTION PROCESS

Description	Date of publication of OIG report	Period case was referred by ED to Sanctions Panel	Sanction Panel's recommendation	Panel's recommendation accepted
Case 1	12-Mar-19	1-Oct-19	19-Mar-20	Not applicable
Case 2	26-Feb-21	19-Apr-21	9-Aug-21	9-Aug-21
Case 3	1-Apr-21	25-May-21	Pending	Pending
Case 4	9-Mar-21	16-Mar-22	Pending	Pending

- Details of sanctioned suppliers are communicated to relevant stakeholders including Secretariat teams, Country Coordination Mechanisms and Principal Recipients. The Secretariat has measures to mitigate the risk of reengaging sanctioned suppliers at the corporate level. However, there are no controls to ensure sanctioned suppliers are not re-engaged by grant implementers. Implementer staff involved in prohibited practices are terminated in most cases by non-government Principal Recipients, however it is challenging to sanction staff of government implementers due to the Global Fund's limited leverage, including lack of privileges and immunities for staff and members of the Sanctions Panel which could lead to personal and institutional liability risks. For example, as per fiscal agent quarterly report in 2020, a Country Team attempted but could not successfully ensure that a fraud perpetrator was immediately removed from the Global Fund program. The staff member then attempted to perpetrate another fraud while in service.

²² [Global Fund Recoveries Management Processes](#).

²³ *Sanctions Panel Procedures Relating to the Code of Conduct for Suppliers*, adopted by Global Fund executive management in January 2010, and amended in May 2013, October 2013, 11 June 2014, 19 June 2015 and December 2020.

4. Conclusions

Monitoring

4.5 Fraud Risk Monitoring

PRINCIPLE 5:

The organization selects, develops, and performs ongoing evaluations to ascertain whether each of the five principles of fraud risk management is present and functioning, and communicates Fraud Risk Management Program deficiencies in a timely manner to parties responsible for taking corrective action, including senior management and the board of directors.

Source: Fraud Risk Management Guide, joint publication by ACFE and COSO, 2016.

Fraud Monitoring is at an “initial” level. Some established monitoring controls exist, but in the absence of a comprehensive fraud risk monitoring approach, they are not consistently performed. While the PCFC implementation plan is work in progress, the Secretariat has demonstrated alertness to changes in the risk landscape during the COVID-19 pandemic: an organizational Risk Framework includes routine monitoring activities of certain components of fraud risks, and the Secretariat has developed a monitoring and oversight framework for the COVID-19 Response Mechanism (C19RM) to identify and address programmatic and operational bottlenecks. Completing the planned evaluation activities in the PCFC implementation plan and leveraging the existing arrangements under the C19RM will enhance the organization’s maturity in fraud risk monitoring.

In line with ACFE/COSO guidelines, organizations are expected to routinely monitor and evaluate the effectiveness of their fraud risk management program and institute measures to address identified deficiencies. This helps in adapting programs to changes in the fraud landscape and the operating environment.

The Global Fund has designed some monitoring and reporting activities as part of its risk management approach. For example:

- The Secretariat’s **Enterprise Risk Committee**, co-chaired by the Chief of Staff and the Chief Risk Officer, is expected to meet every month to discuss key organizational risks and related mitigation actions, including allocating resources to respond to risks.
 - The **Portfolio Performance Committee** co-chaired by the Chief Risk Officer and Head of Grant Management Division reviews key risks on portfolios and makes risk trade-off decisions to support the achievement of grant objectives.
 - The Risk Department and other second-line functions are expected to monitor implementation of key mitigation measures and report their status to the Management Executive Committee.
 - The Risk Department is expected to present the **Organizational Risk Register (ORR)** to the Management Executive Committee on a quarterly basis. The ORR provides information on the key risks facing the organization and changes in risk levels.
- The above risk management activities were deprioritized in 2020 due to the COVID-19 disruption, and as such did not happen to the full extent after resuming in 2021.
- The Chief Risk Officer presents an **Annual Risk Report** to the Global Fund Board and the Audit and Finance Committee.
 - IT regularly performs **vulnerability tests** and trains staff in cybersecurity risks, to ensure systems operate with the right security levels. The outcome of the vulnerability tests are reviewed by the Chief Information Security Officer for appropriate remedial actions.

4. Conclusions

Monitoring

In terms of future improvements, the Secretariat has been proactive in identifying opportunities for strengthening fraud risk management. For example:

- The Secretariat recognized the increasing fraud risk occasioned by the COVID 19 pandemic in the increase in the risk appetite, approved by the Board in November 2021. It also developed a rating tool to re-evaluate fraud risk amid the COVID-19 crisis. The newly designed monitoring and oversight approach under C19RM 2.0 could be leveraged in future, to improve fraud risk monitoring at the Secretariat level.
- The Secretariat leverages reviews by the OIG and other assurance providers to continuously strengthen its processes and systems.

Despite the above routine monitoring activities, there has not yet been an end-to-end evaluation of the Secretariat's fraud risk management program. There is no defined approach, including related metrics such as maturity levels, scope and frequency of monitoring activities, for each component of the fraud risk management program.

The Secretariat performs a number of assurance activities, but there is no structured way to capture key findings, underlying causes and related mitigation actions at enterprise level, to inform organization-wide learning. For instance, the Secretariat does not have central-level visibility on fraud activities identified by assurance providers across its portfolios, which would allow proactive monitoring of trends and mitigation measures to prevent fraud.

The Secretariat intends to define the approach and progressively perform overall monitoring of its fraud risk management program by 2023, as part of its approved PCFC implementation plan. However, the lack of overall ownership and accountability in implementing the PCFC (as indicated in section 4.1) could delay this activity.

Need for coordinated and consistent oversight by all Secretariat second-line functions

The Secretariat has four main second-line functions – Risk Department, Finance Department, Supply Operations, and Technical Advice & Partnership. The Risk and Finance Departments perform oversight responsibilities to support the front-line functions in managing fraud risks. For instance, the monthly monitoring of Key Mitigation Measures (KMA) by second-line functions is a critical exercise to ensure that prioritized actions are implemented on time. In terms of support, the Finance Department developed customized fraud risk training in 2020 to strengthen the capacity of country teams to respond to increasing fraud risk in portfolios due to the COVID-19 crisis. A list of approved fraud risk management experts is also made available to Country Teams to facilitate fraud risk assessment in portfolios in case of need.

The Technical Advice and Partnership Department performs no oversight activities to ensure fraud risks inherent in related processes and grant activities are appropriately managed by first-line teams.

As most Global Fund resources are spent on procurement and supply chain related activities, second-line oversight of the related processes needs to be strong. The Finance, and Risk Departments perform a certain degree of second-line oversight roles on procurement and in-country supply chain, however the current oversight of related fraud risks needs to be strengthened, with clearer roles and accountability for the Supply Operations team.

The Risk Management Department commissioned an external firm in 2021 to assess the activities performed by various second-line functions at the Secretariat to address gaps and duplications. This resulted in definition of a target operating model for second-line functions, which is being implemented in 2022.

5. Agreed Management Action

The Secretariat will develop a roadmap to determine and implement its fraud risk management program in line with the operating risk environment within which it aims to deliver the 2023-2028 Strategy. The roadmap shall focus on:

- **Defined level maturity level:** The Secretariat will define a target maturity level for each component of the fraud risk management maturity model, considering the current level of exposure to fraud risks and the operating environment. The defined maturity level will include specific activities to further strengthen each component of the model. These will be approved by the Management Executive Committee. The defined maturity level will be completed by **31 March 2023**.
- **Overall responsibility for implementing PCFC:** The Secretariat will agree on the overall responsibility to drive execution of the actions agreed in the PCFC implementation plan. As part of this, the activities in the PCFC implementation plan, including improvements of programmatic and grants fraud risk assessment process, will be revised where appropriate and presented to the Management Executive Committee. This will be completed by **31 December 2022**.
- **Programmatic assurance:** The Secretariat will review and enhance assurance arrangements related to programmatic activities, to ensure key fraud risks, particularly related to data reporting, are prevented, or identified early and mitigated. The revised programmatic assurance approach will be completed by **30 June 2023**.
- **Monitoring of Fraud Risk:** The Secretariat will establish an overall approach to monitor the evolution of fraud risk at enterprise level, including oversight responsibilities of first and second-line functions, by **31 March 2023**. This approach will leverage routine reports from Local Fund Agent, OIG and other assurance providers, and be integrated within the IRM 2.0 and the Country Portfolio Review process to monitor fraud risk at enterprise level.

The OIG will continuously monitor the implementation of specific activities in strengthening each component along the fraud risk management roadmap as part of its routine AMA process. Based on the progress on the AMA, the OIG may initiate a specific review to assess whether the defined maturity level for each component has been reached by the organisation. This will be done as part of the OIG's continuous risk assessment of the Secretariat's processes.

Owner: Chief Risk Officer