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Message from the Executive Director

15 December 2016

The Global Fund pays special attention to safeguarding investments with the goal of making all resources count. The Global Fund has zero tolerance for corruption or fraud. When any misspent funds are identified, the Global Fund pursues recovery, so that no donor money is lost to fraud or ineligible expenses.

The Office of the Inspector General (OIG) is an integral and important part of risk management and controls, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund.

The investigation report, "Supplier Wrongdoing and Global Fund Non-Compliance with Procurement Regulations," raises important issues which the Secretariat - and I personally - take very seriously. We have taken swift and decisive action to prevent any such occurrence from happening again, including sanctions against those involved in wrongdoing. In addition, the Secretariat will seek recoveries as suggested by the OIG report, through our Recoveries Committee. It is essential that when any misspent funds are identified, the Global Fund fully pursues all avenues for recovery.

The report also raises challenges with following non-competitive procurement within the Global Fund. While the overall rate of non-competitive procurement in the Secretariat is 6 percent, significantly below established benchmarks, it is essential that when there are compelling reasons for non-competitive procurement, there is full and conscientious compliance with Global Fund regulations, as well as full documentation.

The Agreed Management Actions in the report build upon others from previous OIG reports that have already put in place measures to ensure greater compliance on non-competitive procurement, with full accountability by the Management Executive Committee. Significant improvement is already under way. Specifically, following from this report, the Secretariat will review its current procurement framework so that its contents

are aligned and provide greater clarity and adequate guidance about the organization's procurement processes.

As the investigation report raises issues of conduct by Secretariat staff, I want to assure everyone that we take these issues very seriously, as part of the culture of strong ethics and transparency that we have built and continue to improve. The Ethics Officer is performing a thorough evaluation of issues raised in the report related to Secretariat staff. I have also asked the Ethics Officer to work with the OIG to determine at what point in an audit or investigation it might be appropriate to engage formally with the Ethics Officer, if potential staff misconduct is involved.

The diversion, theft and circulation of sub-standard medications is a major issue across health areas, identified by many external sources including the WHO, Interpol, bilateral implementers and others. There have been a number of high profile media stories highlighting the organized crime links with this thriving black market in medications. There are extensive efforts globally, including among law enforcement, to try to address the issue. At the Global Fund, the Secretariat and the OIG have identified such issues as serious risks to program quality and impact.

Because of the risks to impact, the Secretariat has already led on several key global initiatives, including the creation of Joint Inter-Agency Task Force (JIATF) and the Global Steering Committee (GSC), chaired by Norbert Hauser, Chair of the Board. In addition, we have supported country-specific actions, including in Malawi, where the Minister of Health has implemented a new investigation unit that has already uncovered and begun to address significant issues. In addition, a new Supply Chain team at the Global Fund is now working on a comprehensive approach to support the development of strong and resilient supply chains and assurance mechanisms that will incorporate the issues of diversion, theft and sub-standard commodities.

We will carefully consider all recommendations on this matter made by the OIG, and we seek advice and guidance from the Board's Audit and Finance Committee on specific steps.

Thank you for the opportunity to provide context and outline management action to address the important issues outlined in the OIG report.

Regards,

Mark Dybul

Executive Director