THE OFFICE OF THE INSPECTOR GENERAL

PROGRESS REPORT FOR MARCH-OCTOBER 2010
AND 2011 AUDIT PLAN AND BUDGET

PURPOSE:

1. This paper provides an update to the Board further to “The Priorities of the Office of the Inspector General” (GF/FAC10/03). It also proposes an audit plan for 2011, considers the impact of the rapid growth in the OIG’s investigatory caseload, recent significant referrals, and the fact that most of the OIG’s audits now result in an OIG investigation. In consequence it proposes an increased budget for 2011.
PART 1: INTRODUCTION

1.1. The OIG Progress Report covers the period March to October 2010 and reports on OIG priorities and the impact of recent developments on the 2011 priorities and plans.

1.2. Items for board information included in this paper are as follows:

   i. Part 2: Audit activities undertaken March-October 2010
   ii. Part 3: Progress in implementing related Board decisions
   iii. Part 4: Investigations and related activities
   iv. Part 5: Providing assurance on other main business processes
   v. Part 6: Supporting key managerial and governance initiatives in the Secretariat
   vi. Part 7: Strengthening the Office of the Inspector General
   vii. Part 8: Proposed 2011 Priorities and Plan

PART 2: AUDIT ACTIVITIES UNDERTAKEN MARCH-OCTOBER 2010

2.1. The 2010 audit plan provided for 20 country audits and six Global Fund Secretariat reviews. As the table below shows, the OIG has released six reports to the Board since the last progress report in February 2010 and these have been posted on the OIG website. The work on finalizing a number of other reports is also well advanced. The OIG is on track to deliver all the audits planned for 2010 with two exceptions - a review of performance based funding at work and an audit of bed net procurement have been deferred to early 2011 given the resource constraints faced by the OIG’s Audit Unit. The table below provides a snapshot of the status of audits/reviews that have been completed and are ongoing since the last progress report:

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| Field work completed and at reporting stage | - Djibouti *  
- Dominican Republic  
- Kenya *  
- Laos  
- Malawi *  
- PSI Madagascar *  
- PSI Southern Sudan  
- PSI Togo  
- PSI Headquarters  
- Rwanda  
- Sri Lanka *  
- Swaziland *  
- Uzbekistan *  
- Kyrgyzstan *  
- Mali *  
- Nigeria * | - Voluntary Pooled Procurement  
- Disbursements review |
| Scheduled or ongoing in Quarter 4 | - Lessons learned from country audits  
- Chad  
- Ethiopia  
- Ghana  
- Ivory Coast  
- Papua New Guinea*  
- Ukraine* | - Post ASA review  
- Travel, security and health audit |

*Note: Investigations in progress following the audit

**Priority 1: Providing Assurance on Grant Processes**

2.2. The OIG provides assurance on grant processes through the audit of a sample of country grant programs as well as by undertaking a “Lessons learned” review that identifies common critical issues cutting across the countries audited. The first Lessons Learned review was released in September 2009 and the second review covering 7 countries is currently underway. Some highlights from specific issues raised in the 4 country audits released follow.

**Cambodia**

2.3. The OIG noted that as the Global Fund support to the country has increased, there was a gradual reduction in the government and other partner support. This runs counter to the Global Fund principle that requires recipients to treat its funds as additional to the host country resources and from other external sources to fight the three diseases.

2.4. All grants funded by the Global Fund were treated as ‘one offs’ and not as part of a national program for any one disease. This resulted in a lot of duplication. The administration and management of these grants had also become cumbersome as the number of grants grew. The Ministry’s grants should be consolidated by disease since this
will increase the synergies across the grants for the different diseases and reduce administrative work load.

2.5. Cambodia has a high resistance rate to anti-malarial drugs putting it in a peculiar situation since it requires special drug combinations. This prompted the special procurement of artesunate and mefloquine for which there is no WHO pre-qualified manufacturer. With the approval of the Global Fund, co-blisters from non WHO prequalified manufacturers have been procured. This resulted in episodes of ACT shortages since 2006 and these will be experienced until a permanent solution is found to the supply of ACTs that specifically address the complex malaria treatment requirements in Cambodia.

2.6. Cambodia has a high prevalence of counterfeit and substandard drugs. This includes ACTs and Opportunistic Infection drugs (OIs). A University of the South Pacific report of June 2009 showed that 27 percent of Artesunate being distributed in Cambodia was counterfeit. A similarly high percentage was reported for some OIs. The laws that would help curb the proliferation of counterfeit and substandard drugs are in place but the law enforcement response needs to be strengthened.

Cameroon

2.7. Funding still remains a big challenge to ensure continuation of program activities. Cameroon had submitted proposals under Rounds 6, 7 and 8 and its proposals have been unsuccessful. In such cases, the Global Fund had protected continuity of treatment but cannot fund other activities. Unless the country can access funding from other sources, this will affect the progress of the programs previously funded by the Global Fund in the country.

2.8. The OIG identified an overpayment to the procurement agent (CENAME) by the Comité National de Lutte contre le SIDA (CNLS) because CENAME had been invoicing CNLS at prices higher than the prices they had paid for the drugs invoiced. In consequence FCFA 1,549 million (US$ 3.37 million) needed to be refunded. The Global Fund Secretariat has subsequently held discussions with CNLS and reached an agreement that the overpayments to CENAME will be offset against future bills presented from CENAME.

2.9. The Programme National de Lutte contre le Paludisme (PNLP) did not maintain proper records for mosquito nets and could not provide a breakdown of nets procured, distributed and balances held. At the time of the audit, the OIG noted 62,780 bed nets that could not be accounted for.

2.10. The OIG identified an incident of fraud, initially reported through the OIG whistle-blower hotline, in one of the hospitals where refunds for tests that had not been undertaken were being claimed. The investigations following the OIG audit examination identified in some US$ 52,000 which needs to be recovered and the officials responsible sanctioned. The PR also needs to establish whether such fraudulent practice is taking place in other hospitals.
Haiti

2.11. The OIG was unable to provide assurance that the PR’s (Sogebank Foundation) capacity was adequate to safeguard the Global Fund resources deployed in country, given the severe shortcomings identified in the areas of governance, financial management, procurement, and supply chain and grant management. The audit revealed US$ 1.26 million worth of ineligible costs. The OIG recommended that another PR (or PRs) be identified expeditiously. In response UNDP and PSI have now been appointed as PRs.

2.12. The PR used US$ 767,994 of program funds for activities that were not in the approved budgets and not related to program activities, including making donations to organizations not involved in the fight against the three subject diseases; making payments to a senior member of the PR’s management team in the amount of US$ 120,000; and transfers to bank accounts not related to the program, in the amount of US$ 193,602. These funds now need to be reimbursed.

2.13. Procurement was undertaken in an ad hoc/emergency manner because the PR lacked an approved PSM plan. The PRs inability to retain a third party procurement agent delayed the disbursement of funds and delayed the provision of supplies for program implementation. In consequence SRs were forced to turn to SCMS to avoid stock outs of life saving drugs.

2.14. UNDP was the PR for the Round 1/Phase 1 HIV/AIDS program. This grant was transferred to the Sogebank Foundation under Phase 2. UNDP declined to provide the OIG with access to the audit reports by its Office of Audits and Investigations (OAI), and has offered only abbreviated summaries devoid of factual detail. The OIG noted differences between the funds disbursed by the Global Fund and the amount of funds claimed as having been received in UNDP’s financial records. There was a US$ 519,326 difference between the balances recorded by UNDP and those in the SRs records. As such, the OIG has concerns over the thoroughness of the grant closure process in light of such discrepancies, which the LFA should have identified. Appropriate reimbursements should be sought from UNDP.

2.15. The catastrophic earthquake suffered by Haiti in January 2010 occurred soon after the OIG audit fieldwork was completed. Obviously, the earthquake puts program implementation at risk. After the earthquake, the Global Fund Secretariat initiated immediate action to ensure continuity of treatment, including an emergency authorization of US$ 800,000 to procure ARV drugs for six months. As a result, supplies were brought into Haiti in close cooperation with Global Fund partners through the Dominican Republic.

2.16. After the earthquake, the Global Fund Secretariat invoked the Additional Safeguard Policy (ASP) to address the inadequate systems in place to safeguard grant funds. These inadequacies were confirmed by the OIG audit. The ASP is part of the Global Fund’s risk-management strategy, which can be invoked in full or in part, based on risks identified in the country where a particular grant or group of grants is being implemented.

2.17. Going forward, it is possible, and indeed understandable, that the devastation caused by the earthquake could well impact the implementation of some of the OIG’s recommendations. The OIG stands ready to engage with the Secretariat and local stakeholders to identify the best way forward to action key recommendations, and strengthen the control environment within which Global Fund grants are being implemented.
Zambia

2.18. The OIG undertook an audit of Zambia’s 20 operational grants since the inception of the Global Fund. These grants were managed by four PRs. Zambia has achieved some impressive program results with some 230,000 people on ARVs.

Zambia - Ministry of Health (MOH)

2.19. The Global Fund grants were initially channelled through the Central Board of Health (CBOH) from 2003 to 2006. CBOH was absorbed into the MOH structure in 2006 as part of the MOH restructuring. MOH was appointed to be PR in January 2007 and there was no proper transition and this led to:

i. The loss of institutional capacity, financial records, assets, financial systems and staff. Expenditure incurred by CBOH worth ZMK 16.3 billion (US$ 3,543 478) was not supported with proper supporting documentation.

ii. Weaknesses in the internal control environment e.g. the CBOH bank accounts remained open and CBOH continued spending funds after the grants were transferred to MOH. The OIG was unable to confirm funds that out of the balance that were transferred from CBOH to MOH.

2.20. In March 2009, a suspected fraud was reported, through a whistle blower, at the MOH involving the Expanded Basket Fund and some grant funds. The allegations were related to fraudulent procurement practices. The Zambia Office of the Auditor General (OAG) carried out a forensic audit which revealed that over ZMK 36 billion could not be accounted for. Of this total, ZMK 1.9 billion was related to the Global Fund grants. The report recommended prosecution of certain officials of the Ministry and a number of officials including some members of the Senior Management team at the MOH were suspended. Other instances of fraud have been identified by the OIG’s Investigation Unit and these investigations are still in progress.

2.21. The MOH did not maintain proper books of accounts. Financial records maintained at the MOH could not be reconciled to the records of other associated units. The OIG had to reconstruct the financial statements in order to have a meaningful start to the audit. The audit identified advances to imprest holders which had not been accounted for, unsupported costs and ineligible expenditure which needs to be reimbursed to the Global Fund.

2.22. The OIG concluded that the Ministry of Health as lead sector PR did not have the capacity to manage Global Fund grants effectively. It required substantial capacity development in the areas of governance, financial management and procurement to effectively continue its role as PR. The OIG recommended that the CCM consider establishing immediate interim arrangements to cover financial, procurement and supply management. In response the UNDP has now been appointed as PR. The amounts recoverable from the MOH for unsupported and ineligible costs are US$ 4.36m and US$ 2.34m respectively.

Zambia - Ministry of Finance and National Planning (MOFNP)

2.23. The MOFNP established a Program Management Unit within the National Aids Commission (NAC). However the roles, responsibilities and reporting structure between the PMU, MOFNP and the NAC were not defined leading to oversight, management and
implementation glitches. The PMU was not appropriately staffed and did not institute appropriate grant management structures, policies and processes to safeguard the Global Fund resources. This resulted in cases of ineligible and unsupported expenditure amounting to US$ 1.5m and US$ 1.4m respectively.

2.24. The OIG noted one incident where the program funds were fraudulently acquired by a member of staff. At the time of the audit the suspended Accountant was unable to account for over ZMK 479 million (US$ 104,130). This amount should be refunded to the Global Fund.

2.25. The PMU also made transfers to the MOH amounting to ZMK 4.8 billion (US$ 1.05 million) for various procurements from as far back as 2005. At the time of the audit, the PMU had not received any statement of accounts from MOH for the transferred money and there was no evidence of delivery of the goods. These funds should be returned to the MOFNP for onward transmission to the Global Fund.

2.26. Based on the nature and extent of the weaknesses identified by this audit, the OIG concluded that the structures, systems and processes within the MOFNP were inadequate to safeguard program funds. MOFNP as PR requires substantial capacity development in the areas of governance, financial management, grant management and procurement to effectively continue its role as PR. The OIG recommended that the CCM consider identifying another institution with the requisite capacity to manage the grants.

Zambia - National AIDS Network (ZNAN)

2.27. There were several instances of fraud and/or misappropriation of funds at various SRs. Of the 21 SRs visited, 6 had either suffered fraud and/or had misused grant monies. Based on the audit, ZNAN should refund US$ 1.79m arising from these cases of ineligible and unsupported expenditure.

Zambia - Churches Health Association of Zambia (CHAZ)

2.28. CHAZ used 10 percent of program funds to cover administration costs. The OIG noted that on top of the 10 percent, the Global Fund also met other costs directly e.g. salaries, international travel and purchase of the Sun Accounting system. The OIG was not provided with the basis used to arrive at the 10 percent charge nor could the allocation of costs by donor be provided.

Zambia - Oversight structures - CCM and LFA

2.29. The coordination of the much needed collaboration between PRs has also not worked well. PRs continued, in some cases, working in a fragmented manner that increased the risk of duplication of service delivery across grants. The CCM should engage further with the PRs on this aspect. The CCM should also work with the CPs to develop arrangements that would improve harmonisation of the various sector interventions such as remuneration (salaries, allowances and top-ups) that the Global Fund supports.

2.30. The OIG noted that the LFA work in Zambia was performed under a rapidly changing grant implementation environment. However the LFA did not adapt appropriately leading to its failure to deliver on various aspects of its mandate e.g.
through providing the appropriate staff resources. This compromised the quality of work undertaken, and resulted in significant delays in the execution of the LFA work. The OIG could not give assurance that the LFA work in Zambia, during the review period, provided the required oversight to safeguard the Global Fund resources. In response the contract is now being retendered.

**Cross cutting issues**

2.31. What follows is a listing of cross cutting issues arising from all 4 of the country audits released since the last Progress Report.

i. Non-compliance with the grant agreement. For example, most PRs did not maintain proper books of account. PRs also did not fulfil conditions precedent on a timely basis which resulted in delayed disbursements and disruptions to program implementation.

ii. Increasingly, the OIG finds that some grant funds are spent on activities that are not in the approved work plan and budget and without the requisite approval of the Global Fund Secretariat. Budgets have often been “padded” which facilitates such practices and increases the risks of irregularities occurring.

iii. Invariably, some expenditure incurred is not appropriately supported by third party supporting documentation. Some overpayments and duplicate payments were also identified. Recoveries of some $16.8 million need to be made in relation to the audits of Cameroon, Cambodia, Zambia and Haiti. Significant recoveries are also being sought in relation to more recent audits.

iv. Most government PRs have established structures to manage the Global Fund supported programs which run in parallel to the national ones. This has resulted in a duplication of roles and in some instances the movement of qualified staff from the government to the programs.

v. The salaries paid to contract staff working on Global Fund programs are significantly higher than those paid to staff doing similar work in other organisations. This has resulted in the gradual movement of staff from government positions to equivalent positions under the Global Fund programs.

vi. PRs often lack proper logistics management information systems which affect their ability to quantify and forecast requirements for health products effectively. Controls over grant assets are often inadequate to safeguard resources e.g. health products and fixed assets procured.

vii. Despite a large percentage of funds being spent at SR level (often in excess of 60percent), sub grant management remains weak. In many instances, there are shortcomings in the selection procedures for SRs. The capacity of SRs to implement program activities is not assessed; no sub agreements are signed with SRs. There is poor monitoring of SR activities and in some instances the activities undertaken cannot be aligned to the approved work plans.
viii. The indicators and targets that are proposed in the performance frameworks are often not aligned to the national ones in place.

ix. The role and effectiveness of the LFA remains questionable as an oversight body. The OIG would reasonably have expected the LFAs to have identified many of the challenges raised in the OIG’s country audits and to have identified fraud at much earlier stages in many instances. Looking forward, consideration should be given to refusing to pay invoices in such circumstances.

Duration, delays and timing of the release of the OIG’s country audit reports

2.32. The OIG spends between 5 and 7 weeks in country conducting audit fieldwork and aims to release draft reports to country stakeholders 8 weeks after fieldwork has been completed. Sadly, this is rarely achieved. The International Standards on Auditing require auditors to have sufficient knowledge to evaluate the risk of fraud. The OIG audits are therefore addressing the risk of fraud as part of the country audits. A significant feature in most of the audits undertaken in the last year is that audit fieldwork has identified potential irregularities which need to be fully investigated by the OIG’s Investigation Unit subsequent to the audit fieldwork (Zambia, Mali, Sri Lanka, Kyrgyzstan, Djibouti, Nigeria, Madagascar, Kenya, Swaziland, and Malawi).

2.33. The Audit Unit is working closely with the Investigations Unit to ensure that these leads are investigated. Until this follow up investigatory work has been completed a draft audit report cannot be released for feedback. This is to preserve the integrity of any follow on investigation. Moreover, the outcome of the investigation usually points to additional losses and further control shortcomings, and recommendations need to be made to rectify them.

2.34. Another factor contributing to delays is that PRs often find it difficult to locate documentation to support expenditure and the OIG audit team have to either stay on after the 5-7 week fieldwork period at considerable expense to review supporting documentation when it is eventually found (Zambia, Haiti, Sri Lanka, Djibouti, Swaziland) or to agree to return weeks or months later to do so (Nepal, Laos). This all adds to delay in releasing draft reports in country and is a factor outside the control of the OIG. The OIG is now reminding PRs before the start of an audit that they need to provide documentation to support all expenditure, failing which reimbursement will be sought.

2.35. Before a draft report goes in country the OIG provide it to the Secretariat for initial feedback asking for a response within 10 days. However, the Secretariat often responds well after such deadlines because of the level of review required by the many stakeholders involved (country programs, finance, M & E, legal etc.). The OIG recognises that close attention needs to be paid to the quality of the feedback by the Secretariat on OIG draft reports. The Secretariat is responding to the OIG requests for more expediency by assisting its Country Programs cluster to streamline its review processes.

2.36. When a draft report goes in country the OIG normally asks for feedback within 3 weeks. In practice the country takes on average three months to respond despite regular reminders. The reasons given range from having to give greater priority to preparing grant applications to needing more time to prepare action plans in response to the many
recommendations offered by the OIG and the need to convene special CCM meetings to consider the responses. It is difficult to resist requests by in country stakeholders for more time to provide their responses.

2.37. A significant feature of recent audits has been to challenge Principal Recipients during the debriefing sessions to identify immediate actions that they commit to take in response to the key recommendations presented at the debriefing sessions (for example to immediately strengthen physical security at warehouses containing Global Fund financed medical products). The actions taken are then reflected in the final OIG audit report released.

2.38. In conclusion, the OIG is doing all within its powers to accelerate release of audit reports but this is often frustrated by the factors noted above. It is also important to note that given the Global Fund’s orientation as a transparent and accountable entity it is committed to publish its audit reports and to make them widely available. This imposes on the Global Fund a high standard of rigour in verifying the factual basis of OIG audit reports in order to buttress their credibility, relevance and utility.

PART 3: PROGRESS IN IMPLEMENTING RELATED BOARD DECISIONS

Following up the OIG’s work

3.1. The Board, at its 20th Session (Decision Point GF/B20/DP21), stressed the need to ensure that the responses to the findings and recommendations of the OIG are prioritized and fed into the overall planning and work of the Global Fund, including grant operations. To demonstrate that this is happening, the Secretariat needs to prepare regular status reports. The Secretariat recently provided the OIG with a status report on the implementation of recommendations. The OIG is reviewing the status to identify recommendations that can now be closed off. The outcome of the OIG’s review of this status report will be provided at the 23rd Board meeting.

UNDP

3.2. Restrictions imposed by UNDP significantly impact the work of both the Audit and Investigations Units in OIG and hampers the OIG’s ability to investigate allegations and concerns of fraud and misappropriation in grants managed by UNDP. On the audit side UNDP is not providing the Global Fund with access to their audits of programs for which it serves as Principal Recipient. Instead UNDP provides summaries of the audit reports to the OIG but these still do not provide sufficient detail. UNDP has also not agreed to the OIG offer to partner with the OIG on joint investigation undertakings in such situations.

3.3. This issue was discussed at the 20th Session of the Board. UNDP say they are committed to working with the Global Fund to resolve the problem and the OIG have since learnt that the issue of granting funding bodies’ access to related UNDP audit reports is to be considered at a session of the UNDP Board in mid-2011. In the meantime it would be helpful if members of the Global Fund Board continue to make a compelling case on this issue to their missions in New York.
3.4. A severe impediment to the completion of comprehensive and successful investigations arises whenever UNDP acts as a recipient of grant funds. Citing privileges and special immunity, UNDP has refused to allow the OIG access to books, records and staff, despite the fact that it is the Global Fund grant funds that are at risk of misappropriation and loss. In one case (Mali), it has sought to extend this policy to sub-recipients it has provided with Global Fund grant funds, and has instructed the SRs to refuse to provide the OIG with access to materials, documents and staff of the SRs, even after the OIG had identified pervasive fraud in grant implementation. This position is untenable, and effectively makes it impossible for the OIG to investigate allegations of fraud and misappropriation of funds. It is also directly contrary to the fundamental tenets of transparency and accountability, principles embraced by the Global Fund.

3.5. All other PRs are routinely cooperating with the OIG’s investigations. The OIG’s counterparts in UNDP assert that it is their responsibility to investigate allegations relating to Global Fund programs which UNDP manage and say that they believe that OIG can be a ‘participating partner’ in investigative activity they undertake. This has yet to materialise. In the OIG’s view the Global Fund should amend the grant agreement with UNDP for consistency with all other PRs, and require full cooperation with OIG investigations and audits. Such a policy would also promote the Organization’s commitment to transparency and accountability.

Keeping the Board informed of actions taken

3.6. The 19th Board Session (Decision Point GF/B19/DP25) requires the Executive Director to take strong, immediate action in all circumstances where the Inspector General has determined that there is credible and substantive evidence of fraud, abuse, misappropriation or corruption involving Global Fund grants. It also called on the Secretariat and the OIG to report on the restrictions imposed and the status of the cases. They have now done so and the Board is being informed of the status of the significant cases presented elsewhere in this report.

PART 4: INVESTIGATIONS AND RELATED INITIATIVES

4.1. Most investigations undertaken by the OIG involve country grant programs, and most audits conducted in the OIG result in a follow on OIG investigation. Highlights of significant investigations and related issues follow.

Mali

4.2. Over the last six months, the OIG Investigations Unit has launched an intensive investigation of allegations and indications of substantial misappropriation of grant resources in the tuberculosis and malaria grant disbursements in Mali. The investigation follows an OIG audit that identified systematic weaknesses and fraud risk factors in these grant programs. Up to October 2009, more than US$ 13.1 million in grant funds had been disbursed by the Global Fund to the Ministry of Health, the Principal Recipient, for TB and Malaria.

4.3. Through the examination of more than 59,000 documents and significant efforts in country, and about US$ 11 million of the disbursements, the OIG has identified that
approximately US$ 4.0 million (or 36 percent) in grant funds examined to date have been misappropriated. The OIG has also most recently focused upon HIV grant disbursements, totalling more than US$ 50 million, and has recently identified credible and substantive evidence of fraud at the sub-recipient level. The investigation is continuing, and because of the voluminous records and number of transactions involved, firm loss estimates will not be available before April, 2011.

4.4. The highest level of fraud has been found to exist in purported “training events” and related per diem payments, lodging and travel expense claims, and pervasive fraudulent invoicing. Forged signatures have been found to be rampant. It is significant to note that only a small percentage of grant funds are being used for medicines. The purported “training events” and per diem expenses constitute approximately half of all TB and Malaria grant funds. More than 70 percent of the expense documents have been determined to contain substantive and credible evidence of fraud.

4.5. The fraud in the TB and Malaria grants has been perpetrated in large measure by individuals associated with the sub-recipients of the grant funds, the National Control Program against TB (PNLT) and the National Program for the Fight against Malaria (PNLP). The investigation has revealed that systematic fraud was perpetrated by senior officials working for the grant implementers through the submission of thousands of fraudulent invoices, the creation of false bid documents, forged signatures and by over-charging for goods and services. Further, the investigation has revealed that numerous local merchants acted in collusion with the Ministry’s Directorate of Administration and Finance (DAF), PNLP and PNLT by sharing invoice templates, false invoices, creating false receipts and making false statements in furtherance of the scheme to trigger payment and justify substantial funding. To conceal irregularities and fraud, the DAF accountant falsified bank statements and other documents.

4.6. The OIG is now conducting a similar investigation of the HIV/AIDS grants, which exceed US$ 50 million. There is credible and substantive evidence to show that similar fraud is present in the invoicing of the sub-recipients. The investigation of the HIV grants will be an even greater undertaking, and will take considerable time and OIG resources. The OIG has already gathered more than 252,000 relevant documents from sub-recipients of the HIV grants (this is in addition to the 59,000 retrieved on the TB and Malaria grants).

4.7. The investigation has required a massive effort by the OIG Investigations Unit and the devotion of considerable resources. The effort is continuing, and will proceed for the next several months. The investigation team, comprised of diverse experience, has gathered, reviewed, scanned and analysed all the hard copy documents available that were often found in disarray. Multi-disciplinary OIG teams have visited Mali in furtherance of the case on several occasions in an effort to determine the legitimacy of the tendered documents, as well as identify the participants and quantify losses. Similarly, the investigation has required further investigative efforts involving hundreds of local vendors, merchants, individuals and employees of the principal and sub-recipients.

4.8. The OIG has worked in close cooperation with the Malian criminal authorities, and the Investigating Judge who was assigned to the matter directly by the President of Mali. Through this cooperation and the Judge’s efforts, the Malian national authorities have conducted numerous searches and seizures, and have arrested and imprisoned 15 individuals in connection with the fraud. The efforts of the OIG have been instrumental in furthering the case.
4.9. The OIG has shared with the Judge its interim investigation report and the results of its forensic efforts, computerized records, relevant documents, and intelligence it has gathered. As a result, the Judge has made a number of significant seizures, including the recovery of more than 30 manufactured and counterfeit “stamps” used to affix to invoices in order to give the appearance of legitimacy. The stamps were recovered in the garden of a senior assistant of a key program official, buried in the ground.

4.10. The OIG is investigating the HIV grants and preparing its final report on the TB and Malaria cases. The OIG will withhold its report on these investigations at the request of the Investigating Judge, who advises that publication may seriously compromise his investigation and resulting prosecutions, and could constitute a procedural violation. In camera review will be made available to the Board when the report is completed.

4.11. There are safety concerns for the OIG staff working on the investigation in country. The OIG has been strongly advised to seek protection of its staff operating in country because of the high visibility of the case, the substantial sums of money involved, and the seniority of some officials who are the subject of the inquiries. Such protection has been provided by the US mission.

4.12. Other health partners in Mali (GAVI etc.), who provide funding through the same entities, have been liaising with the OIG having expressed concern that their programs may also be affected by similar fraudulent activity. The OIG will continue to liaise closely with them.

4.13. Most recently, in the last month, the OIG has identified fraud committed in 2010 in the Round 6 malaria grants disbursed to PNLP. The OIG is currently assessing the extent of the loss.

Mauritania

4.14. In a case with a strikingly similar pattern of fraud as identified in Mali, the OIG had previously uncovered a virtually identical pervasive fraud scheme in the HIV, Malaria and TB grants disbursed to Mauritania. In connection with the HIV grants, approximately US$ 6,184,934 was disbursed in country to the Principal Recipient. Through its investigation, the OIG has identified a loss of approximately US $4.1 million, constituting approximately 67 percent of the grant proceeds. Approximately US$ 1.7 has been repaid thus far by the Government of Mauritania. US $ 2.4 million remains outstanding.

4.15. In connection with the TB and Malaria grants, the OIG has analysed approximately US$ 3.5 million of the grant proceeds of a total of approximately $9.9 million. Of this amount, the OIG has identified a loss of approximately US$ 2,651,779, or, approximately 67 percent loss of funds analysed. Through intensive investigative effort, the OIG has identified significant evidence of the widespread fraud that was perpetrated through the submission of fabricated documents (supporting invoices and requests for payment) provided by SRs and SSRs over a five and a half year period. In the view of the OIG, this is an amount that UNDP, as the Principal Recipient, is responsible for in its fiduciary capacity over the SRs.

4.16. It is significant to note that the OIG has only been able to examine approximately 45 percent of the HIV grant proceeds, or US$ 3.5 million because it was denied access by UNDP. Specifically, the OIG was not able to examine approximately 55 percent of the total...
grant disbursements (approximately US$ 6.4 million) as these funds were administered by UNDP who refused the OIG access to documents, staff and witnesses, claiming (as noted above) that UNDP is the beneficiary of a “special immunity” that allows it to restrict disclosure of these materials. As a result of this refusal, the OIG investigation is severely hampered, and the OIG cannot give assurance that the remaining disbursements, more than US$ 6 million, are not subject to systematic fraudulent activity.

4.17. The lack of access to the Principal Recipient’s documents, staff, and transactions, constitutes a severe impediment, and results in an inability to fully examine the fraud or the full amount of grant disbursements. It should be noted that confidential witnesses/wistle-blowers advanced allegations that other individuals were involved in the fraud, and recklessly disregarded indications of fraud and obvious irregularities in the expenditure documents. The OIG has not been able to examine these issues because of the impediments identified above.

4.18. The investigation in Mauritania similarly required the examination of a wealth of documents generated by the SRs and SSRs, and efforts to track expenditures, identify, locate and interview approximately 600 vendors and local merchants. Ultimately, even without access to the UNDP documents and witnesses, the OIG identified a systematic and pervasive fraud scheme perpetrated at the SR level.

4.19. As is the case in Mali, purported “training” exercises and per diem costs were largely fraudulent. In many instances, local merchants were found to have been acting in collusion with SRs and SSRs in order to conceal the fraudulent activities, including through the creation and submission of false receipts, fictitious invoices, the creation of fake companies, and making false representations concerning their activities.

4.20. In addition, the OIG investigation has also been severely hampered by the recent lack of cooperation from the Government of Mauritania. After initially acting upon the OIG’s findings in making arrests, and paying restitution to the Global Fund in the amount of approximately US$ 1.7 million, further cooperative efforts have recently ceased. Efforts by the Inspector General through communications with the Government have not resulted in any significant progress.

4.21. The OIG has been in dialogue with the UNDP’s Office of Audit and Investigations (OAI) concerning the OIG’s loss calculations and repayment of the remaining amounts by UNDP (or UNDP’s SRs). OAI had originally conducted its own audit of these grants, sampling the transactions, and had identified an approximate $900,000 loss. The OIG has shared its preliminary report (which OAI agrees is more comprehensive as it is based on a 100 percent analysis of disbursements) and evidence with OAI in the spirit of cooperation. After its review of the OIG report, and further efforts on its behalf, OAI has recently indicated to OIG that its loss figures have increased, but have yet to produce a final figure to OIG. OAI has apparently liaised with the Global Fund Secretariat, and have re-adjusted their loss figure to approximately US$ 1,060 million far short of real loss calculations. The OIG is calling on the Secretariat to claim full reimbursement of all loss amounts, and support OIG’s request to investigate the remaining US$ 6.4 million under UNDP’s direct control. OIG is also calling upon the Secretariat to support OIG’s requests for access to documents, financial records, and witnesses in its investigations of grants managed by UNDP, and link UNDP’s participation in the management of further disbursements with agreement with OIG’s rights of access. Also, as discussed herein, any further administrative fees to UNDP should be offset by the amounts defrauded by the SRs, for whom UNDP, as PR, is responsible.
4.22. As the Mauritania criminal investigation is on-going, OIG has not sought to conduct interviews in country, and will refrain from issuing its final report until the completion of the criminal probe, or until such time as it is safe to do so without interfering in any resulting prosecution.

Cote d’Ivoire

4.23. Preliminary indications are that systematic fraud pervades at least one grant program in Cote d’Ivoire. The OIG has begun investigations but is severely under-resourced to address all of these schemes.

Djibouti

4.24. In April and May 2010 the OIG carried out an audit and preliminary investigation of Global Fund grants to the Republic of Djibouti, examining disbursements to date, including disbursements for rounds 4, 6 and 9. The OIG focused on approximately 87 percent of the US$ 20 million that had been disbursed to the sole Principal Recipient (PR), the Executive Secretariat (ES) of Djibouti. In connection with the grants, the PR had engaged 123 sub-recipients (SRs) that included 15 ministries and 95 NGOs. Of these entities, 8 SRs were covered during the audit. The audit found substantial irregularities, losses and unsupported expenditures.

4.25. The OIG audit and preliminary investigation reviewed 84 percent of the disbursements and established that approximately US$ 5,266,000 (or approximately 30 percent of the grant proceeds examined) were either lost, unaccounted for, or could not be established to have been used towards grant purposes. These amounts need to be recovered unless the country can provide the original supporting documents which could not be located when the audit was undertaken.

4.26. Significantly, US$ 3,078,509 was expended without any supporting documentation or invoices; automobiles and motorcycles were purchased that were not used in, or for, the Program, and three (totalling US$ 27,598) could not be traced and their whereabouts remain unknown. Inter grant transfers were made with Global Fund grant funds to other grants, of which some transfers were made to non-Global Fund related programs; cash advances were made to non-Global Fund programs; payments were made to suspicious vendors; $747,904 was transferred out of the account with no claimed justification; and $281,666 was used for non-Global Fund related training seminars, travel and events that had no connection with the Global Fund or its funded programs. Several other improper or unsupported expenditures were also noted.

4.27. The audit further identified a number of “red flags” pointing to the likelihood of irregularities: weaknesses by the PR in bank reconciliation processes were identified; the issuance of bearer cheques to vendors and employees were improperly made; and the lack of any process to monitor cash advances to employees and purported vendors.

4.28. The audit further identified serious deficiencies in the storage and distribution of HIV drugs. Discrepancies in stock statements were identified, stock sheets contained serious and repeated errors and were regularly not approved by authorized representations. Significantly, expired drugs had been issued to health centres and others were misidentified as “unexpired.”
4.29. The matter has been referred to the national investigative and prosecutorial authorities in country for follow-up.

Nigeria

4.30. Following an OIG audit that identified a series of “red flags” of fraud in grant disbursement to Nigeria, the OIG commenced an investigation of the Principal and Sub-Recipients, and associated vendors and suppliers. While the investigation continues to be on-going, the OIG has confirmed irregularities identified by the OIG auditors. Namely, the OIG has confirmed losses arising from fabricated expense vouchers submitted for airline flights and training exercises and is addressing allegations that fraud in such expense requests is pervasive.

4.31. The OIG investigators are also examining issues surrounding significant quantities of unaccounted for malaria bed nets (at least 20,000), and allegations that the Global Fund was overcharged for the associated costs of purchase. Relatedly, the OIG is investigating concerns that a conflict of interest exists between the Principal Recipient, the PR’s in-country affiliate, and a bed net supplier in connection with the sole sourcing of large bed net contracts in country.

4.32. Significantly, the audit identified, and the investigation has confirmed, extensive high risk money wire transfers to a number of third parties in different continents, including the Americas, involving substantial grant funds. Two Principal Recipients, the Yakubu Gowon Centre (YGC) and Christian Health Association of Nigeria (CHAN), engaged in several out of country wire transfers of an aggregate total of more than US$ 27 million in grant funds, in US dollars, to third parties throughout the world. The transfers were made at the direction of a third party money remitter to whom the PRs were referred by the local bank where the grant funds were originally deposited. The bank had referred the PRs to the money remitters in order to achieve a better exchange rate for transferring dollars into Naira (the Nigerian local currency) than the bank asserted it could offer.

4.33. The investigation has revealed that the third party remitter instructed the PRs to wire the dollars to third parties, and in exchange, the remitter would wire the local currency into the PRs account, for a fee. These transactions constitute high risk money laundering activity and pose a risk that grant funds were used in furtherance of underlying criminal activities perpetrated by third parties in country.

4.34. While there is no evidence currently that any PR or individual associated with the Global Fund acted knowingly, the Fund is exposed to a high reputational risk if indeed such transactions are later confirmed to have been made in furtherance of disguising underlying criminal acts. In addition, the PRs actually lost money in the currency conversions that had an associated cost of more than US$ 64,000 (which should be reimbursed), and did not achieve the advantageous exchange rate sought.

Theft of Anti-Malarial drugs

4.35. Recently, several referrals have been made to the OIG concerning allegations, and identified instances, of organized thefts of anti-malarial drugs in several different countries in Africa (including Malawi, Tanzania, Kenya, Nigeria, Uganda, Togo, and Cote D’Ivoire) and their subsequent sale in commercial markets (Nigeria, Benin, Ivory Coast, Cameroon and Guinea). The referrals have been made by partner organizations, whistle-
blowers, a large drug manufacturer from whom the Global Fund finances drug purchases, and the press. The allegations emanating from these sources are similar in nature.

4.36. Theft schemes appear to be well organized, as Global Fund financed anti-malarial drugs provided to certain countries have been identified for private sale in commercial markets in other locations—sometimes a considerable distance away. It also appears that some of the stolen drugs are following a transcontinental trafficking route, overland and possibly by sea.

4.37. Investigating these schemes will entail a massive undertaking by the OIG. The OIG is actively seeking to engage with partner donors similarly affected (USAID) and national law enforcement authorities to undertake a coordinated investigation and response. Similarly, the OIG is also actively investigating complaints, and instances, of counterfeit drugs (for example in Cambodia, paragraph 7). However, irrespective of any investigative efforts, proactive measures must be taken now to protect drug deliveries, including placing responsible security at points of delivery and warehousing.

**Tropical Disease Foundation - The Philippines**

4.38. In an audit completed in February 2010, the OIG Audit Unit completed a highly critical audit of the Principal Recipient in the Philippines, The Tropical Disease Foundation (TDF). TDF is a private entity which was entrusted with implementing multiple grants in the Philippines. As a result of the audit, the OIG identified an approximate US$ 1.7 million that constituted loss or amounts that could not be properly identified as having been used in furtherance of grant purposes.

4.39. The TDF, while initially cooperating with the audit and signing off on key audit calculations, ceased cooperating towards the audit’s end. Thereafter, in April, 2010, after the audit report was issued, TDF presented a “Position Paper” to the Global Fund, arguing that the calculations of loss were flawed. While confident in its findings, as an added measure of due diligence, the OIG has commissioned Ernst & Young to review the calculation of loss in the OIG audit. EY has largely corroborated the OIG’s work, and identified that the calculations in TDF’s Position Paper are not supported by documentation.

4.40. The TDF was replaced as PR, but refused to reimburse approximately 1.3 million euros of grant funds it was holding, which has only recently been reimbursed. The OIG is actively working with the Secretariat in addressing these issues, and reaching a sound and unified strategy to deal with the issue. The OIG has made clear, however, that US$ 1.7 million should be returned to the Global Fund without delay, and the Organization should stand firm on this issue even if it requires proceeding to arbitration. Based on the Legal Office’s recent analysis, all amounts that are not readily identifiable by the PR as being used in furtherance of grant purposes are required to be reimbursed by the PR. As such, the Secretariat should continue to press for full reimbursement of these amounts.

**DRC**

4.41. Pending criminal trials are due to take place in London in early 2011, with the Inspector General as witness. The OIG will continue to provide support to the UK and Danish police as required.
Bed nets

4.42. The OIG has received numerous referrals, complaints and allegations of impropriety regarding the procurement, delivery and distribution (and lack thereof) of significant quantities of anti-malarial insecticidal nets (LLINs) in many countries in Africa and Asia. The OIG has assigned two investigators to these matters, and has consulted with experts from the US Centre for Disease Control on the need to strengthen monitoring of the efficacy of the nets that are being purchased with Global Fund grant funds. Some allegations have been lodged that nets have been failing prematurely, and do not possess the attributes represented by the manufacturer.

4.43. Similarly, allegations have been made in numerous countries that nets have been stolen, missing and, sold in commercial markets.

Fraud Patterns across Grants

4.44. While no investigation has proven identical, strong patterns of similarities of fraud have emerged, especially in regions. Across multiple grants programs throughout Africa, and especially prevalent in Western Africa, “training” events, and associated costs, are high risk endeavours as manufactured and fictitious supporting documentation is routinely submitted to support large reimbursements; per diem expense claims are routinely found to be padded and supported by fictitious signatures. Also prevalent across Africa are double dipping claims, as is budget padding and a lack of proper and genuine support for travel and events. Procurement fraud is prevalent in East and Central Asian programs, including steered contracts to favoured bidders.

Training for the LFA/Secretariat re: Red Flags of Fraud and Corruption

4.45. In light of the patterns of fraud that have emerged across multiple grant programs that have gone undetected by LFA and Secretariat officials, the OIG is undertaking presentations for the LFAs, and also for the Secretariat, on common red flags of fraud in Global Fund grant projects, to alert LFAs and Secretariat officials to these fraudulent schemes and allow for earlier detection. This initiative is led by the OIG Director of Investigations and Senior Legal Advisor who has already undertaken three sessions with LFAs and set out the fraud patterns that are being identified. In these sessions, he has explained the need for proactive measures to address common patters of fraud and misappropriation, and made it clear that the OIG is of the view that detection of fraud is fully within the LFA remit. Relatedly, the OIG will participate in the revision of the LFA Manual, and suggest significant modifications and clarifications to the duties and responsibilities of LFAs so that there is in future a clear expectation that they should identify, and report instances of fraud and other irregularities in grant fund expenditures. Payment to LFAs who fail to fulfil this critical responsibility should not be made and their invoices should not be honoured.

Modifications and Clarifications Needed

4.46. In addition to proposed changes in what the LFA’s are asked to do, the OIG has identified a series of significant potential weaknesses and deficiencies (including the standard Grant Agreement with UNDP) that pose serious risks to the Global Fund, its staff and resources, and the effectiveness of the OIG. The OIG has presented the following
possible areas of weakness to the Legal Office, and has recently received an opinion from the office. The OIG continues to press the following issues, after reflecting on the Legal Office opinion, and is working with the Legal Unit on addressing these concerns:

i. A lack of privileges and immunities for Global Fund staff working in country that exposes such staff to substantial physical safety risk, a lack of protection from criminal and civil process, and risks associated with travel and working in country (this is a most serious deficiency). The OIG strongly encourages the Secretariat and the Board, at the highest levels, to support the Secretariat’s endeavour to obtain such privileges and immunities by having the states sign the Agreement on Privileges and Immunities, which was endorsed by the Board in December 2009, and, because of the seriousness of the issue and its potential implications for all Global Fund staff, to condition the disbursement of funds in country on a commitment from the country that it will bestow such privileges on Global Fund staff in country as staff from all other international organizations enjoy;

ii. A lack of clearly defined language in the standard agreement with UN agencies acting as PRs, setting forth the obligations on the part of Principal Recipients and sub-recipients to cooperate with OIG investigations, to be transparent, and to allow access of the OIG auditors and investigators to inspect and retrieve the books, records (including financial), staff, and financial data gathered and generated by these entities and their employees;

iii. Monitoring and enforcement of money laundering risks are inadequate, and provisions in the standard grant agreement are not sufficiently robust despite the fact that they have apparently undergone legal review by outside authorities. As seen in the recent case in Nigeria (paragraphs 4.31-4.33), activity typical of money laundering went undetected for some time in several wire transfers involving large amounts of grant funds from two PRs, who sought the services of a money remitter who instructed the PRs to deliver large amounts (in the many millions) of US dollars to several third parties in North and South America, and in exchange, the remitter, agreed to wire local currency to the PRs obtained from its own unidentified “clients”. Neither the LFA the PRs nor the Secretariat identified the issue until the OIG’s audit and investigation. Importantly, simply prohibiting “Money Laundering” in grant documents, using those words alone, is woefully insufficient, as “Money Laundering” is a concept, the nature of which cannot be readily discerned from a simple reading of its title alone. Rather, money laundering is a complex set or series of separate (sometimes seemingly innocuous) acts, taken together, to achieve a certain purpose—namely disguising or transferring ill-gotten gains into a useable form to avoid detection and seizure. Many of the individual parts, or acts, may not be illegal in and of themselves, but yet indicative of an underlying, more nefarious, purpose.

iv. There appears to be a lack of understanding of the nature of money laundering risk, and little to no monitoring of these risks. The OIG itself is undergoing in house training on this potentially complex topic;

v. Further, based upon its experience, the OIG has proposed certain restrictions on typical money laundering activities that are high risk,
including wire transferring grant fund monies to third parties who are not directly related in grant program implementation. Such restrictions are minimally restrictive, and provide valuable and important safeguards which make firm sense. Despite the realization of this risk in Nigeria, and the experience of the OIG on this issue, the OIG’s recommendations have not been adopted. It is clear that the Grant agreement should specifically define what the particular money laundering risks are, and prohibit wire transfers of grant funds to third parties that are not directly involved in Program implementation. The OIG is working with the Legal Office on identifying appropriate language to be included in grant documents to address these risks, balancing the need to prevent unnecessary handicaps in program management;

vi. The Global Fund should reinforce, and transmit, to all PRs, the recent Legal Office opinion that clarifies that the burden of proving that grant funds were used in furtherance of Global Fund financed programs is upon the recipient of the funds, and not the Global Fund itself. When questions arise concerning the propriety of the use of funds, and the PR cannot identify the manner in which the funds were used by reference to appropriate supporting documentation, the amount should be clearly identified as a “loss,” and subject to reimbursement. Based on OIG’s experience, this is not clear to many PRs who cannot identify the full uses to which grant fund resources were put;

vii. Co-mingling of grant funds is a major problem for the OIG and the Global Fund, affecting many audits and investigations, hampering the ability of the OIG to identify the full uses to which grant funds have been put, and routinely extending audits and investigations by significant periods of time as co-mingling causes significant problems in identifying precisely and completely, the precise uses to which grant funds were put. It is clear that some entities are using multiple accounts, and co-mingling of funds, as a vehicle to cloud the nature of the true expenditures, to make it difficult to ascertain how the funds have been spent, and to disguise fraud and misappropriation. Co-mingling should specifically be prohibited, and a sanction should attach to the PR when the PR co-mingles grant funds with other income sources. Provisions requiring separate bank accounts for Global Fund grant funds from other donor sources of funds may not be sufficient to address the risk, as co-mingling has been seen to still occur in separate accounts. It is likely that single stream funding, expected to be mandatory by Round 11, will only compound the problem. Therefore, mechanisms must be put in place to ensure that the PR has not only the obligation, but indeed the ability, to specifically and expeditiously identify all uses to which grant funds have been put. The OIG is working with the Legal Unit on this issue;

viii. The Global Fund Secretariat should send a briefing communiqué based on the Global Fund Legal Services Unit’s opinion that makes clear that the PR is responsible for losses sustained by the SRs, and may seek indemnity from the SRs separately. This is important because a significant percentage of the losses being sustained by the Global Fund are at the hands of SRs and Suppliers;
ix. In the event of the identification of losses sustained by the PR, or the SRs with whom the PRs have engaged and distributed funds to carry out Global Fund grant programs, funds should be routinely offset against the disbursement of any further grant funds to the country, irrespective of the PR or the grant, by the amount of the loss identified or the amount owed as a result of misappropriation, misuse or the inability to identify the uses to which fund amounts have been put. This has not occurred in the example of Mauritania despite OIG’s recommendation to employ the right of set-off for recovery of lost funds.

Disbursement Pressure and Investigations

4.47. In numerous cases, the Secretariat seeks information from the OIG on active investigations, including in many instances when the investigation has just been launched. Risks to the investigation, confidentiality, and the safety of investigators are posed by premature disclosure, and the dissemination of details of investigations. To address the balance between the need for OIG to complete timely and comprehensive investigations free of undue influence and impediments, and the Secretariat’s need for information to inform further disbursement decisions, the OIG and the Secretariat are working towards a revision of the Protocol on handling investigations. This will guide dissemination of relevant confidential information when further disbursement decisions are contemplated.

4.48. However, to date the Secretariat has not been willing to link further disbursement decisions with lack of cooperation with investigations by country partners. For example, the OIG has faced impediments in its investigation in Mauritania posed by the Government of Mauritania, and separately by the Principal Recipient (UNDP). This has resulted in a standstill for many months, and the lack of progress of the investigation. It is clear that the Global Fund has sustained steep losses of grant funds in Mauritania (as discussed above), and a full quantification of losses, and identification of responsible parties, cannot be made without such cooperation.

4.49. The OIG has requested that the Secretariat include a requirement of cooperation with the OIG as a condition precedent for further grant disbursements. The grants are temporarily halted, and monies have been extended for “essential services”. In Mauritania, the Secretariat has, however, refused to call for cooperation with the OIG to be a condition precedent to the future flow of funds. In the OIG’s view, these issues are inter-linked, and for the OIG to be effective, a consequence of non-cooperation must exist.

PART 5: PRIORITY 2 - PROVIDING ASSURANCE ON OTHER MAIN BUSINESS PROCESSES

5.1. The OIG delivered two reports in April 2010 which sought to give assurance on other main business processes.

Oversight of Grant Procurement and Supply Management Arrangements

5.2. It is estimated by Global Fund’s Procurement Management Unit that procurement of drugs and other health related commodities represents approximately 40 percent - 50 percent of the total expenditure of grant funds and significant sums are spent on distribution arrangements. Procurement and Supply Management (PSM) related activities
are therefore critical to effective grant implementation funded by the Global Fund. The Global Fund five year evaluation raises concerns about the Global Fund PSM oversight standards lacking rigor. According to this report, failure to increase oversight standards could put the Global Fund’s investments at risk.

5.3. In accordance with the Global Fund architecture, Principal Recipients have full responsibility for undertaking grant related procurement and supply management at country level in accordance with the grant agreement. The Global Fund Secretariat’s role in grant PSM has been focused primarily on establishing policy and assisting countries with interpreting policy requirements when procuring products. The OIG’s report shows that the Global Fund Secretariat also provides limited oversight of the procurement and supply management processes to ensure PSM is undertaken in a fair, transparent, objective and effective manner.

5.4. It is for debate whether greater PSM oversight at a country level would be in conflict with the Global Fund principle of “Country Ownership”. The important question arises about how far procurement oversight structures established by the Global Fund Secretariat can go without overstepping its mandate as a financing mechanism and interfering with the obligations of PRs in relation to PSM. That said the providers of funding to the Global Fund look for assurance that PSM arrangements are operating effectively.

5.5. The evidence of shortcomings related to PSM arising from the OIG’s country audits suggests that the oversight arrangements have failed to spot and mitigate the risks that have emerged. These country audits reveal the following areas as being consistently weak across the various countries. The country audits seek to analyze the underlying causes of these problems and propose solutions to address them.

i. Forecasting drugs and health product requirements;
ii. Developing technical specifications for procurement;
iii. Absence of or weak procurement policies and procedures;
iv. High product prices;
v. Poor performance of Third Party Procurement Agents;
vi. Poor inventory management sometimes resulting in pilferage;
vii. Poor storage and transportation facilities at national and sub national level;
viii. Drug stock outs and/or expiries;
ix. Weak procurement planning resulting in frequent emergency procurements;
and
x. Inadequate Management Information Systems.

5.6. The OIG concluded that the way in which these stakeholders are undertaking their prescribed roles is in some cases less than optimal which affects the quality of PSM oversight over grant programs. In consequence, the OIG cannot at present give assurance that the PSM arrangements are operating effectively in the countries audited. As the Global Fund evolves and more risks are identified arising from the operations of the Global Fund model, PSM oversight will need to be refined. The OIG has in this report identified how PSM oversight can be strengthened to enable assurance to be given that PSM arrangements are operating effectively.
Grant application process

5.7. The Global Fund provides grants on a discretionary basis in support of technically sound and cost-effective interventions for the prevention of infection and the treatment, care and support of persons infected and directly affected by HIV/AIDS, tuberculosis and malaria. A review of the grant application process was agreed by the Board to be a priority for the OIG for 2009, to complement a review by the Secretariat of the Global Fund’s funding architecture, and wider consideration by the Board in 2010 of eligibility for Global Fund resources.

5.8. In summary, the detailed findings and conclusions of the review (which incorporate recommended actions) - as set out further below - show that there is clear scope to improve the existing grant application process to provide better support for the Global Fund’s policy objectives and funding decisions. In particular:

i. There is scope for the Global Fund to benefit from a more structured relationship between the Board and its committees and the Technical Review Panel to address policy and implementation issues.

ii. The Board’s governance role would be enhanced by more extensive financial review of funding proposals (“budget padding” is a common issue raised in the OIG’s country audits).

iii. More effective evaluation of portfolio performance would strengthen the basis on which TRP recommendations are made.

iv. There would be benefit in the Global Fund carrying out a review of the high rejection rate for proposals, with a view to increasing the simplicity of the proposal process and the availability and effectiveness of technical support to applicants.

v. The expertise of Secretariat staff and the Global Fund’s partners needs to be exploited more widely, through closer, more active integration with the various processes involved in the development and review of proposals. (The need for such a ‘dialogue’ was recognized in the February 2010 Board retreat)

vi. More useful preliminary screening of proposals could be achieved through enhanced review of budgets and other elements, and review of the Secretariat’s role.

vii. TRP review would benefit from wider contact with, and support from, Secretariat staff and the Global Fund’s partners.

viii. Some measures are desirable to reduce the present compression and review burden on TRP members, and to facilitate a more effective review of proposals with better feedback to applicants and the Global Fund’s constituents.

ix. Many of the individual recommendations resulting from this review involve improvements to the present arrangements (for example to simplify and rationalize the applications process, and provide improved technical assistance) which would themselves facilitate better performance against the Global Fund’s key performance indicators and therefore objectives.
PART 6: PRIORITY 3 - SUPPORTING KEY MANAGERIAL AND GOVERNANCE INITIATIVES IN THE SECRETARIAT

Recipients Code of Conduct

6.1. The Ethics and Reputational Risk Assessment commissioned by the OIG (2008) as part of the Values and Integrity Initiative recommended that the Global Fund should adopt three codes as an ethical framework for the Global Fund’s operations: a Suppliers Code, a Recipient’s Code and a Staff Code. The Suppliers Code has now been released after endorsement by the Board [https://intranet.theglobalfund.org/Procurement/Pages/CodeofConduct.aspx]. The OIG have now taken the initiative to draft a Recipient’s Code (Annex 2) to set ethical expectations for all recipients. The proposed policy is largely modelled on the Suppliers Code of Conduct.

6.2. The OIG has presented the draft Code to the Legal Unit whose feedback is reflected in the draft attached. The OIG now seeks consideration and endorsement from the Finance and Audit Committee (FAC) the Ethics Committee, the Policy and Implementation Committee (PIC), and the EMT.

PART 7: PRIORITY 4 - STRENGTHENING THE OFFICE OF THE INSPECTOR GENERAL

7.1. The greatest challenge in strengthening the OIG is recruiting well qualified core staff, both auditors and investigators. In practice the OIG has been obliged to re-advertise (sometimes multiple times) for many posts and 7 (out of 23) posts are currently unfilled. Some well qualified candidates are not applying and a number have turned down posts in the OIG because of the compensation offered. The OIG have been informed by the Human Resources Unit that the Global Fund is not competitive when measured against comparators (the development banks and the European Commission). The Inspector General has requested that the offers by the Human Resources Department take into consideration factors other than simply net annual earnings in the prior year, including: level of education, the special skills sets of the staff needed (forensic specialists, lawyers, prosecutors and investigators with international white collar fraud experience), other offers received, value in the private sector, etc. The current model stresses, most importantly, simply the last year’s annual salary of the candidate, a much too narrow focus. Potential recruits complain that offers fail to reflect adequately the cost of living in Geneva, and provide an appropriate incentive to relocate, as most suitable candidates are recruited from distant locations. The Inspector General has reached an impasse on this issue and the Chair of the FAC has agreed to broker a solution. At this point, the Inspector General sees no alternative other than to break away from the Global Fund’s uncompetitive and inflexible compensation model.

7.2. The resource ‘crisis’ is particularly severe for the Investigations Unit which has seen a dramatic increase in the number of referrals of complex fraud and corruption cases. As noted above most of the OIG’s audits now result in a referral for investigation. Even without the audit referrals, the Investigations Unit currently has more than 100 active cases, 63 of which remain unassigned and unaddressed because of the lack of resources and staff to address them.
7.3. The Whistle-blower hotline and the OIG referral email accounts have seen an increase in reports of misconduct and abuse. Thus far in 2010, 28 complaints have been made to the OIG through these reporting lines, and 12 additional matters have been referred from the Secretariat. Out of these 40 referrals, the OIG has determined, following preliminary assessment that 11 should move forward to active investigations.

7.4. The fraud investigations in Mali, Mauritania, and the Ivory Coast are extremely resource intensive, and require teams of several investigators with diverse skill sets. The complexity, and sheer volume of records and documents, necessitates a significant commitment of investigative staff, support and resources. Similarly, the anti-malarial drug theft investigation will also require substantial resources and staff. As the projected losses as a result of these fraudulent/leakage schemes are substantial, the investment of significant time and resources is well justified. In addition to the recoveries of $16.84M identified at paragraph 32 (c) arising from the audits of Cameroon, Cambodia, Zambia and Haiti, the OIG have identified a further $17.81M that needs to be recovered arising from investigations in progress. Cases involving lesser amounts of alleged loss, and lesser severity, are given less priority.

7.5. The OIG has recently appointed a new Director of Investigations at the G8 level. He will also continue to assume the role of Senior Legal Advisor to the OIG, and the combined functions will allow the OIG to return the salary commitment for the Senior Legal post, resulting in a substantial financial saving.

7.6. Nevertheless, the OIG is severely short of staff in the Investigations Unit. The OIG could double its staff and still not address all the cases in its inventory. The investment in OIG is well worth the cost, as the OIG has identified substantial amounts that need to be recovered, and its efforts have led to recoveries, far in excess of its budget.

7.7. The OIG is committed to undertaking a Quality Assurance Review of the audit function in 2011 as required by professional standards. This would start with an internal self-assessment to identify areas for improvement followed by an external validation. The Investigation Unit will also undergo a peer review of the function in 2011 by a competent peer with relevant expertise.

PART 8: PROPOSED 2011 PRIORITIES AND PLAN

8.1. The proposed audit plan for 2011 is at Annex 1. The OIG is proposing to undertake 15 country audits and 10 diagnostic reviews in 2011. The number of Secretariat based ‘reviews’ will be five. A number of outstanding business processes will be affected by the implementation of the outcome of the Global Fund architecture review and it would be better to let the new processes ‘bed in’ before further reviews can be undertaken.

8.2. Investigations are by their nature unplanned. The challenge is to secure the appropriate resources to handle the demanding caseload expeditiously.
Proposed OIG Budget for 2011

8.3. The 2011 budget and the forecast till the end of the year are summarized in the table below.

<table>
<thead>
<tr>
<th></th>
<th>2011 Investigations 000s</th>
<th>2011 Audit 000s</th>
<th>2011 Total</th>
<th>2010 Revised** US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff numbers *</td>
<td>19</td>
<td>8</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Staff costs</td>
<td>3,825</td>
<td>1,679</td>
<td>5,504</td>
<td>2,861</td>
</tr>
<tr>
<td>Consultancy costs</td>
<td>6,150</td>
<td>4,450</td>
<td>10,600</td>
<td>7,913</td>
</tr>
<tr>
<td>Travel costs</td>
<td>1,000</td>
<td>935</td>
<td>1,935</td>
<td>1,250</td>
</tr>
<tr>
<td>Computer related costs</td>
<td>378</td>
<td>30</td>
<td>408</td>
<td>53</td>
</tr>
<tr>
<td>Office infrastructure and other</td>
<td>54</td>
<td>65</td>
<td>119</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,407</td>
<td>7,159</td>
<td>18,566***</td>
<td>12,227</td>
</tr>
</tbody>
</table>

* The total staff count is 30 staff. The IG and two administration staff are not allocated to the two units.
** Revised 2010 budget is subject to the Board approval.
*** The Secretariat has proposed a separate provision to fund a potential impact of foreign exchange differences amounting to US$ 1.1 million.

8.4. The OIG has already identified in this report the rapid emergence of a heavy investigation caseload that is insufficiently resourced due to a lack of investigative staff and funds. Moreover, the OIG has identified 48 additional cases that remain unassigned as a result of this deficiency in resources.

8.5. The rapid increase in referrals of cases for investigation is in part a result of the fact that most of the OIG’s audits now result in the identification of “red flags” of fraud, corruption and misappropriation and therefore require a follow on OIG investigation. The increase is also attributable to an increase in the number of referrals from the whistle-blower hotline and email service asserting allegations of fraud, financial misappropriation and gross mismanagement in Global Fund grant programs; and an increase in the size, breadth and complexity of cases after the investigation has commenced.

8.6. Significant high priority cases in which significant amounts of grant funds have been, or are at risk of, misappropriation, are extremely resource intensive, involve extraordinary amounts of documents, transaction data and records. Because of the demanding caseload, the OIG is required to draw upon contracted, often highly specialized support, including computer specialists, forensic auditors and accountants, and investigators with experience in international financial fraud matters to undertake and complete such cases in a timely and thorough manner.

8.7. The cases are large and complex, and often involve hundreds of thousands of documents, numerous transactions and many subjects over large geographic regions.

8.8. The OIG has identified at least 12 such priority matters that cannot be staffed due to present resource and investigative staff restraints. Without adequate investigation, the grant programs will continue to lose money, perpetrators will not be identified and will be
allowed to continue acts of theft, misappropriation and embezzlement, losses will not be interrupted, and restitution and recovery cannot be attained.

8.9. Based on the current trend, without resource increase, the number of completely unaddressed cases will reach by the end of 2011 unless further resources are committed to the OIG.

8.10. The OIG budget paper submitted to the FAC sets out in detail the number of investigators that must be added to priority cases, and the precise need for forensic services, in order to address the risks and recover lost funds. The Budget Paper also provides extended discussion of the types of priority matters that are understaffed, or are not currently being staffed, as a result of the resource shortfall.

8.11. As explained in full in the OIG Budget Paper, the OIG has proposed an additional investigative staff complement of 4 additional investigators; 1 report editor and 1 analyst, and an administrative support staff to address the need.

8.12. As a result of the foregoing, the OIG has proposed an amended budget for 2011 of $ 18.700 million. The increase is purely driven by the additional investigative work and corresponding resource demand. A contingency of $US 3 million, forming part of the US$ 18.700 million budget proposed, would be held until such time as it may be required. If it is, the OIG would return to the FAC for authorization to utilize these funds.

8.13. On 15 November 2010, the OIG presented the amended 2011 budget to the FAC, and after a full and thorough discussion, the FAC endorsed the OIG’s proposed budget.

8.14. Similarly, at the FAC meeting in Geneva on 19 October, 2010, the OIG presented the justification for a supplemental budget allotment in favour of the OIG in 2010, in order to immediately staff priority investigations cases. The OIG proposal was adopted and approved by the FAC, and sent to the Board for confirmation. This supplemental allotment was taken into account by the OIG in proposing its 2011 budget.
THE OIG’S PROPOSED 2011 AUDIT PLAN

Background

1. The seventeenth Session of the Board approved “The Priorities for the Office of the Inspector General” (GF/FAC10/03). The Paper identified the following as priority areas:
   (a) Providing assurance on grant processes;
   (b) Providing assurances on other main business processes;
   (c) Supporting key managerial and governance initiatives in the Secretariat;
   (d) Investigations and related initiatives;
   (e) Building appropriate capacity in OIG; and
   (f) Creating awareness about OIG.

2. The OIG recognizes that an annual plan is important as a mechanism to show how it intends to meet its goals, objectives and mission as set out in the Board approved strategy. Through the different assignments proposed in this audit plan, the OIG seeks to provide assurance that the Global Fund resources are spent wisely to save lives. This plan includes the subjects scheduled for audit during 2011, a statement of the scope of each audit and the estimated time required to complete the audit.

3. It is important to prepare an audit plan because it:
   (a) shows about how these priorities will be tackled and the implications of this for the audit team
   (b) provides an identifiable basis for the role of the OIG and justification for obtaining budgetary funds and approval;
   (c) prioritizes what audits will be undertaken on an on-going basis;
   (d) aids the efficient allocation of limited resources;
   (e) eliminates potential for undertaking overlapping pieces of work; and
   (f) provides a basis for managing audit personnel.

4. The preparation of an annual audit plan is in compliance with the International Standards for professional practice of Internal Auditing. To establish and maintain professional competence, the OIG applies the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors (IIA) and International Organization of Supreme Audit Institutions (INTOSAI).

5. In general, the audits will take two forms i.e. planned/routine audits and specific/ad hoc audits. The planned audits are those that are identified in the annual OIG audit plan and are selected based on a risk assessment prepared or updated at least annually. Typically about 80 percent of audit time will be spent on these assignments. The specific ad hoc/focused audits are not indicated in the annual OIG plan but occur due to emerging issues on which the OIG has to provide assurance. These may take up about 20 percent of audit time. These ad hoc audits are also budgeted for in the annual audit process.
6. The audits will also take place at two levels i.e. Secretariat and country level: Secretariat audits involve the audit of processes and systems at Secretariat level, and country audits are undertaken and cover the use of Global Fund resources at a country level. The audits will cover functional areas where risk factors have been identified either at Secretariat or country level.

The scope of the audits

7. The audits and reviews that are undertaken by the OIG taken on different forms i.e. they are driven by the objectives. In 2010, the OIG has undertaken 20 country audits and 4 reviews. The country audits have more or less the same objectives and the reviews cover several of the following forms:
   (a) **Financial reporting** which involve a review of the auditee’s records and reports in order to confirm that financial transactions are properly recorded and reported;
   (b) **Procurement** which involve verifying that procurements have been undertaken in accordance with established procedures and best practices;
   (c) **Operating processes** which involve a review of the auditee’s operating processes, procedures and associated internal controls;
   (d) **Compliance** which involves verification of whether or not the auditee is in compliance with established contractual requirements, policies, procedures, laws, regulations;
   (e) **Grant management** which ensure that the systems, processes and controls in place were efficient and effective in supporting the achievement of grant objectives
   (f) **Information systems** which analyze the results achieved and the effectiveness, efficiency, confidentiality, integrity, availability, compliance, and reliability of data and programs in computer and communication systems;
   (g) **Internal control** which covers the adequacy of the internal control structure in ensuring that grant assets are safeguarded against possible loss, misuse and abuse;
   (h) **Value for money: reviews**: which assess whether value for money was obtained from the funds spent. This entails verifying whether funds were used economically, efficiently and effectively; and
   (i) **Follow-up engagements** where the OIG team reviews administration's action plans implemented based on a previous audit.

Definition of the process

8. The IIA standards recognize that due to resource constraints it is impossible to have 100 percent coverage of an audit population and therefore call for the prioritization of audits on the basis of risk but require the work undertaken to be sufficiently comprehensive to ensure the effective and regular review of all operational, financial and related activities.

9. In order to provide practical guidance and an authoritative framework for the development of the risk assessment model and audit plan, this plan was developed based on the following basic principles:
   (a) Audit resources are limited, thus prohibiting one hundred percent audit coverage each year. This limiting factor makes it essential to utilize risk assessments to help OIG prioritize audits.
   (b) This plan is viewed as a flexible and dynamic tool that can be amended throughout the year to reflect changing Global Fund risks and priorities.
   (c) This plan gives consideration to work performed by other auditors e.g. the audit work that will be undertaken by UNDP.
(d) This plan is developed with the understanding that there are inherent risks and limitations associated with any method or system of prioritizing audits. As a result, the risk factors and scoring process will be periodically evaluated and modified, in order to improve the audit plan.

(e) The risk assessment criteria used in the ranking of the audit proposed places an emphasis on perceived or actual knowledge of systems of internal control.

10. The 2011 audit plan has been developed by combining a review of the audit universe, risk analysis, and management input. The process followed in developing the audit plan was to:

(a) Determine the auditable universe and its component parts;
(b) Measure the risk of each part of the universe and identify activities exposed to high risk;
(c) Rank the component parts by risk;
(d) Determine the time necessary to complete audits;
(e) Distribute available resources in the most efficient manner; and
(f) Develop annual audit plans.

Audit universe

11. The first step in developing the audit plan and the risk assessment model has been to establish an audit universe representing the total population of potential audits. The OIG has identified the primary audit population as the main business processes as well as the countries that receive funding from the Global Fund. The OIG recognises that other potential audit segments can be defined e.g. (i) Organizational units and teams within each cluster; (ii) Transaction cycles or functions that cut across the universe such as risk management; (iii) Individual expenditure items or processes such as travel, LFA costs, fixed assets; (iv) grant management processes e.g. disbursements, grant negotiations etc.

12. This audit plan is therefore based on developing a realistic audit universe. An audit universe represents the potential range of all audit activities and is comprised of a auditable entities i.e. countries, processes, programs, activities, functions, structures and initiatives which collectively contribute to the achievement of the Global Fund’s strategic objectives. The audit universe is appended as attachment 1.

Risk assessment process

13. The objective of the process of risk assessment is to identify and prioritize potential audit areas which pose the greatest risk and liability to the Global Fund. The most important basis for selecting an entity/process for an audit is the application of a risk assessment model. Risk assessment is a process used to assign a number or score to potential audit areas based upon specific risk factors related to an auditee’s operations, internal controls, and liability to the Global Fund. Risk is a function of the probability that such consequences will occur, their magnitude, and their imminence. This process resulted in the allocation of limited available resources to areas of the Global Fund’s activities that are most critical to the success of the organization in reaching its goals.

14. Overall the OIG’s efficiency and effectiveness is increased when the audit effort is matched to risk in the various auditable entities/processes of the organization. A rating as “high risk” does not necessarily mean that the unit is perceived to have control problems, but rather is a reflection of the criticality or impact of the unit to the Global Fund’s mission. Areas with the greatest risk exposure therefore become priority audits.
15. Typical considerations with regard to risk that are taken into account in selecting a process or country for audit are:
   (a) Utilization of risk assessment criteria for country audits (described below);
   (b) Budget allocations;
   (c) Knowledge of operations and controls for Secretariat processes i.e. the number and nature of potential risk events to which the auditable entity is exposed as a result of its business conditions/risk factors;
   (d) Input from stakeholders e.g. Secretariat, Board members etc.;
   (e) The severity of consequences if the risks to which the entity is exposed materialize;
   (f) Benchmarking against audit priorities of other entities; and
   (g) The auditable entity's current and anticipated business conditions and the presence of risk factors etc.

16. Great care is taken with the selection of these audits to ensure that there is comprehensive audit coverage and taking into account the resource restrictions e.g. staff and budget restrictions. The approach also builds ample hours into the plan for specially requested audits not originally captured in the plan, and for urgent audit issues that arise throughout the year. This approach provides the OIG with a great deal of flexibility to address emerging issues in a timely manner.

Secretariat reviews

17. For the Secretariat reviews, the OIG has reviewed the clusters, units, transactions and processes and assess them based on a number of key risks such as:

   (a) Financial risks that cover assets (plant, equipment, human, etc.), budgets, cash, expenses, financial records (accurate, timely, useful information), investments, inventories, operational effectiveness, quality products and services, reserves, revenues, and separation of duties.

   (b) Reputational risks arising from the oversight responsibilities assigned to the Secretariat (for example oversight of grant procurement) and whether adequate oversight is exercised to manage the risk of compromised products e.g. counterfeit drugs being distributed by recipients.

   (c) Technology related risks that cover access privileges, audit trails, authentication, authorization, backup procedures, business continuation, change management (software and hardware), code (secure code so that data is not compromised), data conversion, data integrity, disaster recovery, infrastructure, information security, interfaces, network security, physical security, reconciliations, standards (policies, procedures, guidelines), and reputation (compromised data).

   (d) Managerial risks deal with alignment with the Global Fund mission (mission, vision, and goals), authorization, decision-making, delegation, policies and procedures, project management, oversight and monitoring, roles and responsibilities, reporting (useful, reliable, and timely information for decision making), reputation, and operational efficiency (minimize processing time, etc.).

   (e) Behavioural risks deal with communication and information sharing, human assets (knowledge, experience, and training of staff), managing and leading people, work environment, and public relations.
(f) Legal risks deal with applicable laws and regulations (release of personal data to unauthorized people, compliance with applicable laws and regulations, etc.).

18. Several risk factors have then been considered during the assessment and these have affected the decision to include a unit or process in the audit plan such as:

(a) Whether it is a core business processes;
(b) Quality of internal controls;
(c) Financial materiality;
(d) Expected results not achieved;
(e) External sensitivity e.g. political or adverse publicity;
(f) Management accountability and oversight;
(g) Complexity of operations;
(h) Risk of financial loss;
(i) Technology glitches that may affect data integrity, security, recovery etc;
(j) Emerging compliance issues;
(k) Major changes to structures, systems or processes;
(l) Alleged irregular conduct has occurred;
(m) Request from the Board or the Secretariat; and
(n) Length of time since the last audit.

Country audits

19. The OIG has developed a risk assessment model which is under further development by the Country Programs Cluster for its own use. The model ranks all countries according to six objectively verifiable, quantitative indicators that together determine the overall risk to the achievement of the Global Fund country program objectives:

(a) perceived risk of grants to fraud and misappropriation based on the Transparency International Perception Index;
(b) size of grants;
(c) number of grants per country;
(d) burn rate of the grants;
(e) the LFA rating; and
(f) if any allegations have been received from the country.

20. Based on this assessment, countries with greater risk will be audited more frequently, but it is important to audit lower risk countries as the risk assessment process is not an exact science. The process is a dynamic and continuous process. Throughout the year, the OIG obtains current information about grants for use in the risk assessment process. Additionally, the Office obtains input from key stakeholders e.g. Secretariat and Board members throughout the year to identify any emerging key risks. The risk factors and scoring process are reviewed and refined as needed.

Number and level of effort required for audits

21. This section highlights the audits planned for 2011. Details are contained in Attachment 2.
22. Situations often arise that may call for a change within an audit plan. All such changes will be discussed with the Secretariat in a timely manner.


Country audits

23. The OIG will undertake 15 country audits. The countries will be selected through a combination of the country risk model and consultation with the Secretariat.

(a) Twelve high risk country audits identified from the risk model. The OIG will ensure that at least one audit is undertaken per region. The receipt of allegations may call for an audit to be advanced and in consequence other audits may need to be deferred;
(b) Two countries will be selected as offering best practice (i.e. low risk);
(c) A review that summarizes lessons learned from the country audits undertaken in the past year.

24. The country audits will be led by a team leader from OIG. They will be supported by financial auditors, a procurement and supply chain management specialist and a public health specialist. Other experts e.g. engineers may be co-opted onto the audit depending on the program activities.

25. All audits have in the past been scheduled for five weeks. The OIG in 2010 has concluded that this time frame is inadequate for the larger (in terms of size of disbursements, and number of PRs) and/or higher risk audits. The OIG in 2011 will give cognizance of the size and risk profile of an audit in ensuring that the allotted audit timeframes are adequate. Audits will be classified as small medium and large with allocated timeframes for small audits being five weeks and larger higher risk countries having timeframe of up to eight weeks.

26. The resultant report will be presented by functional areas i.e. (i) governance and institutional arrangements; (ii) financial management; (iii) Sub grant management; (iv) procurement and supply chain management; (iv) public health and (v) oversight functions. Good internal control practices or significant achievements found during the audit will be highlighted in the report, but they will not discussed in depth given that the purpose of the audit is to identify important risks and issues that need to be addressed.

27. Recommendations will be made to address areas of identified risk. The recommendations will be prioritized. The prioritization has been done to assist management in deciding on the order in which recommendations should be implemented. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate.

Country diagnostic reviews

28. The OIG undertook 20 audits in 2010 and would like to replace the five of the 20 with 10 shorter, more focussed country diagnostic reviews. The purpose of these reviews will be to assess whether the controls that have been put in place by the Global Fund to safeguard Global Fund resources are operational. They will help identify systemic risks and seek to find high level solutions to challenges identified in the countries. Good practice noted within the region will also be shared.

29. Country diagnostic reviews will be undertaken by financial experts. They are scheduled to take place over a two week period. They will cover 3-4 countries in a region. Unlike country audits, one report will be produced per region and the resultant report will highlight common problems for resolution by the Secretariat. They will also be a basis for
identifying high risk countries that warrant an in-depth audit in the following year. The OIG will share the proposed methodology with the Secretariat before these reviews are rolled out.

**Secretariat reviews**

30. In line with the Priorities paper, the OIG will undertake reviews of the key businesses in the Secretariat. Most of the areas identified for review in the Secretariat will require specialist skills and the OIG will identify suitably qualified experts to work alongside the auditors to undertake the relevant reviews. The OIG proposes to undertake the following reviews in 2011:

(a) Performance based funding at work: Performance based funding is one of the principles on which the Global Fund was founded. The OIG has in the past reviewed some aspects of performance based funding as it has undertaken country audits. The OIG will review the appropriateness and soundness of established structures, policies and procedures relating to performance based funding established by the Global Fund and their operation under the current Global Fund architecture.

(b) Procurement of bed nets across countries: The Global Fund investment in the purchase of bed nets is very high. The OIG hotline has picked up many cases of flawed procurement processes with regard to the purchase of nets. The OIG will undertake a review of nets across various countries and identify ways in which the procurement processes can be strengthened.

(c) Risk management at work: The Global Fund has in the past two years embarked on formalising risk management in its business operations. The OIG will review the processes in place and provide assurance on the management of risk by the Global Fund.

(d) Resource mobilization: This is a key business process for the Global Fund and the OIG will review the operations of this process and provide assurance on its operations and effectiveness.

**Staffing in the audit Unit**

31. As mentioned earlier, no audit unit is of a sufficient size to carry out all the necessary audits simultaneously, or even within the time span of one fiscal year. A fundamental principle to be applied is that the audit unit be of a sufficient size and capability to address the areas of concern to the Board and Secretariat, with an adequate frequency, over a reasonable time horizon i.e. usually three to five years. If risk factors reflect management concerns, then they can be used as a basis for establishing the audit unit’s required staffing to address the highest risk areas or those with the highest risk/audit cost payoffs.

32. The Audit Unit will comprise of a Director of Audit, two Audit Managers and five Audit Team leaders. All team leaders will be responsible for undertaking 3 country audits per year. That will on average put them in the countries for about 18 weeks in the year. In addition to these audits, they will be responsible also for the 10 diagnostic reviews. This will allow the team leaders ample time to plan for the country audits and also to finalize the audits, prepare the working papers and reports.
## Audit Universe (Secretariat processes)

<table>
<thead>
<tr>
<th>Main Processes</th>
<th>Component Activities</th>
<th>Ranking</th>
<th>Covered</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and Governance Processes</td>
<td>Supporting the Board &amp; Board Committees</td>
<td>L</td>
<td>Partly covered in the Five Year Evaluation</td>
<td>Core business processes</td>
</tr>
<tr>
<td></td>
<td>Evaluating the Fund’s Impact and Performance</td>
<td>H</td>
<td>• Some aspects will be covered in the Post ASA review</td>
<td>There are several processes undergoing change which need to ‘settle’ before they are audited.</td>
</tr>
<tr>
<td></td>
<td>Managing the Secretariat</td>
<td>H/M</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Maintaining an appropriate organizational structure with defined authorities and accountabilities</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Reporting &amp; Strategic Information</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Developing Organizational Strategy, Policy, Plans</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Managing External Relations</td>
<td>H</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establishing &amp; Monitoring a Risk Management Framework</td>
<td>H</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Planning for Business Continuity/Disaster Recovery</td>
<td>H</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Resource Mobilization Processes</td>
<td>Mobilizing resources</td>
<td>H</td>
<td>Late 2011</td>
<td>• Core business process</td>
</tr>
<tr>
<td></td>
<td>Fostering Appropriate Global Partnerships, Private Sector Partnerships &amp; Co-investments</td>
<td>L</td>
<td></td>
<td>• External sensitivity</td>
</tr>
<tr>
<td></td>
<td>Tracking pledges &amp; contributions</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Resource needs forecasting</td>
<td>M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Processes</td>
<td>Component Activities</td>
<td>Ranking</td>
<td>Covered</td>
<td>Rationale</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>--------------------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Replenishment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grant Approval Processes</strong></td>
<td>Proposal process</td>
<td>M</td>
<td>2009</td>
<td>Reviewed the TRP process. The country part of proposal writing is covered during the country audits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Negotiating &amp; processing grants</td>
<td>H</td>
<td>Ongoing</td>
<td>This is covered as part of the country audits. The OIG will develop a lessons learned report once it has undertaken a body of work.</td>
</tr>
<tr>
<td></td>
<td>Grant renewals</td>
<td>H</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grant consolidation and reprogramming</td>
<td>H</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td><strong>Grant Delivery Processes</strong></td>
<td>Managing Grant Disbursements</td>
<td>H</td>
<td>2010</td>
<td>Key business process</td>
</tr>
<tr>
<td></td>
<td>Audit arrangements</td>
<td>H</td>
<td>2008</td>
<td>Key oversight process</td>
</tr>
<tr>
<td></td>
<td>Grant closure process</td>
<td>M</td>
<td></td>
<td>Currently covered under country audits</td>
</tr>
<tr>
<td></td>
<td>CCMs</td>
<td>H</td>
<td>Ongoing</td>
<td>Key oversight structure. This is covered as part of the country audits</td>
</tr>
<tr>
<td></td>
<td>Additional Safeguard countries</td>
<td>M</td>
<td>2011</td>
<td>Key risk mitigation process. It will be covered in the risk management process</td>
</tr>
<tr>
<td></td>
<td>LFAs</td>
<td>H</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitoring Procurement</td>
<td>H</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leveraging Technical Assistance</td>
<td>M</td>
<td></td>
<td>Covered under country audits</td>
</tr>
<tr>
<td></td>
<td>Performance based funding at work</td>
<td>H</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td><strong>Legal, Financial, HR &amp; Administrative Processes</strong></td>
<td>Regulatory Reporting/compliance</td>
<td>L</td>
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<tr>
<td></td>
<td>Litigation</td>
<td>L</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Managing the Contracting Process</td>
<td>M</td>
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<td>There have been several reviews that have covered</td>
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<tr>
<td>Main Processes</td>
<td>Component Activities</td>
<td>Ranking</td>
<td>Covered</td>
<td>Rationale</td>
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<td>Knowledge Management</td>
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<td>this process</td>
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<tr>
<td>Performance Evaluation</td>
<td>Recruitment</td>
<td>M</td>
<td></td>
<td>Processes still under development and need to be given a chance to embed</td>
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<td></td>
<td>Learning &amp; Development</td>
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<td>Leadership Development</td>
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<td>Compensation</td>
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<td>IS strategy, operations, security</td>
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<td>H</td>
<td></td>
<td>Processes still under development</td>
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<td>Public &amp; Internal Communications</td>
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<tr>
<td>Operational planning/budgeting,</td>
<td>Managing Expenditures, Accounting and financial</td>
<td>H</td>
<td></td>
<td>Covered under the financial audit</td>
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<td>reporting</td>
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<td>Providing office facilities</td>
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<tr>
<td>Managing Structural projects -</td>
<td>ASA transition</td>
<td>H</td>
<td>2010</td>
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<tr>
<td>Global health initiatives e.g.</td>
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<td>M</td>
<td>2009</td>
<td>Partially covered under the grant application process.</td>
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<td>health system strengthening</td>
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<td>New initiatives</td>
<td>VPP</td>
<td>H</td>
<td>2010</td>
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<tr>
<td></td>
<td>AMFM</td>
<td>H</td>
<td></td>
<td>Just had an evaluation undertaken</td>
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</tbody>
</table>
### Objectives of proposed audits/reviews

<table>
<thead>
<tr>
<th>Directorate</th>
<th>Audit Type</th>
<th>Objective</th>
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</table>
| Country Programs | • 15 Country audits  
• 10 Country diagnostic reviews  
• Lessons Learned from Country audits and reviews | a. Assess the efficiency and effectiveness in the management and operations of the grants;  
b. Measure the soundness of systems, policies and procedures in safeguarding Global Fund resources;  
c. Confirm compliance with the Global Fund grant agreement and related policies and procedures, and the related laws of the Country;  
d. Identify any other risks that the Global Fund grants may be exposed to and measures in place to mitigate such risks;  
e. Make recommendations on management of the Global Fund grants based on a-d above. |
| SPE | • Audit of bed net procurements across countries | a. Measure the soundness of systems, policies and procedures in safeguarding Global Fund resources in the procurement of nets;  
b. Confirm compliance with the Global Fund grant agreement and related policies and procedures, and the related laws of the Country;  
c. Ensure that value for money is obtained from the procurement of nets;  
d. Identify any other risks that the Global Fund grants may be exposed to and measures in place to mitigate such risks;  
e. Make recommendations on management of the Global Fund grants based on a-d above. |
| Cross cutting | • Risk Management at work | a. Review the appropriateness and soundness of established structures, policies and procedures established by the Global Fund in managing risks that would otherwise inhibit the Global Fund meeting its objectives;  
b. Review and give assurance on the risk management processes and that risks are appropriately identified, analysed, |
<table>
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<th>Directorate</th>
<th>Audit Type</th>
<th>Objective</th>
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<tr>
<td></td>
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<td>prioritised and mitigated.</td>
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<td></td>
<td>c. Review the mechanisms in place to manage and report the key risks.</td>
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<tr>
<td>SPE</td>
<td>Performance based funding at work</td>
<td>a. Assess the application of the performance based funding principle in the operations of the Global Fund grants;</td>
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<td>b. Review the appropriateness and soundness of established structures, policies and procedures relating to performance based funding established by the Global Fund;</td>
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<td></td>
<td>c. Review the compliance to this principle by reviewing a sample of grants undertaken; and</td>
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<td>d. Identify any risks that may arise in the application of this principle and the adequacy of measures taken to mitigate them; and</td>
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<td>e. Develop recommendations to address any areas that need enhancement.</td>
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<tr>
<td>External relations</td>
<td>Resource mobilisation</td>
<td>a. Conduct a review of the Global Fund resource mobilisation and assess its effectiveness having regard to the challenging environment under which it operates.</td>
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<td></td>
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<td>b. Review the factors that affect the organization’s ability to raise funds, taking into account both those generated internally and those emanating from the external environment.</td>
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CODE OF CONDUCT FOR RECIPIENTS

Introduction

1. As a major financing institution in the fight against AIDS, tuberculosis and malaria, the Global Fund recognizes the importance of accountability for all entities that are entrusted with its resources and the paramount need for the Global Fund and its partners to exercise the utmost integrity in its operations. Transparency, accountability and integrity are critical components for the success of the Global Fund in achieving its mission.

2. As stated in its Framework Document, a core principle of the Global Fund is to operate in an open, transparent and accountable manner. Consistent with this core principle the Global Fund expects its partners, including the first recipients of its grant funds (“Principal Recipients”) and all subsequent recipients (“Sub-recipients”) to adhere to the highest standards of integrity in their operations.

3. The goal of this Code of Conduct for Recipients (“Code”) is to set out the Global Fund’s expectations of standards of ethical conduct to be achieved and adhered to by all recipients of grant funds, and to enlist the commitment of all entities that receive Global Fund grant funds to act in full compliance with the core principles of transparency, accountability and integrity.

4. This Code supplements the Code of Conduct for Suppliers, (cite web address), which together with this Code articulate the foundations of the Global Fund’s Values and Integrity Initiative. The Code of Conduct for Suppliers is linked to the Sanctions Procedure that may be found (cite web address). Violations of this Code of Conduct for Recipients are first addressed by the Executive Director or his designee, and may then be presented to the Sanctions Panel at the discretion of the Inspector General and the Executive Director, as set forth in the Procedure.

Scope of this Code

5. This Code requires all recipients of Global Fund financing, including Principal Recipients, Sub-recipients, and all other recipients, including the Global Fund’s Country Coordinating Mechanisms, procurement agents and buyers (hereinafter “Recipients”) to observe the highest standard of ethical conduct in Global Fund activities and exercise the utmost care and integrity in the use and appropriation of grant funds. In particular, this Code requires all Recipients to preserve and protect the grant funds entrusted to them, and to ensure that such Global Fund financing, including the monies and assets disbursed, are used solely for the purposes set out in the Board approved grant proposal and in accordance with the Grant Agreement under which they were disbursed, and under no circumstances are those grant funds to be misappropriated, embezzled, misdirected or misused in any manner whatsoever.
6. Principal Recipients, Sub-recipients, other recipients, Country Coordinating Mechanisms, procurement agents and first line buyers are required to ensure that this Code is communicated to and complied with by all entities which receive funding that has originated from Global Fund financing. Recipients will ensure that this Code is communicated to all their affiliates, officers, employees, subcontractors, agents and intermediaries of Recipients and Sub-recipients (each a “Recipient Representative”) and will take all reasonable steps to ensure compliance by Recipient Representatives, including taking immediate action in cases of non-compliance. Breaches of this Code may result in a decision by the Global Fund to sanction the Recipient, the Sub-recipient and / or the Recipient Representative involved, suspend disbursements or terminate funding.

Fair and Transparent Practice

7. The Global Fund does not tolerate corrupt, fraudulent, collusive, anti-competitive or coercive practices of any kind involving its resources, including grant funds, nor any misappropriation or diversion of its funds. The Global Fund will take strong and immediate action in all circumstances where it determines that there is substantive and credible evidence of misappropriation, embezzlement, fraud, collusion, anti-competitive or coercive practices.

8. Recipients are expected to exercise diligence in ensuring that grant funds are used for their intended purposes, and reach the intended beneficiaries of the Global Fund financed programs. Principal Recipients are also required to ensure that all Sub-recipients adhere to all principles set forth herein, and meet all the obligations incumbent upon Principal Recipients expressed in this Code as well as the relevant Grant Agreement between the Global Fund and the Principal Recipient.

9. Recipients of grant funds and resources are expected to utilize Global Fund resources in a transparent, fair, accountable and honest manner. They are also expected to uphold the principles of good faith and fair dealing, and follow generally accepted standards of good procurement practice as well as all applicable rules and regulations regarding fair competition.

10. Recipients will not, directly or indirectly, including through an agent or other intermediary, engage in corrupt, fraudulent, collusive, anti-competitive, coercive practices, and shall not engage in embezzlement, theft, misappropriation or misuse of Global Fund grant funds. For these purposes:

   “corrupt practice” means the offering, promising, giving, receiving or soliciting, directly or indirectly, of anything of value or any other advantage to influence improperly the actions of another person or entity;

   “fraudulent practice” means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a person or entity to obtain a financial or other benefit or to avoid an obligation;

   “coercive practice” means any act or attempt to influence improperly the decisions or actions of a person or entity by impairing or harming, or threatening to impair or harm, directly or indirectly, such person or entity or their property;
“collusive practice” means an arrangement between two or more persons or entities designed to achieve an improper purpose, including influencing improperly the actions of another person or entity;

“fraud” means intentionally obtaining money or property by false or fictitious representations or promises, or material omissions;

“embezzlement” or “theft” means the act of dishonestly taking, appropriating or secreting money or assets not rightfully belonging to the individual or entity, including diversion of monies entrusted to the individual or entity as a fiduciary or in connection with an official responsibility;

“misappropriation” is the intentional misuse or misdirection of grant funds for purposes that are inconsistent with the stated goal of the project or program, including for the benefit of the individual, entity or person they favor, either directly or indirectly.

Conflict of Interest

11. Principal Recipients shall take all necessary precautions to avoid conflicts of interest. Principal Recipients and all Sub-recipients shall maintain standards of conduct that includes the prohibition of conflicts of interest in connection with the award and administration of contracts, grants, or other benefits.

12. If the Principal Recipient has knowledge or becomes aware of any actual, apparent or potential conflict between the financial interests of any person affiliated with the Principal Recipient or any Sub-recipient, the Country Coordinating Mechanism, the Local Fund Agent, or the Global Fund and that person’s duties with respect to the implementation of the Program, the Principal Recipient shall immediately disclose the actual, apparent or potential conflict of interest directly to the Office of the Inspector General of the Global Fund.

Anti-Corruption

13. Recipients shall not solicit, offer, give or receive, or promise or represent to offer, give or receive, fees, gratuities, rebates, gifts, commissions, other payments or benefits, except as disclosed in full to the Global Fund. This shall include, but not be limited to, activities in connection with the procurement process, in contract execution or in any determination of the use, employment, assignment or participation of any other recipient, including all Sub-recipients.

14. Without prejudice to the provisions of Article 5 of this Code, Recipients of Global Fund grant funds and resources shall take all necessary steps and precautions to preserve and protect the grant funds, and ensure that the resources and assets disbursed are used solely for the purposes for which they were intended, and are not diverted, misappropriated, embezzled or misused in any way.

15. Recipients and Recipient Representatives will not use Global Fund grant funds for personal gain or any purpose for which they have an interest, financial or otherwise.
Compliance with Laws

16. Recipients and Recipient Representatives will comply with all applicable laws and regulations in countries where they do business, as well as the publicized rules, regulations and policies of the Global Fund that apply to their areas of work.

17. Recipients and Recipient Representatives will ensure that all Global Fund grant funds are not used to support, finance or promote violence, aid terrorists or terrorist-related activity or fund organizations known to support terrorism.

18. Recipients and Recipient Representatives will not engage in money-laundering activities. This includes any kind of activity which hides or is intended to hide the fact that funds have been obtained illegally or are connected with the proceeds of crime, e.g. through fraud or bribery or other illegal activity.

19. Parties responsible for violation of this Code will face sanction, including possible debarment from further activities involving Global Fund grants, referrals to national authorities for prosecution which may be acted upon by the relevant authority, and requirement to fully refund the misappropriated funds.

Access and Cooperation

20. Recipients are expected to maintain complete, well organized, and comprehensive records in appropriate books of account of all financial and business transactions and disbursements of Global Fund resources in accordance with the Grant Agreement between the Global Fund and the Principal Recipient and for a minimum of five years after the date of last disbursement made under the Global Fund grant.

21. Recipients are expected to fully cooperate with the Global Fund and its Office of the Inspector General (OIG), in both Audits and Investigations, and comply with any reasonable request of the OIG to allow access to relevant staff, agents, officers, employees and their Representatives, and to produce, make available and allow inspection and retrieval (originals and copies) of any relevant accounts, records and other documents, including financial documentation, correspondence and communication (both in hard-copy and electronic form) relating to the performance of Global Fund-financed contracts and any use, directly or indirectly (such as through a Sub-recipient), of its funds and resources.

22. The Global Fund expects and requires Recipients to take timely and appropriate action in any situation where a Recipient becomes aware that any of its Representatives, or any Sub-recipient it has employed, contracted, utilized, engaged, or is suspected of engaging, in any corrupt, fraudulent, collusive, coercive or improper practice involving funds, resources or assets of the Global Fund.

23. Recipients are expected to exercise diligence in examining program operations to ensure that violations of the Code have not occurred or are not occurring. Recipients which have not taken timely action and notified the Office of the Inspector General in such situations may face sanctions in accordance with the Sanctions Procedure.
24. In accordance with Article 14 of the Global Fund’s standard terms and conditions of grant agreements the Principal Recipient shall remain liable for the acts and omission of Sub-recipients. In the event that Global Fund resources are misappropriated by a Sub-recipient employed, selected or utilized by a Principal Recipient, the Principal Recipient shall be responsible to the Global Fund directly for the misappropriated sum, and shall be responsible for making restitution to the Global Fund, regardless of whether the Principal Recipient is able to recover the loss from the Sub-recipient. It is the responsibility of the Principal Recipient to justify and demonstrate to the Global Fund (OIG and Secretariat) that grant funds, including those used by the Recipient Representatives, were used for the purposes for which they had been intended and in furtherance of grant programs, and were not diverted, misappropriated, lost or unaccounted for in any manner.

Authority to Investigate

25. The Office of the Inspector General of the Global Fund has the primary responsibility in the Global Fund for investigating violations of this Code and may investigate such allegations of violations by Principal Recipients and/or Recipient Representatives.

Ethics

26. Recipients will not apply or seek to apply undue influence on the decision-making processes of the Global Fund and will not engage in any conduct that breaches or facilitates the breach of the Global Fund's Policy on Ethics and Conflict of Interest (as amended from time to time).

27. Recipients are expected to notify the Office of Inspector General of the Global Fund as soon as they have knowledge of any integrity concern involving or affecting Global Fund resources and grant funding, or any breach of this Code whether or not it involves a Recipient.

28. In addition, the Global Fund has put in place a Whistle-blower policy that encourages anyone with knowledge or information to report, misconduct confidentially, or anonymously, to the Office of the Inspector General through a third party reporting service. The link to the service and the policy can be found on the Global Fund website. See (link).

The United Nations Global Compact for responsible corporate citizenship

28. The United Nations Global Compact is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social actors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalization (see www.unglobalcompact.org). The Global Fund strongly encourages all Recipients to actively participate in the Global Compact.

29. In accordance with the ten principles outlined in the UN Global Compact, the participating Recipients will be expected to:

a. support and respect the protection of internationally proclaimed human rights;
b. ensure that they are not complicit in human rights abuses;
c. uphold the freedom of association and the effective recognition of the right to collective bargaining;
d. support the elimination of all forms of forced and compulsory labour;
e. support the effective abolition of child labour;
f. support the elimination of discrimination in respect of employment and occupation;
g. support a precautionary approach to environmental challenges;
h. undertake initiatives to promote greater environmental responsibility;
i. encourage the development and diffusion of environmentally friendly technologies; and
j. work against corruption in all its forms, including extortion and bribery.