



Audit Report

Follow-up Audit of Global Fund Grants to the Federal Republic of Nigeria

GF-OIG-18-005
16 February 2018
Geneva, Switzerland

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The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.

Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.

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Audit Report

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OIG investigations examine either allegations received of actual wrongdoing or follow up on intelligence of fraud or abuse that could compromise the Global Fund's mission to end the three epidemics. The OIG conducts administrative, not criminal, investigations. Its findings are based on facts and related analysis, which may include drawing reasonable inferences based upon established facts.

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1. Executive Summary

1.1. Opinion

Nigeria is one of the largest Global Fund portfolios, and as such, crucial to the organization's mission to end the HIV, tuberculosis and malaria epidemics. The last OIG audit in 2015¹ identified significant deficiencies in financial controls, supply chain, implementation arrangements, data quality and limited differentiation in the way the portfolio is managed. After that audit, the Global Fund Secretariat put in place enhanced safeguards to improve program oversight, implementation arrangements, supply chain management, and the use of grant resources.

Some of the measures have mitigated the risks that the OIG identified while others require more time to realize their full potential. There are also gaps in some of the measures which need to be addressed. The OIG therefore rates the mitigation measures implemented by the Secretariat as **partially effective**.

1.2. Key Achievements and Good Practices

Increased resources to manage the Nigeria portfolio: As described in Section 2.2, the Global Fund now differentiates countries and allocates more resources to mission-critical portfolios. This has resulted in a significant increase in the number of staff assigned to the Nigeria portfolio from nine to 19 since the 2015 audit. These staffing changes have contributed to improved grant management as well as increased interaction with key country stakeholders. The country team has instituted quarterly programmatic reviews to discuss status of grant implementation and related challenges with in country stakeholders for remedial actions.

In 2016, the Management Executive Committee reviewed and endorsed the Country Team's portfolio prioritization strategy, which paved the way for some of the changes implemented since the 2015 audit.

Improved implementation arrangements for the HIV program. Following the OIG audit, the Global Fund appointed Family Health International 360 (FHI 360) as a new Principal Recipient for the HIV grant. This led to a significant reduction in the activities previously managed by the National Agency for the Control of AIDS (NACA). FHI 360 has significant in-country experience in managing HIV programs, thanks to its role on the United States President Emergency Plan for AIDS Relief (PEPFAR) in Nigeria. The new Principal Recipient has quickly assumed its role and developed related operational plans within a reasonable timeframe to be able to start grant activities.

In line with the federal structure of the country, the Secretariat is piloting a state level grant with Lagos State as a Principal Recipient for an HIV grant. The objective is to improve state level engagement and ultimately quality of health services as responsibility for primary and secondary health care is devolved to the State. The grant was signed in January 2017 but experienced delays due to challenges in disbursements at the state level. The objectives of the state level grant are good but more time and effort is needed to be able to realize its full potential.

Strengthened financial management and assurance. The Secretariat has improved how fiduciary risks are managed and generally found the right balance between prevention and detection controls. This has enabled implementation of grant activities despite the high fiduciary risks in the country. The Secretariat has also enhanced coordination between the assurance providers through the development of a communication protocol and monthly meetings between the Fiscal Agent, the Local Fund Agent and the external auditor. The objective of the meetings is to improve common understanding of the financial risks on the portfolio. The Secretariat developed risk and control matrices indicating key issues and related mitigation measures at each implementer. These matrices

¹ https://www.theglobalfund.org/media/2655/oig_gf-oig-16-014_report_en.pdf?u=636197483600000000

are continuously updated by the Secretariat and the Fiscal Agent. External auditing arrangements have been streamlined and enhanced. The Secretariat request to the external auditor to increase its focus on fraud risks as required by International Standards on Auditing has resulted in improved quality of audit information.

Anti-fraud measures have also improved since the 2015 audit. The Secretariat revised the Fiscal Agent's terms of reference in September 2016 to incorporate fraud prevention and detection measures. This resulted in the addition of fraud specialists to the Fiscal Agent's team. These specialists have helped the Principal Recipients to develop anti-fraud policies and procedures including internal mechanisms for reporting suspected fraud. These measures, whilst a positive step forward, need more time before their overall effectiveness can be measured.

Improved supply chain activities at the central level. The Global Fund has instituted measures which have resulted in improved storage, inventory management and accountability for medicines at the central warehouses managed by a private service provider, Chemonics. All medicines and health products received from the Global Fund Pooled Procurement Mechanism can be reconciled in the inventory management system. Storage conditions and practices across the central medical stores are in accordance with WHO guidelines.

1.3. Key Issues and Risks

Gaps in the management and implementation of the malaria grant. The Principal Recipient, Catholic Relief Services, engaged by the Secretariat through a competitive process, had limited experience to manage a malaria grant of Nigeria's scale within a 12-month period. The anticipated support by its regional and global offices that have experience in bed net distribution did not materialize. These challenges resulted in delays in the planning and the distribution of bed nets. This had to be mitigated by the Country Team and in-country partners through the engagement of an experienced local non-government organization, the Society for Family Health, to manage distribution in two states. All six bed net campaigns planned in 2017 were completed with 14 million nets distributed to cover an estimated 28 million people.

The limited capacity of Catholic Relief Services also raises questions regarding value for money for some of the activities. The Principal Recipient planned to implement three out of the six campaigns through mobile technology, which was one of the main reasons why it was selected. However, the technology could not be used for any of the campaigns despite at least US\$3 million spent in procuring the mobile phones and related equipment, excluding staff and training costs. The Global Fund and Catholic Relief Services are planning to use the technology during the next grant implementation period.

The Secretariat has revised the malaria implementation arrangement for the next phase in light of the above capacity gaps of Catholic Relief Services.

The Fiscal Agent's reviews are not consistently effective and efficient due to gaps in its quality assurance process and the Secretariat's oversight. The Fiscal Agent is a critical component of the risk mitigation measures on the portfolio. However, the agent does not consistently identify material gaps in controls and payments requests from the implementers. For instance, the agent does not consistently verify that goods or services have been received by implementers before material payments are made. Similarly, some of the agent's month end controls did not identify exceptions at two out of the three implementers reviewed by the OIG. The Local Fund Agent and internal auditors of some of the implementers identify some of the above gaps after the Fiscal Agent's review and are subsequently addressed.

There are also delays in the agent's review of the payment requests due to gaps in the quality of documents submitted by implementers and inefficiencies in the agent's processes. For instance, 73% of sampled transactions were reviewed by the agent after at least 16 days, instead of the agreed two days. This can affect timely execution of some grant activities.

The Secretariat needs to reassess the balance between financial assurance and program implementation for some of the grant activities. The Fiscal Agent currently reviews all implementer transactions, irrespective of the amount involved. For example, 26% of transactions reviewed by the Fiscal Agent were below US\$250. Similarly, the current assurance framework's insistence on third party supporting documentation for institutional support of US\$100 a month for each of the 106 community-based organizations is delaying implementation of some activities.

Furthermore, there is limited independent review of work performed by the agent's staff. The Team Leader, based in Abuja, and the head office in Germany did not effectively provide quality assurance over the operations of its Nigeria office. The Secretariat's monitoring of the Fiscal Agent could also be improved with enhanced performance indicators and remedial actions if necessary.

Balance between sustainability and delivery of services. Weaknesses in the national programs have resulted in the Global Fund resorting to international non-governmental organizations to implement key components of the grants. The Global Fund, the government and country partners will need to build capacity of the Federal and State programs in the long term as the new implementation arrangement stabilizes to ensure sustainability.

Data quality remains a challenge on the portfolio. A significant issue identified in the previous OIG audit that still remains largely outstanding relates to the gaps in the internal controls over data quality across the health facilities. This was partly because relevant data registers were either not available or not appropriately used. The supervision and related controls over programmatic data had also been found inadequate by the OIG in 2015. The OIG acknowledges that this is a national challenge, and more time and joint effort from all stakeholders are required to be able to address data quality issues. Progress in this area is also highly contingent on the Government of Nigeria and its willingness to increase the level of its investments in health systems.

As a mitigation measure of the weaknesses at the implementation sites, monitoring and evaluation officers have been recruited at the states level to review data reported by the health facilities. The officers were engaged between March and June 2017 and need more time to effectively improve the quality of data.

There have been delays in the roll-out of the Strengthening National Health Management Information System project. This project aims to improve the quality of programmatic data reporting through the District Health Information System electronic platform. The delays were due to the suspension of grant activities and subsequent challenges in recruiting a Technical Service Organization to lead the roll-out of the systems.

The Secretariat acknowledged, during the planning phase of this follow-up audit, that the data quality challenges at health facilities are yet to be resolved. Similar data quality issues were confirmed by the national health facility survey supported by the World Bank and Global Fund in 2016. Given the lack of progress on this issue, OIG has not performed additional work as part of this follow-up audit.

1.4. Rating

Objective 1. Effectiveness and efficiency of grant oversight and program management structures.

OIG rating: **Partially effective.** The increase in the size of the country team as well as the quarterly program reviews have resulted in improved grant oversight. The changes in the implementation arrangements have improved the management of the HIV grant but there are gaps under the malaria grant.

Objective 2. Effectiveness and efficiency of assurance framework and anti-fraud measures.

OIG rating: **Partially effective.** The overall assurance framework has improved with a balance between prevention and detection measures. However, the Fiscal Agent, who is a key mitigation measure is not consistently effective. There are also opportunities to improve efficiency in assurance arrangement. The Global Fund has instituted antifraud measures since the last audit but it is too early to be able to evaluate their impact.

Objective 3. Effectiveness of the supply chain mechanism to deliver and account for medicines procured under the funded programs.

OIG rating: **Partially effective.** There have been improvements in inventory management, availability and accountability of medicines across the supply chain. However, challenges in underlying data, roles and responsibility between the service provider and principal recipient, and the Secretariat's management of the service provider require improvement.

1.5. Summary of Agreed Management Actions

The Global Fund Secretariat has already instituted some measures after the fieldwork stage of this audit and has plans to address the other risks identified by the OIG through the following actions:

- Revision of guidance on Country Coordinating Mechanism roles and responsibilities for countries under Additional Safeguard Policy.
- Revision of the terms of reference of the Fiscal Agent to improve efficiency in the agent's reviews, implement a quality assurance and monitoring system and develop a corporate approach on the performance management of the agents.
- Clarification of the roles and responsibilities of Principal Recipients and Chemonics in the distribution process.

2. Background and Context

2.1. Overall Context

The Federal Republic of Nigeria is a lower middle income country with a population of 184 million people, the highest in Africa². Nigeria runs a three-tier federal system of government composed of a federal level, 36 states and the Federal Capital Territory, and 774 Local Government Areas. The country has a multi-ethnic and culturally diverse society. With an abundance of natural resources, Nigeria is Africa's biggest oil exporter and it also has the largest natural gas reserves on the continent.³

The country ranked 152 out of the 188 countries in the 2016 United Nations Development Programme's Human Development Index report. Transparency International's 2016 Corruption Perceptions Index ranked the country at 136 out of a total of 176.⁴

The country continues to face security challenges in the northern states, which affect implementation of grant activities.

2.2. Differentiation Category for Country Audits

The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: focused, core and high impact. These categories are primarily defined by size of allocation amount, disease burden and impact on the Global Fund's mission to end the three epidemics. Countries can also be classed into two cross-cutting categories: Challenging Operating Environments and those under Additional Safeguard Policy. Challenging Operating Environments are countries or regions characterized by weak governance, poor access to health services, and manmade or natural crises. The Additional Safeguard Policy is a set of extra measures that the Global Fund can put in place to strengthen fiscal and oversight controls in a particularly risky environment.

Nigeria is:

- Focused: (Smaller portfolios, lower disease burden, lower mission risk)
- Core: (Larger portfolios, higher disease burden, higher risk)
- High Impact: (Very large portfolio, mission critical disease burden)**

- Challenging Operating Environment**
- Additional Safeguard Policy**

2.3. Global Fund Grants in Nigeria

Since initiating operations in Nigeria in 2003, the Global Fund has committed over US\$2 billion and disbursed US\$1.8 billion in the fight against HIV/AIDS, tuberculosis and malaria in the country. There are currently nine active grants across the three diseases

Table 1: Active Global Fund grants to Nigeria

Active grants	Principal Recipient	Disease component	Grant period	Signed amount US\$	Disbursed amount US\$
NGA-H-ARFH	Association for Reproductive and Family Health (ARFH)	HIV/AIDS	January 2015- December 2017	7,947,181	3,821,286

² <http://www.worldbank.org/en/country/nigeria/overview>

³ <http://www.worldbank.org/en/country/nigeria/overview>

⁴ <https://www.transparency.org/country/NGA>

Active grants	Principal Recipient	Disease component	Grant period	Signed amount US\$	Disbursed amount US\$
NGA-H-FHI360	Family Health International 360	HIV/AIDS	January 2017- December 2017	101,390,700	34,298,370
NGA-H-LSMOH	Lagos State, Federal Republic of Nigeria	HIV/AIDS	January 2017- December 2017	9,623,390	2,619,255
NGA-H-NACA	National Agency for Control of AIDS	HIV/AIDS	July 2015- December 2017	138,225,691	99,740,098
NGA-H-SFHNG	Society for Family Health	HIV/AIDS	July 2015- December 2017	35,019,516	18,785,078
NGA-M-CRS	Catholic Relief Services	Malaria	January 2017- December 2017	103,066,704	41,192,212
NGA-M-NMEP	National Malaria Elimination Program of the Federal Ministry of Health of the Government of the Federal Republic of Nigeria	Malaria	February 2015- December 2017	244,815,409	208,178,039
NGA-T-ARFH	Association for Reproductive and Family Health (ARFH)	Tuberculosis	July 2015- December 2017	85,096,981	41,793,352
NGA-T-IHVN	Institute of Human Virology Nigeria	Tuberculosis	July 2015- December 2017	60,961,288	39,810,069
Total				785,876,860	490,237,759

These grants also have some activities supporting health system strengthening.

Four active grants are managed by three national non-governmental organizations - Association for Reproductive and Family Health (ARFH), the Society for Family Health, and the Institute of Human Virology Nigeria; three active grants are managed by Government entities - Lagos State, the National Malaria Elimination Program, and the National Agency for Control of AIDS; and the two remaining active grants are implemented by two International non-governmental organizations - Family Health International 360 and Catholic Relief Services.

Approximately 51% of Global Fund grants are allocated to procure medicines and health products. The majority of the health products are procured through the Global Fund Pool Procurement Mechanism and the Global Drug Facilities.



HIV/AIDS: Nigeria's HIV epidemic affects all population groups and geographic areas of the country. It is the second largest epidemic globally. Key populations are disproportionately impacted by the epidemic:

- sex workers with an HIV prevalence of 14.4%;
- men who have sex with men - 23%; and
- people who inject drugs - 3.4%.

970,000 people currently on antiretroviral therapy⁵

HIV prevalence (adult population): 2.9%⁶

Number of People Living with HIV: 3.2 million⁷.

Since 2010, new HIV infections and AIDS-related deaths have decreased by 21% and 6% respectively.

The Global Fund is the second largest donor for HIV/AIDS in Nigeria after United States President Emergency Plan for AIDS Relief (PEPFAR).

⁵ UNAIDS: <http://www.unaids.org/en/regionscountries/countries/nigeria> (2016)

⁶ UNAIDS: <http://www.unaids.org/en/regionscountries/countries/nigeria> (2016)

⁷ UNAIDS: <http://www.unaids.org/en/regionscountries/countries/nigeria> (2016)



Malaria: Nigeria has the highest malaria burden in the world and the disease is one of the top causes of morbidity and mortality nationally. The country has 61 million and 110,000 estimated malaria cases and deaths out of 211 million and 426,791 global estimated malaria cases and deaths.⁸

24 million insecticide-treated nets distributed in 2016¹⁰

22 million ACT treatment courses delivered in 2016.¹¹

The Global Fund, the United States President's Malaria Initiative (PMI), the World Bank and the UK are the four largest donors for malaria in Nigeria. The Global Fund contributes 33% of total Malaria investments in Nigeria, while PMI contributes 30%, the World Bank 24% and UK 13%.⁹



Tuberculosis: Nigeria is classified as one of the ten highest TB and MDR-TB country. Nigeria's TB burden incidence (annual new cases) is estimated at 586 per 100,000 population.

90,584 new smear-positive TB cases detected and treated¹².

Treatment success rate for new and relapse cases : 87%¹³

The Global Fund and the Government fund most TB interventions in the country.

Treatment coverage :15%¹⁴

Key changes in implementation arrangements since 2015 audit:

The Secretariat invoked the Additional Safeguard Policy in 2016. It competitively selected two international non-governmental organizations - Family Health International 360 and Catholic Relief Services to manage the key activities financed under the HIV and malaria grants respectively from January – December 2017. A state level HIV grant was also signed with the Lagos State Ministry of Health for a 12-month period ending 31 December 2017. The Global Fund engaged Chemonics to manage the warehousing and distribution of medicines and commodities under the HIV and malaria grants.

The roles of the National Agency for the Control of AIDS and National Malaria Elimination Program in Global Fund grants are focused on policy, coordination and oversight.

⁸ <http://apps.who.int/iris/bitstream/10665/252038/1/9789241511711-eng.pdf?ua=1> (Page 120 and 125)

⁹ <http://apps.who.int/iris/bitstream/10665/252038/1/9789241511711-eng.pdf?ua=1> (Page 102)

¹⁰ <https://www.theglobalfund.org/en/portfolio/country/?loc=NGA&k=430b8acd-ef36-4ef1-8231-0e730499d19a>

¹¹ <http://apps.who.int/iris/bitstream/10665/252038/1/9789241511711-eng.pdf?ua=1> (Page 113)

¹² https://extranet.who.int/sree/Reports?op=Replet&name=/WHO_HQ_Reports/G2/PROD/EXT/TBCountryProfile&ISO2=NG&outtype=PDF

¹³ https://extranet.who.int/sree/Reports?op=Replet&name=/WHO_HQ_Reports/G2/PROD/EXT/TBCountryProfile&ISO2=NG&outtype=PDF

¹⁴ https://extranet.who.int/sree/Reports?op=Replet&name=/WHO_HQ_Reports/G2/PROD/EXT/TBCountryProfile&ISO2=NG&outtype=PDF

3. The Audit at a Glance

3.1. Objectives

The overall objective of this follow up audit is to provide reasonable assurance on whether the governance, risk management and internal controls underlying grant management and implementation in Nigeria have improved since the 2015 audit. This audit also assessed whether measures have been instituted to identify and mitigate challenges that have emerged since the last review.

Specifically the follow up audit focused on the effectiveness and efficiency of:

- grant oversight and program management structures;
- fiduciary assurance framework and anti-fraud measures; and
- supply chain arrangements to deliver and account for medicines and commodities.

3.2. Scope

The audit followed the methodology described in Annex B covering the period from July 2016 to September 2017. Where relevant, the period was extended to enable the auditors to assess progress made by the Secretariat and implementers in addressing identified issues. The audit covered specific aspects of the grants implemented by eight Principal Recipients NACA, NMEP, ARFH, IHVN, SFH, FHI 360, CRS and Lagos State Ministry of Health. The supply chain and fiduciary services provided by Chemonics and the Fiscal Agent were also reviewed.

The OIG visited 12 implementation sites across two states as part of the follow up audit.

This audit did not assess the programmatic achievement of the grants because there has not been material changes in the grants' performance since the last audit. The measures introduced by the Secretariat, including changes in the implementation arrangements, are relatively new and yet to have substantive effect on the programmatic results.

3.3. Progress on Previously Identified Issues

The OIG audit in 2015 identified significant deficiencies in financial controls, supply chain, implementation arrangements, data quality and limited differentiation in the management of the Nigeria portfolio.

Previous relevant OIG audit work:

[GF-OIG-16-014](#), [GF-OIG-16-015](#), [GF-OIG-15-003](#) and [GF-OIG-10-008](#)

In response, the Secretariat implemented several corrective actions to address the risks identified. Some of the risks have been fully mitigated while others require more time and attention to be resolved. There are also gaps in some of the measures instituted by the Secretariat as noted in findings Section 4.

The Secretariat has increased its oversight of the Nigeria portfolio by allocating more resources to the Country Team as mentioned above. Inventory management and reconciliation of medicines at the central level have improved through the engagement of Chemonics. There are still challenges with distribution and waste management in the supply chain. Data quality continues to be a challenge on the Nigeria portfolio.

The overall financial assurance framework has been enhanced and anti-fraud measures introduced. However, the Fiscal Agent's review of transactions is not consistently effective and efficient.

The government has refunded the US\$5.8 million in recoverable amounts identified from previous OIG audit and investigations.

4. Findings

4.1. Challenges in the implementation arrangements, particularly the malaria grant.

The Global Fund has made significant changes in the implementation arrangements to address the weaknesses identified in the 2015 OIG audit. While the HIV implementation arrangements have improved, there are gaps in the implementation of the malaria program due to capacity constraints of the new Principal Recipient.

The 2015 audit concluded that significant improvements were needed to address gaps in the implementation arrangements of the HIV and malaria grants. In response, the Secretariat made significant changes in the implementation arrangements as indicated under section 2.3. Some of the changes have resulted in improvements while there are still some challenges to be addressed.

Management of HIV grant by FHI 360: The Principal Recipient has extensive experience in Nigeria as it implements the United States President Emergency Plan for AIDS Relief (PEPFAR) programs in collaboration with the national program. As a result, the implementer easily assumed its role as Principal Recipient under the Global Fund grant. It was able to develop the required operational plans to support management and implementation of the activities within a short timeframe. However, its management of sub-recipients needs improvement. FHI360 assessed sub-recipients capacity in March 2017, but plans to address identified gaps had not been finalized as of September 2017 (with three months before the end of the current implementation period).

The state level grant in Lagos state: The state level grant has increased state ownership and direct supervision at the lower level of implementation. The Principal Recipient has been able to engage the three local government authorities funded by Global Fund through direct supervision at health facility level and data validation meetings. The grant is also benefiting from the counterpart financing at the state level. While the state model is a laudable approach, it presents unique challenges that need to be continuously monitored and mitigated.

For example, there are delays in fund disbursement at the state level for program activities. Funds received from the Global Fund in February 2017 could not be used by the Principal Recipient until April 2017 due to protracted approval at the state level. This delayed the recruitment of key staff for coordination, oversight and supervision activities. Similar delays were noted in the activities assigned to the sub-recipient and service provider under the grant. The Global Fund made direct disbursements to the sub-recipient and service provider, which required approval from the State Governor and delayed implementation by three months. As this is a new approach the Country Team needs to increase engagement with senior officials of the state.

Management and implementation of the malaria grant by Catholic Relief Services: The malaria grant was reprogrammed to focus on bed net distribution in six states in 2017. The Principal Recipient, Catholic Relief Services, engaged by the Secretariat through a competitive process had limited experience to manage a malaria grant of Nigeria's scale within a 12-month period. The proposed support by its regional and global offices that had experience in bed net distribution did not materialize during microplanning and bed net distribution. These resulted in delays in commencement of the activities which had to be mitigated by the country team and in country partners through the engagement of another local non-government organization, Society for Family Health, to manage the activities in two states.

The Principal Recipient needs to coordinate more closely with in country stakeholders to plan bed net distribution. Chemonics, which is responsible for the transportation of the nets, was not engaged in the micro planning stages of the campaign and this affected the distribution arrangements. The Catholic Relief Services had challenges in engaging with the states and local government authorities which subsequently improved with support from the National Malaria Elimination Program. This resulted in late identification and mitigation of storage challenges of the bed nets. For instance, there was 31.5% shortfall in storage space in some local government areas, which affected delayed the start of some activities. The Catholic Relief Services (CRS) has subsequently signed memoranda of

understanding with 21 out of the 24 identified states to improve coordination in implementation of activities.

CRS's inability to procure and use the mobile technology for the bed net distribution as designed had value-for-money implications. The principal recipient proposed to implement three out of the six campaigns through a mobile technology. This ability to leverage technology was one of the main reasons for the selection of this implementer. However, the technology could not be used for any of the campaigns after an investment of over US\$3 million in procurement of the devices and related equipment, excluding the cost of training and recruitment of staff to manage the technology. This was due to the inconsistencies in the nature and quantity of devices in the principal recipient's requests for a custom's waiver. This resulted in the confiscation of the devices by the Customs Authority in Nigeria for five months. The devices were subsequently released in October 2017 (almost two months before the end of the current implementation period) and therefore could not be used in 2017. The Principal Recipient is planning to use the technology in the next implementation period.

The Secretariat and in country partners instituted measures to manage the capacity challenges of CRS. The six campaigns planned in 2017 have been completed with 14 million nets distributed. The nets are expected to cover about 28 million people. The Secretariat has revised the malaria implementation arrangement for the next grant period in light of the above constraints. The Secretariat is engaging three organizations with relevant experience to implement key aspects of the grant as sub-recipients to the CRS.

Balance between sustainability and delivery of grant activities: The engagement of the international non-governmental organizations is expected to improve management of the grant and the timely implementation of activities. The OIG acknowledges that there was an urgent need to get implementation on track to avoid treatment disruption with the appointment of new Principal Recipients. However, there is the need to build capacity of the priority States' disease programs in the long term as the new implementation arrangement stabilizes to ensure sustainability. This requires joint effort from the Government and partners. In this regard, the government is yet to meet the Global Fund's incentive funding requirement.

The states have responsibility over the health facilities due to the federal structure of the country. This limits the ability of the Principal Recipients at the central level to have leverage at the lower level of implementation. As indicated above, the Principal Recipients have signed memoranda of understanding with some of the states. Global Fund grants provide resources for involvement of state officers in routine supervision of grant activities but this was not always implemented as planned. For instance, some states were not actively involved in routine supervision conducted by non-governmental organization.

4.2. Improvements needed in program oversight, coordination and assurance

The Secretariat has improved the portfolio's programmatic assurance framework. However, further enhancements are required in program oversight and assurance at country level, and portfolio management by the Secretariat.

The 2015 audit report concluded that significant improvements were needed to address gaps in the design and effectiveness of the assurance framework to monitor risks at the country level and to ensure sufficient differentiation of the Nigeria portfolio in terms of people and processes to address the risks. In coordination with the Risk department, the Country Team developed a key risk matrix with related mitigation measures. The Secretariat has also instituted quarterly review meetings with implementers, members of the Country Coordinating Mechanism oversight committee and in country partners where status of grant implementation and related challenges are discussed. The National Council on Health¹⁵ has endorsed some of the actions agreed at the quarterly review meetings for implementation across the country. For instance, the actions to improve TB screening in primary health centers agreed at the quarterly review meeting were included in the communique issued by the Council in November 2017. However, the Global Fund, Country Coordinating Mechanism and partners need to improvement co-ordination, oversight and assurance over programmatic risks.

Gaps in grant oversight at the country level: The Additional Safeguard Policy allows the Secretariat to institute enhanced mitigation measures with limited involvement of the Country Coordinating Mechanism. There is currently no guidance on the role of the Country Coordinating Mechanism in countries under the Additional Safeguard Policy, especially where Principal Recipients are selected by the Global Fund. In the case of Nigeria, the two new Principal Recipients were selected by the Global Fund which limits the ability of the CCM to hold them accountable in the absence of clearly defined expectations.

There have been improvements in the partners' attendance at the Country Coordinating Mechanism meetings and review of grants performance. However, governance challenges including conflict of interest and capacity constraints affect the effectiveness of the CCM. At the time of the audit, the CCM had not yet addressed conflict of interest challenges identified through the Global Fund Secretariat's assessment. The Country Coordinating Mechanism oversight committee could not conduct sites visits due to legacy problems at the Country Coordinating Mechanism secretariat level that have delayed the approval of its budget.

The national programs have also not been able to conduct programmatic oversight of the activities implemented by the non-governmental organizations due to suspension of their travel related activities in April 2016 and, subsequently, the non-approval of their technical oversight budgets included in the grant.

Improvement required in assurance over programmatic risks: The country has consistently rated the programmatic risks as high but the related assurance measures need to be improved. Some of the Local Fund Agent's services could be enhanced with timely involvement of key experts in public health and supply chain. For instance, the public health and supply chain experts could have been engaged in early stages of review of some grant budgets and reprogramming requests in 2016 and 2017. There has been improved involvement of key specialists in subsequent reviews conducted by the LFA and require more time to be fully sustained.

Better coordination required in the health sector: In country health partners are part of the Country Coordinating Mechanism and its oversight committee and they also participate in the Global Fund's quarterly program review meetings. However, there is a need to strengthen partner coordination in the resolution of joint challenges in the country. This requires government

¹⁵ The National Council on Health as provided for in the National Health Act (2014) is the highest policy making body on matters relating to health in Nigeria. It comprises the State Commissioners for Health of the 36 States, the Secretary of Health & Human Services Secretariat FCT, Honorable Minister of State for Health and the Honorable Minister of Health who is the Chairman of the Council.

leadership and joint effort from Global Fund and partners. For instance, management of expired medicines has been a continuous challenge in the country (see finding 4.5) but one donor destroyed the expired anti-retroviral medicines that it finances while leaving behind those expired medicines financed by the Global Fund in the same facilities.

Improvements needed in the management of the portfolio: The Secretariat has allocated additional resources to the Nigeria Country Team, increasing the head count from nine to 19 staff. This has generally increased the level of engagement between the Secretariat and the country stakeholders. However there is a need to ensure that roles between the malaria implementation specialist and the public health specialist are executed as designed to reduce overlaps.

The Country Team's response to reprogramming requests could be better managed. The OIG acknowledges that such reviews are affected by the quality of documents submitted by the implementers, but there are delays in the Secretariat's response to requests from the country. This affects timely implementation of some activities especially under the TB grant. Training of staff for the TB shorter regimen was delayed due to gaps in the documents submitted by the implementer including the roll-out plan and a late response from the Country Team. The TB program is significantly behind schedule in achieving its targets and needs more attention from partners and the Secretariat. The Country Team has recognized the delays and initiated steps to address the challenges in recent reprogramming activities but the measures require more time to be fully effective. Some of the measures include the Country Team and the Local Fund Agent's timely review of the request from the implementers and direct engagement with the implementers to clarify and address outstanding issues.

Agreed Management Action 1

The Secretariat will submit to the relevant Board committee a revised guidance on Country Coordinating Mechanism roles and responsibilities for countries under Additional Safeguard Policy. Based on the approved guidance, the Secretariat will set specific expectations for the Nigeria Country Coordinating Mechanism.

Owner: Head, Grant Management Division

Due date: 31 December 2018

4.3. The overall fiduciary assurance framework has improved but there are weaknesses in the activities of the Fiscal Agent.

The overall fiduciary framework has improved since the 2015 audit with a balance between preventative and detective controls. This has allowed grant activities to go ahead despite the high fiduciary risk in the country. For instance, thanks to the oversight provided by the Fiscal Agent, the Global Fund was able to disburse funds directly to sub recipients while the activities of the two national Principal Recipients were suspended.¹⁶

The Secretariat has improved coordination between the assurance providers through the development of communication protocol and monthly meetings between the Fiscal Agent, the Local Fund Agent and the external auditor. The protocol defines the frequency of meetings, focal points and reporting requirements to the Global Fund. The Country Team has developed and continuously update risk and control matrices which indicate key issues and related mitigation measures at each implementer.

The Fiscal Agent reviews all payment vouchers at high risk implementers which has improved financial discipline on the portfolio. The Local Fund Agent and internal auditors undertake regular reviews and spot checks on key risks, including financial controls of the work performed by the Fiscal Agent. However, the reviews performed by the Fiscal Agent are not consistently effective and efficient.

Improvements required in the quality and timeliness of reviews performed by the Fiscal Agent: The Global Fund installed the Fiscal Agent in May 2015 in response to weak financial controls at selected implementers. The terms of reference of the Fiscal Agent clearly defines its roles and responsibilities. The terms of reference is regularly reviewed to reflect the changing risk profile on the portfolio. The presence of the agent has resulted in some improvement in fiduciary controls and financial discipline at the implementers but the agent's reviews do not consistently identify exceptions in payments processed by the implementers. Some of these exceptions are later identified by the Local Fund Agent and internal auditors of the implementers and addressed.

The Fiscal Agent does not consistently verify that goods or services have been received by implementers before payments are made. An implementer incurred a total cost of US \$200,000 on a maintenance contract, but some of the related proofs of service delivery were either not dated or unsigned by the intended beneficiaries. Similarly, contracts for some services were not appropriately verified by the agent before payments were made. This included the distribution of health equipment and travel agency fees. In addition, the Fiscal Agent's month end controls did not identify errors in two out of four monthly bank reconciliation prepared by two out of the three implementers reviewed by the OIG. These include unresolved transaction on the reconciliation statement for more than six months, and difference between the cash balance in the reconciliation statement and the cash book. As indicated above, some of the exceptions were subsequently identified and addressed through reviews performed by the LFA and internal auditors of some of the implementers.

There are also delays in the approval of payment requests due to inefficiencies in the Fiscal Agent's review processes and gaps in quality of documents submitted by the implementers. For instance 73% of sampled transactions were approved by the agent after at least 16 days instead of the two days target. This may have affected the implementation of advocacy and adherence activities by the government implementers and the Community-Based Organizations. The Fiscal Agent is enhancing its tracking tools to better identify and understand the delays for remedial actions.

Efficiency required in the financial controls. There is a need to reassess the balance between financial assurance and program implementation for some of the grant activities. The Fiscal Agent

¹⁶ Grant activities of NMEP and NACA were suspended in 2016 to enable the Secretariat institute enhanced safeguards on the portfolio

currently reviews all transactions at the implementers where it is embedded, irrespective of the value of the activity. Our analysis indicated that 26% of the volume of transactions¹⁷ reviewed by the Fiscal Agent were below US \$250. The agent's review of low value transactions may limit its ability to effectively and timely review other high risk transactions.

The Global Fund provides US\$100 a month to each of the 106 Community Based Organizations as institutional support. This money goes into a pool of resources to support the Community-Based Organizations operations, which makes it difficult for them to allocate the supporting documentation specifically to the Global Fund grant. However, the current assurance arrangement requires the Fiscal Agent to review the receipts and invoices underlying those transactions before a subsequent disbursement can be approved. This may have delayed the implementation of activities by the Community-Based Organizations because of the challenges in providing the required supporting documentation. The Country Team had previously identified the constraints in getting third party documentation for those activities and its delays on grant activities. It also considered potential mitigation measures including those suggested by the Fiscal agent but the Secretariat decided not to take any action.

Use of Fiscal Agents for capacity building needs to be reassessed. Similar to other portfolios, the Fiscal Agent in Nigeria is required to build the capacity of the implementers. The use of Fiscal Agents for capacity building activities is constrained by perceived conflict of interest and limited focus on non-fiduciary activities. A capacity building plan developed by the Fiscal Agent in the first quarter of 2016 was not been actioned by the Secretariat as it was rationalizing the implementation arrangements. The Fiscal Agent has undertaken some capacity building activities including IT and accounting systems enhancements, developing budget tracking tools and revising procedural manuals at some implementers. The previously developed capacity plan is yet to be revised and approved after the rationalization of the implementation arrangements. As a mitigation measure, the risk and control matrix is updated with identified control gaps and related actions. The absence of a comprehensive plan and the perceived conflict of interest, limit the agent's ability to comprehensively build capacity of the implementers.

The existing gaps in the Fiscal Agent's activities are attributed to:

(i) Inadequate quality assurance in the agent's reviews. There is limited independent review of work performed by the agent's staff and the fraud prevention measures as indicated under finding number 4.5. There is no evidence of that the Team Leader, based in Abuja, regularly reviews work executed by the team. Similarly, the head office of the Fiscal Agent, which is based in Germany, did not effectively provide quality assurance over the operations of its Nigeria office. The assigned project director from the head office travels to Nigeria every month but could not provide appropriate evidence of reviews from those visits.

The agent developed checklists to support its review of transactions and month end controls at the implementers. However, the checklists were not consistently used. For instance, at one of the implementers, the OIG found a Fiscal Agent staff member completing and back-dating a checklist for a transaction previously approved and paid 43 days earlier. When this was raised to the agent's management by the OIG, the agent claimed that the document was re-created and backdated because it was more convenient as the originally completed checklist had been archived. The agent subsequently terminated the contract of the staff involved in December 2017.

(ii) Limited on boarding arrangement for the agent's staff. There is no evidence of formal induction program and ongoing development of staff engaged by the Fiscal Agent. As a result, the quality of reviews performed were inconsistent across the implementers.

¹⁷ Total number of transactions is 1,000 within the 12 months period

(iii) There is a need to improve the Secretariat's management of the Fiscal Agent. As indicated in an OIG audit of Grant Management in a high risk environment,¹⁸ the Secretariat is yet to develop systems and tools to adequately evaluate performance of Fiscal Agents. The Country Team has regular meetings with the Fiscal Agent to discuss key performance issues some of which are identified above. However, mitigation actions promised by the agent are not always implemented. The country team needs to improve its oversight of the Fiscal Agent with enhanced performance indicators and related remedial actions if those indicators are not met.

The Secretariat is developing guidelines, systems and tools to improve its management of Fiscal Agents as agreed in the OIG audit of Global Fund grants in high risk environments.

Agreed Management Action 2

The Secretariat will perform the following actions that relate to the work of Fiscal Agents:

- Review the terms of reference of the Fiscal Agent to identify areas where the agent can be more efficient and effective and make amendments where deemed necessary.
- Implement a quality assurance and monitoring system that outlines the oversight activities and due-diligence required from the Fiscal Agent and the Country Team supervision and compliance approach.
- Develop a corporate approach on the performance management of Fiscal Agents and communication protocol on the periodic performance reviews.

Owner: Chief Finance Officer
Due date: 31 March 2019

¹⁸ <https://www.theglobalfund.org/en/oig/updates/2017-01-23-global-fund-grant-management-in-high-risk-environments/>
16 February 2018
Geneva, Switzerland

4.4 Anti-fraud measures are being instituted on the portfolio and require more time to be effective.

The Secretariat has significantly improved fraud risk management on the portfolio and the full impact from such efforts needs more time to be determined.

Following the 2015 audit and an independent financial control review conducted by a public accounting firm in 2016, the terms of reference of the Fiscal Agent were revised to incorporate fraud prevention and detection measures. This resulted in the addition of fraud specialists to the Fiscal Agent's team.

The fraud specialists have supported the Principal Recipients in developing comprehensive anti-fraud policies and procedures, including internal mechanisms for reporting suspected fraud. Fraud risk registers have been developed for most Principal Recipients that also identify and address gaps in controls. The non-fraud specialists in the Fiscal Agent's team and internal audit units of the principal recipients are being trained on fraud risks and provided with fraud tools. These measures are a positive step forward although more time is required to assess their overall effectiveness on fraud risk in the portfolio.

Balance between fraud prevention and detection: The Fiscal Agent has made progress in instituting fraud prevention measures, but the detection aspects need improvement. The Fiscal Agent instituted periodic fraud spot checks for high-risk transactions to assess whether the prevention controls are well-designed and working, and to help institute measures to address any gaps. The spot checks conducted by the fraud specialist within the first six months (October 2016 to March 2017) uncovered a large number of gaps in processes across Principal Recipients, the Country Coordinating Mechanism and some sub recipients, which led to enhanced tools and training.

Since the first quarter of 2017, the Fiscal Agent has deprioritized proactive spot checks and analysis of financial data to detect fraud and to ensure designed tools and processes are working. These controls have rarely been performed recently. As there are limited mechanisms outside the Fiscal Agent to evaluate whether the prevention activities are working as designed, this imbalance impacts the Fiscal Agent's ability to identify new fraud schemes, to quality assure and improve the effectiveness of its own work, and to institute appropriate prevention measures as per its terms of reference.

Fraud reporting by the Fiscal Agent needs to be improved: The Fiscal Agent has implemented a fraud reporting protocol which defines the roles, responsibilities and channels of communication among its staff. The fraud specialists maintain a list of all suspected and confirmed incidents of fraud with about 30 cases recorded as of September 2017. However, the Fiscal Agent does not consistently report fraud incidents in its quarterly reports to the Global Fund. The Secretariat indicated that the Fiscal Agent is expected to use its professional judgment in determining which fraud incidents should be reported to the Global Fund. However, there are no measures in place for the Secretariat and the Fiscal Agent to routinely assess how the agent's judgment is being applied and whether adjustments are needed.

Agreed Management Action

Refer to Agreed Management Action 2

4.5. Progress made in resolution of supply chain challenges but yet to be fully effective and efficient.

The Secretariat is addressing the supply chain challenges identified in the 2015 audit. Among the actions is the engagement of Chemonics to manage the storage and distribution of HIV and malaria medicines on behalf of the Principal Recipients. This has improved storage, inventory management and accountability for medicines at the central and zonal warehouses managed by the service provider. The Global Fund is working with the in-country partners in health and the government to integrate the existing vertical supply chain systems under a project called “National Supply Chain Integration Project (NSCIP)”. This is expected to mitigate the structural problems and increase efficiency. The Logistics Management Coordination Units have been established in all the 37 states to improve the supply chain systems at the sub national level, thanks to support from Global Fund and partners through the NSCIP.

All medicines and health products received from the Global Fund Pooled Procurement Mechanism could be reconciled and traced in the Warehouse Inventory Management Systems at the central level. Storage conditions and practices across the central medical stores were in accordance with WHO guidelines. The TB and multi drug resistant TB medicines are also appropriately managed by the Association for Reproductive and Family Health and Institute of Human Virology Nigeria.

Despite the progress, there are still gaps in distribution arrangements, management of expiries and delays in approval of waiver of taxes by the government, increasing the risk of stock-outs.

Gaps in distribution processes: Generally, the distribution arrangement has ensured improved availability of medicines and commodities at the service delivery level. However, there are gaps in the roles and responsibilities between the Principal Recipients and Chemonics which affect the effectiveness and efficiency of the distribution process. Roles and responsibilities for correction of errors in distribution plans and verification of commodities supplied to facilities need to be further clarified and enforced. The Global Fund is revising existing roles and responsibilities as well as monthly meetings with the stakeholders to address the challenges.

There are delays in the principal recipients’ submission of requests to Chemonics, which affects the latter’s ability to timely distribute medicines to facilities. During the January 2017 distribution cycle, an incomplete distribution request from the Principal Recipients left more than 40 primary health care facilities in Kano State without rapid diagnostic test kits for 30 days. The Principal Recipients also requested some laboratory commodities that were not needed by the facilities because the related equipment was either not available or not functional.

On the other hand, Chemonics does not consistently distribute all the requested medicines to the facilities. Some of the health facilities receive more than what was requested while others get less. The supply of less commodities could be due to supply planning in light of available medicines. However, oversupply of medicines to facilities contribute to the extent of expiry at the lower level of implementation.

The last mile distribution of medicines to health facilities was not always carried out by Chemonics as defined in its terms of reference. Medicines meant for over 16 health facilities in Cross River and Kaduna states were delivered to proxy sites instead of the intended facilities during the January 2017 distribution cycle. This was subsequently addressed after complaints from the health facilities.

The availability and quality of supply chain related data affect effectiveness of quantification and distribution arrangements. In this regard, the Global Fund has supported logistics officers in 24 states to collect, analyze and transmit logistics data to support national forecasting and quantification under the malaria grant. This has improved state level reporting to 89% as of August 2017.

Weak management of expired medicines: As indicated in the 2015 audit report, expired medicines had accumulated for many years at the central and health facilities level. Additional expiries were noted during the follow up audit. The Country Team together with the Principal Recipients have improved monitoring of stock levels to enable them redirect stock between facilities

to reduce expiries and stock-outs. That said, there are gaps in the management of the expired medicines as the contract between the Global Fund and the service provider did not include any provision on waste management as of the time of the audit. Across the five warehouses managed by Chemonics, there is an estimated 1580 cubic meters (approx. 1,090 pallets) of space being occupied by these expired medicines. The service provider continues to charge the Global Fund average of US\$ 84,000 per year for warehousing of these expired products. All the seven health facilities visited had expiries which have taken over some storage space. For example, in Rainbow Hospital and Maternity facility, about 40% of the storage space were used for expired medicines.

Expiries at the health facility level is a national challenge but there has been sub optimal coordination by all stakeholders in addressing this as indicated under finding number 4.2. The Global Fund has, subsequent to the audit, incorporated waste management in its contract with Chemonics to enable the latter to retrieve expired medicines from the health facilities for destruction.

Inventory management practices at the facility level needs to be improved: While significant improvements in inventory management were visible at the central level, the sub-optimal conditions at service delivery points are yet to be addressed. Inventory records at the health facilities are also not regularly updated. For example a primary health care facility had not been updating its stock records since 2015. The OIG acknowledges that more time and resources are required from the government and other partners to address inventory challenges at the health facility level.

Delays in customs clearance could result in stock outs if not addressed. The Global Fund continues to monitor stock levels, improve supply planning including advance and emergency procurement to reduce the risk of stock-outs. However, challenges in the customs clearance processes at the country level reduce the effectiveness of these measures. The audit identified an imminent risk of stock-outs of TB medicines at the central and facilities level although Global Fund procured medicines had arrived at the ports in the past three months. This is due to difficulties in obtaining the government's waiver for import duties and related charges.

There was a stock-out of anti-malaria medicines and commodities at the central level in 2017 for a period of four months, which triggered emergency procurement by the Global Fund. The commodities were expected in the country in November 2017 and delays in securing tax waivers could result in significant stock-out at the service delivery points¹⁹.

Improvement required in the Secretariat's performance monitoring of Chemonics: The Global Fund Secretariat agreed on Key Performance Indicators (KPIs) on important components of the supply chain with Chemonics. The warehousing related KPIs are adequately designed and monitored by the Global Fund. However, the distribution indicator covers only 'on time' and does not include 'in full' delivery as recommended by the World Health Organization. This means that the proportion of deliveries made in line with the request from Principal Recipients is not considered in assessing the service provider's performance. As at the second quarter of 2017, the service provider's performance on the 'on time' delivery stood at 69% against the baseline target of 97%.

Subsequent to the audit, the Secretariat has revised the KPIs with Chemonics to incorporate 'in full' delivery.

Agreed Management Action 3

The Secretariat will clarify the roles and responsibilities of Principal Recipients and Chemonics in the distribution process and will conduct a dissemination session to ensure that relevant parties understand their role in the process.

Owner: Head, Grant Management Division
Due date: 30 June 2018.

¹⁹ The Country Team has indicated that the medicines have since been cleared from the port and undergoing distribution to facilities.
16 February 2018
Geneva, Switzerland

4 Table of Agreed Actions

Agreed Management Action	Target date	Owner
<p>1. The Secretariat will submit to the relevant Board committee a revised guidance on CCM roles and responsibilities for countries under Additional Safeguard Policy. Based on the approved guidance, the Secretariat will set specific expectations for the Nigeria CCM.</p>	31 December 2018	Head, Grant Management Division
<p>2. The Secretariat will perform the following actions that relate to the work of Fiscal Agents:</p> <ul style="list-style-type: none"> • Review the terms of reference of the Fiscal Agent to identify areas where the agent can be more efficient and effective and make amendments where deemed necessary. • Implement a quality assurance and monitoring system that outlines the oversight activities/due-diligence required from the Fiscal Agent and the Country Team supervision and compliance approach. • Develop a corporate approach on the performance management of Fiscal Agents and communication protocol on the periodic performance reviews. 	31 March 2019	Chief Finance Officer
<p>3. The Secretariat will clarify the roles and responsibilities of Principal Recipients and Chemonics in the distribution process and will conduct a dissemination session to ensure that relevant parties understand their role in the process.</p>	30 June 2018	Head, Grant Management Division

Annex A: General Audit Rating Classification

<p>Effective</p>	<p>No issues or few minor issues noted. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.</p>
<p>Partially Effective</p>	<p>Moderate issues noted. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.</p>
<p>Needs significant improvement</p>	<p>One or few significant issues noted. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.</p>
<p>Ineffective</p>	<p>Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised.</p>

Annex B: Methodology

The OIG audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These documents help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place at the Global Fund as well as in country, and is used to provide specific assessments of the different areas of the organization's activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.

Annex C: Message from the Executive Director

Nigeria is a mission-critical country in efforts to end epidemics. It has the largest malaria burden of any country in the world, with 30 percent of global malaria deaths. Nigeria is number two for HIV globally and seventh for TB burden. We cannot succeed in ending epidemics without delivering significant results in Nigeria. Yet Nigeria is also a complex and challenging operating environment.

Despite challenges, Nigeria has made progress against HIV, TB and malaria. Programs supported by the Global Fund have saved the lives of 1.7 million people in Nigeria, as of end 2016. Between 2000 and 2016, deaths from malaria dropped by 43 percent. Incidence of HIV declined by 37 percent from 2000 to 2016. With the support of the Global Fund, Nigeria passed the 1 million mark for people on ART in 2017. In addition, in 2017, the Global Fund financed the distribution of 14 million mosquito nets in six states over a five-month period, covering an estimated 28 million beneficiaries.

This follow-up audit report clearly demonstrates that the Global Fund together with its country partners have achieved rapid and significant progress since 2015, when a previous audit was conducted. The portfolio is now managed under a strengthened risk management and assurance framework and is on a better trajectory for enabling the country deliver improved programmatic results. The audit takes a sharp view of progress in the areas where deficiencies were previously identified and highlights some specific gaps and key areas requiring further improvement. The Secretariat is already taking responsive action that will further improve grant implementation.

Equally important, the Government of Nigeria has now fully repaid to the Global Fund all amounts deemed recoverable, as identified in the May 2016 OIG Audit and Investigation reports, which we hope will allow us to accelerate the positive trajectory in our partnership to end the epidemics in Nigeria.

I want to highlight some important improvements since the last audit:

- We have significantly expanded the Secretariat's country team for the Nigeria portfolio, and it has improved our ability to collaborate more proactively with health leaders and partners to resolve issues early and seize opportunities for delivering results.
- The new HIV implementation arrangements are performing well, as this report notes. In response to challenges described with the malaria grants, the Secretariat and Principal Recipients have revised the implementation arrangements for 2018-2020, including the engagement of experienced sub-recipient organizations that enable the PRs to re-focus on management, oversight and coordination, with increased technical support for the national malaria program, and monitored through structured quarterly reviews of progress.
- We now have significantly greater assurance that Global Fund financed medicines and other health products available to patients when and where they need. Part of this was through the establishment of 37 Logistics Coordination Management Units, one in each state, which focus on improving timeliness and accuracy of supply chain data. We also repositioned short-dated TB and malaria medicines and other health commodities, resulting in the use of life saving commodities that would otherwise been at risk of expiry.
- We are working with key partners, and especially the Government of Nigeria, on the first national population-based AIDS impact and incidence survey (NPHIA) in Nigeria. Preliminary results of the survey are expected by second quarter of 2019.
- In addition to continuing our work with the State Government of Lagos, we are in dialogue with state governments in Oyo, Imo and Kaduna, with the aim of developing specific, measurable and time-bound ways in which we can support these high disease burden states build resilient and sustainable systems for health.
- We have reinforced the roles of assurance providers to better manage financial management risks and the risk of fraud. The Secretariat has put in place formal collaboration protocols between the Fiscal Agent, Local Fund Agent and the External Auditors to ensure regular information sharing and a coordinated approach to risk management. In direct response to

the latest OIG findings, the Secretariat is now actively working with assurance providers to further strengthen the performance management of the Fiscal Agent and quality assurance of the finance support provided to implementers.