



Independent observer  
of the Global Fund

## Responding to "Auditing the Auditor"

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Letter from Derek von Wissell, Director of the National Emergency Response Council on HIV/AIDS, a government agency that serves as PR for all Global Fund grants in Swaziland

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For example, before the end of the audit, allegations were made by the OIG at a debrief to an open public audience that were so intolerable they led to a confrontation (in private, witnessed by the fund portfolio manager) between myself and the Inspector General. False allegations were made implying fraud/theft/corruption in statements like "The PR is unable to provide documentation and proof of expenditure for \$x million," a very large amount of money. The audience, including senior government officials, the media and CCM, was stunned. The allegation was proven false a couple of days later, but

there was no public retraction. To this day, nine months later, questions are still being asked by the media and even in Parliament about the OIG's statement. In a money-managing organisation such as a PR, reputational risk is taken extremely seriously.

"Zero tolerance" is acceptable and understandable, but it is by applying first world standards on third world capacity that tensions are bound to emerge. Many of our implementers do not have bookkeepers, computers or accounting systems, but they are doing fine work, impacting on people's lives.

I think the Global Fund Board should set a level of "acceptable risk, deviation, loss or leakage" to avoid a situation where the pursuit of perfect "zero tolerance" comes at an unacceptable cost. What does the OIG cost to discover how much loss?

In conclusion, there is a real danger that the truly amazing work and successes brought about by the Global Fund will become overwhelmed and stifled by the Fund's unreasonable preoccupation with processes, details and micromanagement – and by the OIG.

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Letter from Elizabeth Mataka, Executive Director, Zambia National AIDS Network (ZNAV), a national NGO which serves as a PR in Zambia (Ms. Mataka also served as Vice-Chair of the Global Fund Board from 2007 to 2009.)

The GFO article was well thought out, bringing out the true concerns that most audited countries have had regarding the working methods of the OIG and of its sub-contracted auditors.

My first concern is that OIG staff come not to audit but to find fault at all costs. If they do not find theft/fraud/embezzlement in a PR, they go fishing in other waters. How else would you explain the question during the entry meeting, "Yes Mrs. Mataka, so what is keeping you awake at night?"

My second concern is that the OIG focuses too much on PRs and not enough on sub-recipients (SRs) and sub-sub-recipients (SSRs). My organisation, ZNAV, is not an implementer; instead, it sub-grants 90% of its Global Fund grants to approximately 150 community-based SRs which operate throughout the country. The auditors who came to audit ZNAV spent 80% of their time auditing us and had very little time to audit our SRs and SSRs. They did not have time to look at the SR documentation which we provided to them. Yet the OIG still went ahead and formed a negative opinion (concerning unsupported expenditures which should be refunded) without fulfilling its task of going down to audit these SRs and SSRs. If they had visited the SRs, they would have realized that even though the SR's books were not always properly kept, funds were still being spent on the target group!

My third concern relates to the difficulty of financing the implementation of OIG recommendations. The OIG report highlights the areas of weakness and makes recommendations, which often include capacity strengthening of various kinds. Such interventions require funds to implement, and the most obvious source of these funds is the same (or different) GF grants, particularly in the case of civil society PRs that have no other funding sources or whose other donors have withheld funding due to the same OIG report.

The Global Fund reacts by halting or reducing disbursements, and/or demands that the PR reimburse funds which it no longer has. This, in turn, leads to the PR, SRs and SSRs losing valuable personnel due to lack of funds. As a result, instead of improvements taking place in line with the OIG's recommendations, various units within these organisations slowly decay due to lack of use and, finally, all the little gains made over the years through the GF programs are stopped or even reversed. This is particularly so with community-based organizations, which do not have the luxury of multitudes of funding

sources.

The OIG should lay the blame where it belongs. Yes, the PR has fiduciary responsibility for funds made available to it. However, when funds sub-granted by the PR to SRs are not accounted for, the OIG fails to make the situation clear and places too much blame on the PR. (For some PRs, this has influenced other donors to withhold their support to the PR, de-motivating staff and almost killing the PR.) Yet nobody drags the name of the Global Fund through the mud when the Fund itself grants money which is not all accounted for.

I fully agree that there should be zero tolerance for corruption and theft, but I also believe that different lapses deserve different reactions. It is simply unjust to halt funding to an organization that has not stolen money, even though its SRs are cited as having not accounted for certain funds. A sensible solution to me would be to blacklist the SRs involved and hand them over to law enforcement agencies instead of punishing the PR and all the SRs who have done nothing to attract punishment. And when the OIG says that certain SRs have not accounted for all their expenditures, the OIG should produce a detailed analysis of disputed amounts instead of expecting SRs to agree to refund a block figure without any details.

There is strong evidence that sub-contracted staff used by the OIG have not read the grant agreement between the PR and the Global Fund. In one case, the OIG recommended that at the closure of a Round 1 grant, “vehicles should ... be returned to the CCM for reallocation to where there is greatest need.” This requirement completely contradicts the grant closure provision in the grant agreement. It also suggests a high degree of ignorance regarding the role of the CCM.

Finally the OIG and the Global Fund Secretariat should aim to build and strengthen. ZNAN is a solidly performing PR whose ratings from the Fund are nearly all A or B1. And ZNAN has not committed any fraud. To harm and, in the limit, to kill such a PR is counterproductive and is a sheer waste of the funds that the OIG strives to protect.

Elizabeth Mataka, Lusaka, Zambia

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Letter from Karl Hofmann, President and CEO of Population Services International (PSI), an International NGO which serves in many countries as PR for Global Fund grants.

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We must be beyond reproach in using public funds – but at the same time, we must be able to act boldly to scale up programs that work and that are helping people live healthier lives. I take as given that the OIG aims for a more cost-effective Global Fund. It would be a shame if overzealousness by the OIG had the unintended effect of weakening the Fund and slowing its work.

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In June 2010, we hosted a delegation from the OIG who came to audit us regarding our role as PR in two TB grants. Based on our experience, we would like to make the following points:

- The recommendations of the OIG are not always appropriate for countries with weak health systems, where the public sector is the largest implementer of programmes. In most instances, the solutions to the problems identified by the audit cannot be addressed by a non-governmental PR, such as PROFAMILIA, which, despite being responsible for the grant in the eyes of the Global Fund, is handicapped by the inefficiencies of the public sector. In the OIG's draft report of the audit conducted in my country, we were criticised for not having installed new equipment purchased for a hospital. But the public health sector, not PROFAMILIA, was responsible for providing adequate space for the installation and operation of the equipment.
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- The OIG should concentrate less on searching for fraud, and more on actions that will minimise the risk of losses.
- It is true that there has been fraud in some grants. But because the OIG focuses so much on discovering fraud, instead of improving existing processes, people will mistakenly conclude that all implementers are stealing.
- PRs who know that they are about to be audited live in a state of uncertainty which creates a certain paralysis.

In closing, however, I would like to point out that the OIG staff and contractors acted in a very professional and respectful manner when conducting the audit in the Dominican Republic.

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- The "Statement of Auditing Standards SAS 210, 315 and 330" specifically requires an auditor to have knowledge of the entity being audited. However, based on some of the recommendations the OIG has issued, these basic standards appear not to have been followed. Every time we referred to the proposal and grant documents, the OIG team appeared not to be aware of their contents. The OIG teams should all be tasked to read and re-read the proposals before carrying out audits so that they have a greater understanding of the background.
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The OIG should recommend actions that build rather than destroy work that has been carried out over years with other partners.

The Global Fund Board must review and revise the TORs for the OIG so that they conform with generally accepted auditing standards.

We are not requesting the OIG to be "Mr. Nice Guy"; we are simply asking that the OIG work within the principles of "natural justice." The OIG should not condemn implementers to public ridicule and embarrassment for having implemented activities that the Global Fund itself had previously approved.

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