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Global Fund Strengthens the Involvement of LFAs in Fraud Detection and Prevention

Procedures are tightened

LFA required to do regular spot checks of SRs

Local fund agents (LFAs) are being asked to identify “red flags” at all stages in the grant life-cycle related to fraud, lack of controls and risk of misuse of Global Fund money. They are also being asked to bring to the attention of the fund portfolio manager (FPM) any findings or allegations that may be indicative of fraud.

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These are some of the steps that the Global Fund has taken to get LFAs to take a more active role in identifying misuse and potential misuse of Global Fund money. The steps are described in a guidance document released by the Global Fund called “LFA Role in the Identification of Fraud Risk and Actual Fraud in Global Fund Financed Programs.”

The guidance document describes the enhanced LFA role, specific actions already taken and further

actions planned to strengthen this role. (The guidance document says that “LFAs are the ‘eyes’ and ‘ears’ of the Global Fund, they are now its ‘nose’ too.”)

The term “fraud,” as used in this document, denotes any intentional act of deception committed by principal recipients (PRs), sub-recipients (SRs), suppliers and other third parties – including fraud, financial misappropriation, corruption, collusion in procurement, financial misconduct and irregularities in programmes and projects financed by the Global Fund.

The guidance document provides a list of ways that LFA services will be strengthened to more effectively identify fraud risks. As part of each PR assessment and at each periodic review, LFAs will:

- identify and assess the main activities and expenditures that are prone to fraud;
- assess the PR’s knowledge, expertise and approach to fighting fraud;
- identify all activities that are likely to involve cash transfers and recommend alternative payment arrangements that are less prone to fraud;
- assess the PR controls and monitoring systems to identify, track and account for the use of grant funds; and
- assess the effectiveness and impact of the PR’s selection and assessment of its SRs.

Each time the LFA does a budget review, it will identify and review explanations for any lump sum items; assess any budget item for which there is no detailed plan; and assess the value for money for training and major budget items.

During programme implementation, the LFA is expected to undertake regular spot checks of SR accounting practices and expenditures, warehouse and drug storage facilities, tendering proceedings, drug distributions and training events.

Each time it reviews the PR’s progress update and disbursement request (PU/DR), the LFA is required to report any ineligible and unjustifiable expenditures. The guidance document lists several recommended actions the LFA can take when reviewing the PU/DR.

During on-site data verifications (OSDVs), the LFA is required to check the authenticity of documents at service delivery points, and to check the identity of a sample of personnel reported as having been trained.

LFAs may also be asked to provide additional services in some countries. This could include performing more in-depth assessments of SRs, conducting in-depth assessments of procurement procedures, reviewing training programmes, reviewing vehicle expenditures and reviewing salaries. In some instances, LFAs may be asked to conduct forensic audits – i.e., to look behind the invoices and across different sets of data for fraud indicators and evidence of systematic fraud.

An annex to the guidance document provides a list of areas and activities in Global Fund programmes where fraud has already been discovered.

Assessment of PR and country risk

In October 2010, the Global Fund developed a tool to assess PR and country risk. Currently, LFAs are required to conduct these assessments in what the Secretariat deems to be high and medium impact countries. The outcomes of these assessments enable the Secretariat’s country team members and the LFA to agree on the major issues and risks that require action.

(The Global Fund defines “high impact countries” as countries with large volumes of funding, a multiplicity of grants, complex operations or other challenges.)

In a guidance document entitled “LFA Assessment of Country and PR Risks,” the Global Fund lists the criteria for selecting which countries will be assessed, discusses how often the assessments should be carried out, and provides a detailed description of the methodology that should be used.

A key output of every LFA risk assessment is a “PR priority risks management plan.” The plan is a summary of the LFA’s risk assessment of each PR in the country.

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