



Audit Report

Global Fund Grants in Papua New Guinea

GF-OIG-19-018
27 September 2019
Geneva, Switzerland

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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

The Global Fund is a key partner in Papua New Guinea (PNG), disbursing over US\$228 million since 2004 and providing approximately 42% of the total funding for malaria, 29% for TB and 10% for HIV for the period 2018 - 2020.¹ A challenging operating environment for grant implementation, PNG has been subject to the Global Fund's Additional Safeguard Policy since 2010.

While large-scale bed-net distribution and utilization led to a significant fall in malaria prevalence (to <1% by 2013/14²), a recent survey has indicated an increase in prevalence to 7.1%², the root causes for which need to be established. For HIV, progress has been made in removing barriers in access to services, and in strengthening and coordinating civil society organizations. However, inter-dependencies between Global Fund and government investments, and procurement delays for government-funded HIV tests, are impacting HIV outreach. PNG has the highest TB incidence in the Western Pacific region; overall data reliability is low, since routine surveillance data has quality issues and a TB prevalence survey has not been performed.³ A plan is needed to build national program capacity, ensuring sustainability while minimizing duplications and dependencies. The adequacy, efficiency and effectiveness of grant implementation arrangements are rated as **partially effective**.

The audit found financial irregularities, non-compliance and inefficiencies at both Principal Recipients (PRs). At World Vision, PR for the TB/HIV grant, Global Fund grant assets totaling US\$486k were incorrectly recorded. Rotarians Against Malaria, PR for the malaria grant, needs to review its current model of outsourcing HR services to improve quality and efficiency, as well as strengthen financial controls on documentation, determination of salaries, recovery of advances and authenticity of expenditures. Given PNG's reduced grant allocation, administrative costs need to be further reduced in order to fund certain key program activities, currently unfunded. Improvements were however noted in the overall financial controls, compared to OIG's 2012 audit and subsequent investigations, and the audit did not identify any material irregularities or recoverable amounts. The internal controls and assurance mechanisms in financial management processes are therefore **partially effective** to ensure the efficient and effective use of grant funds.

1.2. Key Achievements and Good Practices

Improved access to services for key populations; strong civil society organizations:

In an attempt to decriminalize key affected populations and improve access to services, consultations and studies have been conducted by the Human Dignity Trust, with support from UNAIDS, to identify the main legislative and human rights barriers to HIV services. The Secretariat earmarked half of HIV allocations for activities related to key populations, to ensure that the reduction in the overall 2017-19 allocation does not affect services to those groups.

PNG has successfully applied for multi-country grant funding to empower civil society organizations supporting key affected populations. The Country Coordination Mechanism has set up a group to coordinate and support the work of civil society organizations, working directly with those groups.

Increased access to HIV/AIDS counseling, testing and measurement: Although no recent data are available, antenatal clinics providing counseling and testing have significantly expanded, from 17 testing sites in 2005 to 280 by 2013. The Global Fund contributed to funding an Integrated Bio-Behavioral Survey in 2018 which revealed that the disease burden is up to 19 times higher in key populations than in the general population. The Principal Recipient and National Directorate of Health (NDOH), with the support of the Global Fund, have developed a plan to expand the use of GeneXpert machines in detecting people living with HIV.

¹ Papua New Guinea Concept Note 2018-2020, Funding Landscape Tables, Section 4_A

² PNG Institute of Medical Research (IMR), Malaria Indicator Surveys- 2013/14 and 2016/2017, for villages below 1600 m altitude.

³ WHO, Global Tuberculosis Report- 2018

1.3. Key Issues and Risks

Need to ensure sustainability of Global Fund investments: Following the identification of significant financial control issues in 2010⁴, NDOH ceased being the Principal Recipient for all disease grants, and four non-government organizations were selected as replacements. However, this was not accompanied with a plan to build NDOH capacity in order to gradually transition the grants back to them, to ensure sustainability. National programs remain dependent on the Principal Recipient for malaria vector control, supervision and inventory management.

Increasing malaria prevalence, reduced HIV testing and uncertainty on the actual TB burden are hampering programmatic impact: malaria prevalence surged from <1% in the general population in 2014 to 7% in 2018.² Efforts have been made to identify and address root causes, such as bridging procurement and supply delays of drugs and tests through grant procurements, and investigating the quality and effectiveness of bed nets. However, the root causes need to be confirmed to ensure that programmatic responses are targeted and effective.

Delays in the 2018 procurement and distribution of government-funded HIV test kits have impacted program effectiveness and results; there was a nationwide stock-out of kits between November 2018 and April 2019. Despite PNG having one of the 10 highest TB incidence rates globally, overall data reliability is low. Current TB burden estimates, which rely on existing surveillance data and routine reporting, might not reflect the actual disease burden. In the absence of a national prevalence survey, no alternative source of reliable data is available.

Financial irregularities, non-compliance and inefficiencies: World Vision procured assets totaling US\$486k which were either incorrectly recorded, not retained at specified locations, or lacked relevant documentation. Following the audit, World Vision was able to reconcile and track those assets, and the Local Fund Agent materially confirmed them; however, strong asset management processes need to be embedded. Financial controls deficiencies at Rotarians Against Malaria included inadequate supporting documentation, long-outstanding advances from ex-employees, late purchase order approvals, and vehicles hired outwith LLIN distribution dates.

A significant proportion of grant funds (34%) for 2018-20 is allocated to human resources and administrative expenditures, despite efforts to reduce this by consolidating the grants to two Principal Recipients. With allocations falling by 48% in the current grant cycle,⁵ these costs restrict the number of critical activities funded. RAM should review the current implementation model of outsourcing HR services, costing US\$377k annually (18% of the total HR cost). Bringing this activity in-house might save money and resolve the weaknesses noted in HR management services. Staff salaries for current and discontinued Principal Recipients, in many cases higher than UN scales for comparable positions, were approved by the Secretariat without adequate justification.

1.4. Rating

Objective 1: Grant implementation arrangements are adequate, efficient and effective to achieve the grant objectives
OIG rating: Partially effective.
Objective 2: Internal controls and assurance mechanisms within the financial management processes result in efficient and effective use of grant funds.
OIG rating: Partially effective.

⁴ OIG audit report- PNG, published in 2012.

⁵ 2018-20 Global Fund allocation letter.

1.5. Summary of Agreed Management Actions

The Secretariat will work with the Principal Recipients, NDOH and technical agencies to conduct a technical evaluation on malaria resurgence, and to develop an action plan. The Secretariat will also ensure that a procurement plan is developed for drugs for the three diseases, and that the availability of drugs is monitored. All health workers using GeneXpert machines will be trained in both TB and HIV testing. A capacity building plan will also be jointly developed for assessing and developing the capacities of national institutions.

On financial management, for World Vision, asset management will be strengthened by revising the assets registers, reconciling with grant expenditures, and strengthening the internal controls on competitive tendering. Similarly, Rotarians Against Malaria will develop a manual for enhancing its internal controls on budget monitoring and tendering, and will evaluate options for enhancing efficiency and effectiveness of human resource management, including the option of internalizing services.

2. Background and Context

2.1. Overall Context

Papua New Guinea (PNG) is the largest Pacific island in geographical size.⁶ The population is spread across twenty-two provinces, with low accessibility to rural areas; only 68% cent of PNG's rural population live within 2 kilometers of an all-weather road, whereas the regional average is 90%.⁷ A lower middle income country, GDP growth has averaged 4% during the last decade.⁸ The percentage of health expenditure from domestic resources fell from 13% in 2013 to 10% in 2017.⁹

Population: **7.2 million**

GNI per capita: **US\$2,530**
(World Bank, 2018)

UNDP Human Development
Index: **153 of 189** (2017)

Transparency International
Corruption Perceptions Index:
138 of 180 (2018)

UNDP Gender Inequity Index:
159 of 160 (2017)

PNG has a critical shortage in its health workforce: there are 15.4 doctors, nurses and midwives per 10,000 people, against a World Health Organization benchmark of 23 per 10,000 people to provide adequate coverage of essential health services.¹⁰ Faith-based organisations play an important role in PNG's health system, delivering more than half of all services.¹¹ Civil society and private sector groups are also critical in reaching more than 850 language groups, separated by rugged terrain and often plagued by inter-tribal and gender-based violence.¹²

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 the 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.

The Papua New Guinea grant portfolio 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 the Country

Since 2004, the Global Fund has signed total grants of US\$245 million in PNG, of which US\$228 million has been disbursed.¹³ For the 2018-20 grant cycle, the Global Fund has two active grants with a signed amount of US\$44 million, of which US\$16 million has been disbursed. Two grants were

⁶ National Statistical Office in Papua New Guinea, 2011 census

⁷ The World Bank, PNG resilient transport project, Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

⁸ The World Bank website, Papua New Guinea, overview page, updated in 2019

⁹ The World Bank, health financing system assessment, page 19

¹⁰ WHO, density of doctors, nurses and midwives in the 49 priority countries report, Papua New Guinea

¹¹ Asian Development Bank, Civil Society Brief 2012, Papua New Guinea, page 1

¹² DFAT country information report, Papua New Guinea 2017, page 7

¹³ The Global Fund database, Papua New Guinea- https://data.the_globalfund.org/home/PNG

discontinued in the current grant cycle to enhance grant efficiencies, their key activities being redistributed to existing Principal Recipients.

Principal Recipient	Grant Number	Component	Grant Period	Grant Signed Amount US\$	Grants Disbursed to date US\$
Oil Search Health Foundation	PNG-H-OSHF (Discontinued)	HIV	01 July 2015	14,207,542	12,091,436
			31 December 2017		
Population Services International	PNG-M-PSI (Discontinued)	Malaria	01 April 2015	13,804,281	13,805,192
			31 December 2017		
World Vision International	PNG-T-WVI	TB	01 April 2015	18,448,575	17,010,329
			31 December 2017		
		TB/HIV	01 January 2018	19,366,504	7,200,424
			31 December 2020		
Rotarians Against Malaria	PNG-M-RAM	Malaria	01 April 2015	18,215,051	15,686,165
			31 December 2017		
			01 January 2018	22,199,722	8,905,874
			31 December 2020		

2.4. The Three Diseases



Malaria: PNG has one the highest burdens of malaria outside of Africa. 94% of the population lives in malaria-endemic areas, with women and children under five years of age at particular risk.

The number of reported malaria deaths declined by 57% (616 to 273) between 2010 and 2017.¹⁴

Prevalence has increased from <1% in 2013/2015 to 7% in 2017/2018. 72% of malarial fevers in communities are not treated with the recommended first-line antimalarial medicine.¹⁵

1,543,947 Insecticide-treated nets (LLINs) distributed in 2017. 13.3 million LLINs cumulatively distributed by Global Fund grants.¹⁶

80% of all households own at least one LLIN. 72% sleep under an LLIN in households that own at least one LLIN.¹⁵



HIV/AIDS: Papua New Guinea accounts for 70% of the Asia-Pacific sub-region's HIV cases, with an estimated 48,000 people living with HIV in 2017.¹⁷

PNG is experiencing significantly higher prevalence amongst key populations, and in specific provinces.

Prevalence is higher among female sex workers, with low awareness of HIV infection among HIV-positive FSWs, and low testing (44% have been tested for HIV, far below the UNAIDS goal of 90%).¹⁸

0.9%- 1% national average HIV prevalence¹⁸

HIV prevalence among key affected populations is high: 7.1% in men who have sex with men and trans populations and up to 19.6% in FSWs¹⁸

24,000 people currently on antiretroviral therapy¹⁹

¹⁴ WHO- Global Malaria Report 2018

¹⁵ Papua New Guinea Institute of Medical Research, 2016/2017 Malaria Indicator Survey.

¹⁶ Rotarians Against Malaria - Program Update/ Disbursement Request, 31 December 2017

¹⁷ UNAIDS, Papua New Guinea country factsheet 2017 estimates

¹⁸ Integrated Bio-Behavioral Survey (IBBS- 2018)

¹⁹ World Vision - Program Update/ Disbursement Request, 31 December 2017



Tuberculosis: TB remains a major public health threat in PNG, with incidence rate among the 10 highest globally, and a rapid rise of multi-drug and rifampicin resistant TB.³

At the end of 2017, the PR-reported case notification rate was 78%; however, only 47% of cases are bacteriologically confirmed.¹⁹

Estimated TB incidence rate of 432/100,000 population

Estimated MDR-TB in new cases is 3.4%, and 26% in previously treated patients

13,900 new smear-positive TB cases are treated annually³

2.5. Portfolio Performance

The 2018-20 grants have experienced mixed results. Whilst the HIV grant is performing well in terms of people living with HIV who are currently receiving therapy, performance on HIV testing is low (contributing factors are explained in Findings 1 and 2).

For TB, the Global Fund grant is performing well. However, because the grant supports capacity building and facilities, it is difficult to directly attribute the overall disease results to Global Fund investments.

The malaria grant indicators focus on grant inputs and outputs, and depict generally satisfactory results. However, malaria prevalence and deaths have surged, with details in Finding 02.

Global Fund key indicators achievement rate (as of June 2018)			
Indicator	Target	Actual	Achievement rate
HIV			
Percentage of sex workers that have received an HIV test and know their results	26.6%	11.7%	44%
Percentage of other vulnerable populations that have received an HIV test and know their results	60.0%	14.9%	25%
Percentage of people living with HIV who are currently receiving antiretroviral therapy	80.0%	72.9%	91%
Malaria			
Number of long-lasting insecticidal nets distributed to at-risk populations through mass campaigns	486,853	608,853	120%
Proportion of targeted risk groups receiving long-lasting insecticidal-nets	62.9%	48.5%	77%
Number of long-lasting insecticidal nets distributed to targeted risk groups	75,000	67,679	90%
Proportion of suspected malaria cases that receive a parasitological test in the community	65.2%	61.7%	95%
Tuberculosis			
Number of bacteriologically confirmed, drug resistant TB cases (RR-TB and/or MDR-TB) notified	147	82	56%
Percentage of bacteriologically confirmed TB cases successfully treated	81%	71.6%	88%
Percentage of HIV-positive patients who were screened for TB in HIV care or treatment settings	85%	91.4%	108%

	Exceeding expectations (>100%)
	Meet expectations (90%-100%)
	Adequate (60% - 89%)
	Inadequate but potential demonstrated (30% - 59%)
	Unacceptable (< 30%)

2.6. Risk appetite

Risk appetite has been developed at the organizational level using data from a cohort of 25 countries,²⁰ representing the majority of the global burden for the three diseases: 85% for HIV/AIDS; 80% for TB; 76% for malaria. The Global Fund's Risk Appetite Framework, operationalized in 2018, sets recommended risk appetite levels for eight key risks affecting Global Fund grants. Country Teams determine each risk at grant level using the Integrated Risk Management module. The ratings are reviewed by the second line functions and senior management from the Grant Management Division. Grant risk ratings are weighted using the country allocation amount to arrive at an aggregate risk level for the country portfolio. The aggregated risk levels, along with the mitigation plan and expected trajectory of risk levels, are then approved by the Portfolio Performance Committee (PPC)²¹. Aggregated risk levels for Papua New Guinea have been reviewed, but Papua New Guinea has not been through a Country Portfolio Review.

The OIG compared the Secretariat's aggregated assessed risk levels of the key risk categories covered in the audit objectives for the Papua New Guinea portfolio with the residual risk that exists based on OIG's assessment, mapping risks to specific audit findings. Please refer to the table below.

Audit areas	Risk category	Secretariat aggregated risk levels	Assessed residual risk (OIG audit)	Relevant audit issues
Grant implementation arrangements	Program Quality	High	High	Finding 4.1
	National Program Governance and Grant Oversight (excluding program management)	Low	Medium	Finding 4.2 & 4.3
Financial management processes and controls	Grant related fraud and Fiduciary risk	Low	Medium	Finding 4.2

OIG and the Secretariat's ratings were different on two of the above risks. While there were some differences at the sub-risk level, the differences noted above at the overall risk levels were driven by aggregation methodology.

The Secretariat has recently made some adjustments to its methodology. As a result, in the case of PNG, all the three risk ratings became aligned (as "Medium") once the adjusted methodology was applied. For reporting consistency purposes, the table above reflects the Secretariat's risk ratings at the time of the audit and prior to the methodology changes.

²⁰ Bangladesh, Burkina Faso, Cameroon, Congo (DRC), Côte d'Ivoire, Ethiopia, Ghana, India, Indonesia, Kenya, Malawi, Mali, Mozambique, Myanmar, Nigeria, Pakistan, Rwanda, South Africa, Sudan, Tanzania, Uganda, Ukraine, Viet Nam, Zambia, Zimbabwe

²¹ The role of the Portfolio Performance Committee is to conduct country portfolio reviews and enterprise reviews.

3. The Audit at a Glance

3.1. Objectives

The overall objective of the audit is to provide reasonable assurance on the adequacy, effectiveness and efficiency of Global Fund Grants to the Republic of Papua New Guinea. Specifically, the OIG assessed whether:

- the grant implementation arrangements are adequate, efficient and effective
- the internal controls and assurance mechanisms within the financial management processes are efficient and effective

3.2. Scope

The audit was performed in accordance with the methodology described in Annex B, covering the period January 2017 - December 2018.

The audit covered the grants implemented by four Principal Recipients. The two current Principal Recipients (Rotarians Against Malaria and World Vision International) were assessed against both objectives; the two discontinued Principal Recipients (Oil Search Foundation and Population Services International) were assessed against the second objective only, in order to provide assurance on the use of funds managed under those grants during the audit coverage period.

Based on risk, materiality and travel security advice, the OIG team selected samples exclusively from within and around the capital city of Port Moresby.

3.3. Progress on Previously Identified Issues

The 2012 OIG audit of Global Fund grants to Papua New Guinea highlighted internal control weaknesses within the NDOH. These included non-compliance with the grant agreement, lack of supporting documents, unreconciled differences and weak monitoring, which led to US\$2.7 million worth of unsupported and ineligible expenditures being recovered. Following the audit, NDOH was replaced by four non-government Principal Recipients (three INGOs and one private sector foundation) for the 2014-16 grant cycle.

OIG has led a number of past investigations into the Papua New Guinea portfolio:

- In 2013, the OIG conducted an investigation into one of the PRs (Rotarians Against Malaria) focusing on the procurement and supply of LLINs as well as the contracting of a human resources service provider. The investigation concluded that improper bidding and recruitment of the HR supplier resulted in additional costs of US\$360,000 to the grant, which were subsequently recovered.
- In 2014, an OIG investigation found procurement irregularities at the NDOH worth US\$1.3 million. The amount was subsequently recovered, with a recommendation to conduct all future procurements supported by the Global Fund through the Pooled Procurement Mechanism.
- In 2018, an OIG investigation found fraudulent and non-compliant expenditures in the malaria grant managed by Population Services International (PSI). As a result, US\$176,000 was found to be ineligible and recovered. The report identified that weak local financial controls of PSI contributed to the fraud, which were subsequently strengthened. PSI is no longer a Global Fund Recipient in Papua New Guinea.

Previous relevant OIG audit work:

[2012 Audit of Global Fund grants to PNG](#)

[2013 OIG investigation of GF grant to PNG](#)

[2014 OIG investigation of GF grants to PNG](#)

[2018 OIG investigation of GF grant to PNG](#)

4. Findings

4.1. Challenges associated with increased malaria prevalence, reduced HIV testing, and unclear TB burden

Negative trends in malaria incidence: The national programs, through the support of Global Fund grants, successfully reduced malaria prevalence in PNG to under 1% in the population by 2014². However, a 2018 Malaria Indicator Survey indicated that malaria prevalence had rebounded to 7.1%.

The Principal Recipients, national program and in-country partners highlighted a number of possible root causes: frequent stock-outs of artemisinin-based combination therapies (ACTs) coupled with the discontinuation of chloroquine, an alternative medicine to treat malaria; changes in epidemiology and mosquito biting patterns; deterioration in the quality of bed-nets; and mosquito resistance to insecticides. Efforts have been made to address some of these issues, for example by bridging procurement and supply delays of ACTs and RDTs through grant procurements, and by investigating the quality and effectiveness of bed nets. However, the root causes need to be confirmed, to inform a targeted programmatic response.

Limited HIV testing and delays in government commitments: Current grant program implementation arrangements depend heavily on investments from other parties. Delays and non-fulfilment of government commitments have impacted program effectiveness and results: since November 2018, there has been a nationwide stock-out of HIV test kits, which are funded by the government, leading to a considerable reduction in the testing of suspected patients from key populations. This reduction in patient testing was confirmed in OIG sample-based verifications. However, health facilities partially mitigate the stock-out's impact on testing by procuring kits from the open market where possible.

An important grant objective is to support Procurement and Supply Chain management within the NDOH, including tackling commodities procurement delays. A consultant has been recruited to assist the government in improving procurement and supply chain management and in reducing stock outs. However, no improvement plan has yet been rolled out.

Need to assess the accuracy of TB burden estimates: PNG has the highest TB incidence in the Western Pacific region and one of the 10 highest globally.³ In the absence of a national TB survey, current TB burden estimates rely on an indirect assessment by the World Health Organization, based on existing TB surveillance data. However, the accuracy of such estimates depends on the quality of routine surveillance information. The national program, the Global Fund and partners need to assess the reliability of estimates and explore solutions. The Secretariat is currently discussing this issue with counterparts at the World Health Organization to assess options.

Challenges with TB/HIV collaboration: A TB/HIV technical working group was established to improve TB/HIV collaboration and joint planning by TB and HIV programs for the distribution of GeneXpert machines. However, the working group has made limited progress; for example, health facilities with GeneXpert machines do not use them for HIV tests, as health workers have not been not trained on HIV testing, with no budget allocated for their training.

Agreed Management Action 1:

The Secretariat will work with the Principal Recipients, in collaboration with the National Department of Health, partners and technical agencies, to ensure that the following activities to enhance program impact across the three disease programs are performed:

- Conduct a technical evaluation on the resurgence in malaria trends, and develop a costed, time-bound action plan to address the prioritized findings of the evaluation;

- Develop a procurement plan and engage technical assistance to monitor adequate availability of HIV, TB and malaria drugs and test kits;
- Ensure that health workers that will use GeneXpert machines, are trained on TB and HIV testing using GeneXperts.

Owner: Head, Grant Management Division

Due date: 31 December 2020

4.2. Stronger financial management is required to improve implementation efficiencies and strengthen controls

The audit noted some good financial management practices instituted by the Principal Recipients, including:

- Principal Recipients achieved various grant operational efficiencies. For example, RAM was able to obtain highly competitive prices for LLINs.²²
- World Vision, the PR for TB, has mapped its accounting categories to the Global Fund grant budget categories, facilitating direct extraction of Global Fund reports from their accounting system;
- PSI maintained a well-supported and comprehensive fixed asset record and performed a thorough handover of grant assets to RAM for the 2018-20 grant cycle.

However, the audit also identified the following issues:

- **Cost of HR management services:** Since 2011, RAM has been using an outsourced human resources function, the cost of which represents 18% of the gross HR budget (annual cost paid to the HR management company²³ of US\$221k in 2017 and US\$377k in 2018). Financial efficiencies could be achieved by reviewing the current outsourcing model. Further, despite the significant costs incurred, several weaknesses were noted in the HR management services provided. For example, the HR service provider is expected to manage staff performance appraisals, but there is no evidence of the appraisals being completed.
- **Review of grant salaries:** The auditors identified limited processes by the Principal Recipients and the Global Fund Secretariat for determining staff salaries of the NGOs implementing the grants. For RAM and Oil Search Foundation, some staff salaries funded by the Global Fund were significantly higher than UN pay scales in PNG and other comparable organizations. The Secretariat and the PRs need to identify firm bases to support these salary levels in the next grant cycle.
- **Manual adjustments to payroll records without formal approval:** As per RAM policy, salary payments are based on hours worked, to be verified using biometrics or supervisor approval. In 14% of the sample tested by OIG, salaries paid based on hours worked were manually adjusted without evidence of supervisor approval.
- **Unrecorded and missing assets procured by, or transferred to, World Vision:**
 - During the audit, assets with a total purchase value of US\$331k, and which still had remaining useful life, could not be found at the locations recorded in the assets register. These mainly included motor vehicles and IT equipment.
 - US\$120k worth of assets purchased in 2014/2015 were not transferred to World Vision by the previous Principal Recipient, Oil Search Foundation, and therefore not included on the list of assets.
 - US\$35k worth of assets procured in 2018 were not included in the fixed asset register.

Following the completion of the audit fieldwork, World Vision informed OIG that it had been able to reconcile these differences and to locate the missing assets. A subsequent LFA asset verification was able to confirm the availability of the majority of these assets.

- **Unsupported and irregular LLIN distribution expenditures:** US\$89k was incurred for hired cars for LLIN distribution during periods when distribution activities had already ceased. US\$58k

²² RAM was able to obtain prices of US\$1.27 for small LLINs and US\$1.7 for the large LLINs in Nov 2017. These prices were highly competitive when compared with the prices in the Global Fund's PQR database for the same period (although the prices cannot be directly compared due to multiple variables in each procurement, including order size, product specification, quality specification, logistics etc.).

²³ This includes positions placed in RAM, PNG Institute of Medical Research and National Directorate of Health.

expenditures were noted where purchase orders were created after distribution and after invoices had been issued by car hire companies. These will be reviewed further by LFA to determine any eventual recoveries.

- **Lack of compliance on procurement activities:** Compliance gaps were noted in the OIG's sample-based review, such as the absence of bid evaluations or adequate justification for selecting a supplier, or single sourcing for US\$112k worth of procurements out of a sample of US\$771k for World Vision.

The weaknesses highlighted above were not identified for timely rectification by the LFA or external auditors, indicating a need for improved financial assurance of the portfolio.

Achieving good value for money is an important consideration in the context of the PNG grants, as available resources decrease. In 2014-16, approximately 33% of the grant funds were allocated towards human resources costs and administrative expenditures. For the 2018-20 grant cycle, with a significant reduction in allocations, the Country Team and Principal Recipients reduced administrative costs by consolidating the grants to two Principal Recipients. However, human resource and administrative costs still comprise 34% of the current grant allocation. Further efficiencies and savings could contribute to funding certain key activities.⁵ For example, key activities within integrated community case management have been discontinued in the current grant, being replaced with facility-based care. The Technical Review Panel expressed concern regarding this change, since only 40% of patients seek treatment at health facilities in PNG. The TRP recommended US\$600k as above-allocation funding for these activities, and requested that the PR seek to find further savings or alternative funding sources.²⁴ Efforts to find funding for these community case management activities are currently ongoing.

Agreed Management Action 2:

The Secretariat will ensure that World Vision International improves its asset management by:

- Revising the registers for assets procured through the current and previous grants, reconciling the register with grant expenditures;
- Enhancing its internal controls concerning asset management and competitive tendering.

Owner: Head, Grant Management Division

Due date: 30 June 2020

Agreed Management Action 3:

The Secretariat will ensure that Rotarians Against Malaria enhance its financial controls and efficiencies, related to the Global Fund investments by:

- Developing a manual for enhancing the internal controls around adherence to the approved budgets, ensuring competitive tendering and consistent salary offers, and ensuring expenditures paid relate to grant activities only;
- Evaluating the costs and benefits of outsourcing of Human Resource management function compared to other alternatives, including cost, quality of service and any other considerations on transitional staffing arrangements in case of changing the service provider.

Owner: Head, Grant Management Division

Due date: 31 December 2020

²⁴ Final TRP Form 2018-2020 for Papua New Guinea malaria grant

4.3. Capacity building is needed to ensure the sustainability of Global Fund investments

Following significant financial control issues identified in 2012, the National Department of Health in Papua New Guinea ceased to be the Principal Recipient for TB, HIV and malaria grants. The Country Coordinating Mechanism selected four Non-Government Organizations as Principal Recipients in the 2014-16 grant cycle. However, since then, a plan has not been developed to build the capacity of the national programs to ensure sustainability.

In the absence of adequate capacity building, implementation of the grants remains heavily dependent on the non-government PRs. For instance, the national programs are dependent on RAM for key activities such as malaria vector control, inventory management, and program supervision. There have been only limited improvements in government financial procedures and controls since the last OIG audit.

Agreed Management Action 4:

The Secretariat will ensure that the Principal Recipients and the National Department of Health jointly develop, agree and implement a capacity building plan for the relevant national institutions including:

- Assessing the current capacities of the national programs, against agreed capacity criteria;
- Developing a capacity building plan for addressing the gaps, including activities, costs, timelines and indicators and targets for monitoring progress.

Owner: Head, Grant Management Division

Due date: 30 June 2020

5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
<p>1. The Secretariat will work with the Principal Recipients, in collaboration with the National Department of Health, partners and technical agencies, to ensure that the following activities to enhance program impact across the three disease programs are performed:</p> <ul style="list-style-type: none"> • Conduct a technical evaluation on the resurgence in malaria trends, and develop a costed, time-bound action plan to address the prioritized findings of the evaluation; • Develop a procurement plan and engage technical assistance to monitor adequate availability of HIV, TB and malaria drugs and test kits; • Ensure that health workers that will use GeneXpert machines, are trained on TB and HIV testing using GeneXperts. 	31 December 2020	Head, Grant Management Division
<p>2. The Secretariat will ensure that World Vision International improves its asset management by:</p> <ul style="list-style-type: none"> • Revising the registers for assets procured through the current and previous grants, reconciling the register with grant expenditures; • Enhancing its internal controls concerning asset management and competitive tendering. 	30 June 2020	Head, Grant Management Division
<p>3. The Secretariat will ensure that Rotarians Against Malaria enhance its financial controls and efficiencies, related to the Global Fund investments by:</p> <ul style="list-style-type: none"> • Developing a manual for enhancing the internal controls around adherence to the approved budgets, ensuring competitive tendering and consistent salary offers, and ensuring expenditures paid relate to grant activities only; • Evaluating the costs and benefits of outsourcing of Human Resource management function compared to other alternatives, including cost, quality of service and any other considerations on transitional staffing arrangements in case of changing the service provider. 	31 December 2020	Head, Grant Management Division
<p>4. The Secretariat will ensure that the Principal Recipients and the National Department of Health jointly develop, agree and implement a capacity building plan for the relevant national institutions including:</p> <ul style="list-style-type: none"> • Assessing the current capacities of the national programs, against agreed capacity criteria; • developing a capacity building plan for addressing the gaps, including activities, costs, timelines and indicators and targets for monitoring progress. 	30 June 2020	Head, Grant Management Division

Annex A: General Audit Rating Classification

Effective	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.
Partially Effective	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.
Needs significant improvement	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.
Ineffective	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.

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: Risk Appetite and Risk Ratings: Content, Methodology and Implications

Risk appetite has been developed at the organizational level using data from a cohort of 25 countries²⁵ representing the majority of the global burden for the three diseases: 85% for HIV/AIDS; 80% for TB; 76% for malaria. The Global Fund's Risk Appetite Framework, operationalized in 2018, sets recommended risk appetite levels for eight key risks affecting Global Fund grants.

As accurate risk ratings and their drivers are critical to effective risk management and operationalization of risk appetite, a robust methodology was developed with clear definitions, granular risks, root causes as well as an extensive review process as detailed below.

The eight grant-facing risks for which risk appetite has been set represent an aggregation from 20 risks as depicted in the table on the following page. Each of these 20 risks is rated for each grant in a country using a standardized set of root causes and considers a combination of likelihood and severity scores to rate risk - Very High, High, Moderate or Low. Country Teams determine each risk at grant level using the Integrated Risk Management module. The ratings are reviewed by second line functions and senior management from the Grant Management Division.

The ratings at the 20-risk level are aggregated to arrive at the eight risks using simple averages, i.e. each of the component parts are assumed to have similar importance. For example, the risk ratings of *Inadequate program design (1.1)* and *Inadequate program quality and efficiency (1.3)* are averaged to arrive at the rating of Program Quality for a grant. As countries have multiple grants, which are rated independently, individual grant risk ratings are weighted by the grant signed amounts to yield an aggregate Current Risk Level for a country portfolio. As the ratings of grants often vary significantly and to ensure that focus is not lost on high-risk grants, a cut-off methodology on high risks is applied (the riskiest 50% of grants are selected) to arrive at a country risk rating. The aggregated risk levels, along with the mitigation plan and expected trajectory of risk levels, are then approved by the Portfolio Performance Committee²⁶ during the Country Portfolio Review.

Leveraging Risk Appetite in OIG's work

As the Risk Appetite framework is operationalized and matures, OIG is increasingly incorporating risk appetite considerations in its assurance model. Important considerations in this regard:

- The key audit objectives that are in the scope of OIG audits are generally calibrated at broad grant or program levels (for example, effectiveness of supply chain processes, adequacy of grant financial management, quality of services, reliability of data, overall governance of grant programs, etc.) as opposed to narrower individual risk levels. Thus, there is not a one-to-one match between the overall audit rating of these broad objectives and the individual rating of narrower individual risks. However, in the absence of a one-to-one match, OIG's rating of an overall audit objective does take into consideration the extent to which various individual risks relevant to that objective are being effectively assessed and mitigated.
- The comparison of OIG's assessed residual risks against the Secretariat's assessed risk levels is done at an aggregated level for the relevant grant-facing risks (out of the eight defined ones) that were within the scope of the audit. This comparison is not done at the more granular level of the 20 sub-risks, although a narrative explanation is provided every time the OIG and the Secretariat's ratings differ on any of those sub-risks. This aggregated approach is designed to focus the Board and AFC's attention on critical areas where actual risk levels may differ from perceived or assessed levels, and thus may warrant further discussion or additional mitigation.

²⁵ Bangladesh, Burkina Faso, Cameroon, Congo (DRC), Côte d'Ivoire, Ethiopia, Ghana, India, Indonesia, Kenya, Malawi, Mali, Mozambique, Myanmar, Nigeria, Pakistan, Rwanda, South Africa, Sudan, Tanzania, Uganda, Ukraine, Viet Nam, Zambia, Zimbabwe.

²⁶ The role of the Portfolio Performance Committee is to conduct country portfolio reviews.

For risk categories where the organization has not set formal risk appetite or levels, OIG focuses on the Secretariat's overall processes for assessing and managing those risks, and opines on their design and effectiveness.

Table of risks

Corporate Risks (8)	Operational Risks (20)
Program Quality	1.1 Inadequate program design and relevance
	1.3 Inadequate program quality and efficiency
M&E	1.2 Inadequate design and governance of M&E Systems
	1.4 Limited data availability and inadequate data quality
	1.5 Limited use of data
Procurement	3.3 Inefficient procurement processes and outcomes
In-Country Supply Chain	3.2 Unreliable forecasting, quantification and supply planning
	3.4 Inadequate warehouse and distribution systems
	3.6 Inadequate information (LMIS) management systems
Grant-Related Fraud & Fiduciary	2.1 Inadequate flow of funds arrangements
	2.2 Inadequate internal controls
	2.3 Fraud, corruption and theft
	2.5 Limited value for money
Accounting and Financial Reporting by Countries	2.4 Inadequate accounting and financial reporting
	2.6 Inadequate auditing arrangements
National Program Governance and Grant Oversight	4.1 Inadequate national program governance
	4.2 Ineffective program management
	4.3 Inadequate program coordination and SR oversight
Quality of Health Products	3.1 Inappropriate selection of health products and equipment
	3.5 Limited quality monitoring and inadequate product use