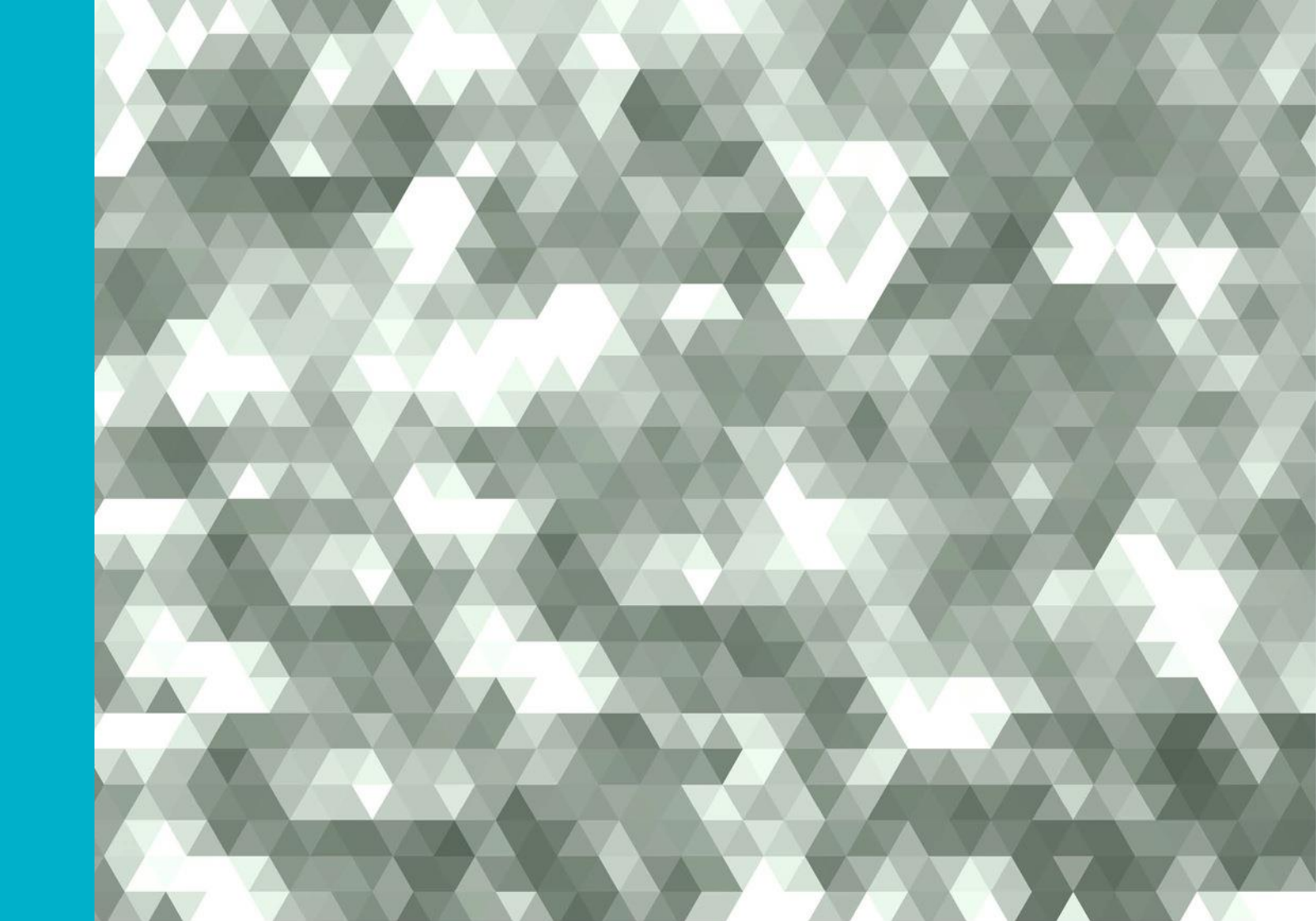




Board Report

Office of the Inspector General Progress Report *Year to Date (January to September 2016)*

GF/B36/11
For Board information
16-17 November 2016
Geneva, Switzerland

The purpose of this report is to provide the Audit and Finance Committee (AFC) and the Board with assurance over the design and effectiveness of controls or processes to manage the key risks affecting the Global Fund's programs. The report follows up on the strategic issues identified in the last Annual Opinion and introduces emerging themes based on work year to date. It also includes an operational update on the Office of the Inspector General's activities from January to September as well as the main highlights of next year's work plan pending approval by the AFC. This paper also contains the 2017 budget recommended by the AFC for Board approval.

What is the Office of the Inspector General?

The Office of the Inspector General (OIG) works to ensure that the Global Fund invests the world's money in the most effective way possible to accelerate the end of AIDS, tuberculosis and malaria. Through audits, investigations, oversight and consultancy work, the OIG promotes good practice, reduces risk and reports 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.

Mission

To safeguard the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to accelerate the end of the three diseases.

Vision

The OIG will be a leading role model which inspires the international aid community.

Contact us

The Global Fund believes that every dollar counts and has zero tolerance for fraud, corruption and waste that prevent resources from reaching the people who need them. If you suspect irregularities or wrongdoing in the programs financed by the Global Fund, you should report to the OIG using the contact details below. The following are some examples of wrongdoing that you should report: stealing money or medicine, using Global Fund money or other assets for personal use, fabricated invoicing, staging of fake training events, counterfeiting drugs, irregularities in tender processes, bribery and kickbacks, abusing power or authority for personal gain, conflicts of interest, human rights violations by Global Fund grant recipients...

www.ispeakoutnow.org

Available in English, French, Russian and Spanish.

Letter:

Office of the Inspector General
Global Fund

Chemin de Blandonnet 8, CH-1214
Geneva, Switzerland

Email:

ispeakoutnow@theglobalfund.org

Free Telephone Reporting Service:

+1 704 541 6918

Service available in English, French, Spanish, Russian, Chinese and Arabic

Telephone Message - 24-hour secure voicemail:

+41 22 341 5258

Fax - Dedicated secure fax line:

+41 22 341 525

I. Executive summary

This new style report assesses progress on the strategic themes that affect the Global Fund's mission to end the epidemics of AIDS, tuberculosis and malaria. It is also designed to provide the AFC and the Board with an operational update on the OIG's activities for the first nine months of the year. Lastly, the report contains a high-level view of the OIG work plan for 2017, pending approval by the AFC, as well as the accompanying budget recommended by the AFC for Board approval.

Concerning strategic themes, Part II covers progress on three of the themes from the OIG's Annual Report for 2015. Based on 2016 work to date, the OIG found that better coordination

Progress visible with partnerships but too early to see for supply chain and risk management

between partners is improving impact in some countries (e.g., the Democratic Republic of Congo and Zimbabwe). However, despite many new tools and initiatives at the Secretariat, progress on the highly complex areas of supply chain and risk management will take longer to see. New themes have also emerged from 2016 work that are covered briefly in this report

(Part III) before a fuller consideration in the OIG's 2016 Annual Report next spring.

Part IV covers the OIG's operational progress. So far this year, the OIG is on track to deliver its work plan within budget as demonstrated by progress on its Key Performance Indicators (Part VI). This year to date:

- 24 audit and investigation reports were published (summarized in Part VIII);
- fieldwork for an additional three audits from the 2016 work plan has been done;
- 36 investigations have been closed;
- 128 allegations of wrongdoing have been received;
- 29 new investigations have been opened;
- 73 new Agreed Management Actions have been created and 91 were closed.¹

In Part V, the OIG 2017 work plan proposes a range of assurance responses to ensure that the engagement is commensurate with the urgency, materiality and the level of risk. These responses can take the form of a country audit or a follow up engagement, counter-fraud activity, an advisory piece of work or a proactive investigation. As a result, the OIG will be on the ground in the countries with the highest risk and the most disbursements on a more regular basis, based on our ongoing monitoring of risk. For example, the OIG will go back to Nigeria in 2017 for follow-up work after its audit and investigation in 2015.

Increased and more regular focus on the riskiest countries

This plan draws on the fundamental complementarity of audit and investigation work. OIG audits look at systems and processes, both at the Global Fund and in country, to identify the risks that could compromise strategic objectives. OIG investigations generally track allegations of actual wrongdoing or misconduct by individuals or entities that compromise the Global Fund's mission. The root causes of the wrongdoing or misconduct will often be linked to specific weaknesses in the systems and processes that auditors examine more holistically.

The next Progress Report, issued in time for the spring AFC and Board meetings, will provide a full OIG opinion on the Global Fund's governance, risk management and internal controls.

¹ Agreed Management Actions figures from 10 October 2016

II. Progress on previously identified strategic themes

In its 2015 [Annual Opinion](#) on Governance, Risk Management and Internal Controls of the Global Fund (GF/B35/11), the OIG identified a number of strategic themes that can affect the Global Fund's ability to achieve its mission. This report assesses progress on some of these themes, notably: "Optimising partnerships", "Tackling procurement and supply chain challenges" and the "Risk management and assurance framework". Progress in other areas, "Balancing country ownership and accountability" and "Strengthening health systems in a cost effective way" mentioned in the Annual Opinion, is more difficult to evaluate at this time as the corresponding corrective actions are still being implemented.

Evidential reference points, based on the corpus of OIG work this year, are provided in the right-hand colored boxes. Where a report has been published on the OIG website, the link is provided. Case reference numbers are also given for investigations currently underway or those that have been closed by a Case Closure Memorandum issued to the relevant Secretariat staff for action.

01 Optimizing partnerships

2015 OIG work in Pakistan, Tanzania, Nigeria, Sudan and Kenya identified a lack of cooperation between government implementers and partners with parallel and vertical systems in place resulting in inefficiencies in supply chains and program management. However, 2016 work has shown progress with better collaboration between interdependent country actors.

For example, in the **Democratic Republic of Congo** (DRC), although implementing health programs is a serious challenge due to severely degraded infrastructure, fragile institutions and political instability, the Global Fund and its partners have achieved impact over the last three years. Through better alignment between in country actors, interventions have been scaled-up, supply chain systems redesigned, programmatic reporting has improved, data is of a better quality, thus mitigating the portfolio financial risks.

Good collaboration in DRC and Zimbabwe leads to better impact.

Relevant OIG Work

[*16-022 Audit Report of Global Fund Grant in the Democratic Republic of Congo*](#)

[*16-019 Audit Report of Global Fund Grants in Zimbabwe*](#)

Similarly, in **Zimbabwe**, despite substantial economic problems, the country has successfully increased interventions across the three diseases with support from the Global Fund and other development partners. For example, there was a 30% increase in the number of people on antiretrovirals in 2014 and 2015, there is now almost universal diagnosis of malaria cases before treatment and tuberculosis treatment success went up from 79% in 2014 to 83% in 2015.

The Secretariat has continued to strengthen its partnership efforts through its initiative **Implementation Through Partnership**, designed to help increase technical cooperation between 20 critical countries through results-oriented support. Although the benefits of the initiative are yet to be fully realized, progress is being made to successfully leverage in-country partners through monthly tracking of agreed corrective actions.

02 Tackling procurement and supply chain challenges in a holistic manner

No progress report on the Global Fund is complete without an evaluation of the current state of procurement and supply chain matters, considering health commodities weigh approximately 40% of investments at country level. Solid progress in Geneva is being made this year, including a supply chain study that explored different options for the future, realignment of the work of Health Product and Medicine Specialists, the launch of a new supply chain strategy project and the appointment of a Head of Supply Chain in view of setting up a new department.

Relevant OIG Work

[16-022 Audit Report of Global Fund Grants in DRC](#)

[16-020 Audit Report of Global Fund Grants in Cameroon](#)

[16-024 Audit Report of Global Fund Grants in Malawi](#)

However, audits in 2016 to date continue to find a number of significant weaknesses in supply chain, distribution and drug management, particularly at the local facility levels. In **DRC**, grant objectives run the risk of being seriously compromised because of supply chain issues. The OIG was able to provide assurance on drug accountability up to the health zone level with 97% of drugs in our sample traced from regional warehouses to health zones. However, 31% of drugs sampled could not be traced from health zones to local health facility level. Moreover, in the absence of effective supervision over the consumption of drugs and last mile delivery, stock-outs were pervasive along the supply chain with no mechanisms in place to mitigate drug expiries.

No assurance that drugs reach the local health facilities in DRC.

Given that Global Fund grants in **Cameroon** are highly concentrated on procurement and the supply chain, the OIG 2016 audit focused on the controls and assurance mechanisms over these areas. Whilst procurement was deemed partially effective, controls around the supply chain are ineffective. Storage capacity and conditions for pharmaceutical products were insufficient, inventory controls were weak, consumption patterns were not monitored and the oversight mechanisms in place were ineffective as they identified, but did not tackle, quality issues and drug bottlenecks.

Effective procurement and supply chain controls are also critical in **Malawi** where drug procurement represented more than 80% of expenditures in the period from 2009 to 2015. The Secretariat and Principal Recipients in Malawi have put in place mechanisms to safeguard commodities at the central level, including pooled procurement of health and non-health commodities, adequate storage space at the central level, and a multi-tier distribution system directly from the central level to end-user facilities. However, there are currently gaps in the supply chain system at the facility level which affect the country's ability to effectively store, account for and quality assure health commodities. Poor record-keeping, inadequate facility-level storage, and weak accountability lead to variances and unreliable stock controls, which have in turn, allowed malaria medicines financed by international donors to be openly procured in public markets as a result of drug thefts. The OIG is currently investigating these leakages with a report due before the end of the year. The OIG notes that Malawi has also been selected as one of the portfolios for the Secretariat's in-country supply chain transformation projects.

An audit of the effectiveness of in-country supply chain mechanisms in supporting grant implementation is currently underway. Its objectives are twofold: to better understand the root causes of supply chain challenges at the country level; and to assess whether in-country supply chain management processes are adequate and effective in ensuring that the necessary products are delivered in the right quantities, condition, place, time, and cost. Drawing on its findings, the OIG will conclude more holistically on supply chain matters in its Annual Report.

03 The risk management and assurance framework

The Global Fund has invested significantly in risk management tools since 2013 and there has been progress. For example, a recent operational policy note provides guidance to Country Teams on how to embed risk management across the grant lifecycle. It is designed to help teams better identify, mitigate and monitor risks that may negatively affect the achievement of grant objectives. Moreover, the Secretariat has announced that the Risk Department's engagement will be expanded incrementally covering both High Impact and Core countries as of January 2017. However, this work needs to be expedited and fully implemented.

Relevant OIG Work

[16-023 Audit Report of Global Fund Grants in India](#)

[16-024 Audit Report of Global Fund Grants in Malawi](#)

[16-022 Audit Report of Global Fund Grants in DRC](#)

OIG work in 2016 to date continues to find weaknesses in risk management and assurance at the implementer level. For example, in **India**, the Global Fund's second biggest portfolio in terms of allocation, although most risks have been identified, mitigating actions have not adequately addressed the issues. Nor have the risks been escalated for formal acceptance or resolution. Examples include slow and bureaucratic procurement processes, diverging quality assurance standards between drugs bought with grant funds and those with government funds, unknown prevalence information for TB, and quality of services issues. Although many of the issues were well-known, the lack of proactive risk mitigation could limit the impact of grant funds on this mission-critical portfolio.

In **Malawi**, the work of a Fiscal Agent has contributed significantly to safeguarding Global Fund resources through better financial management. In general, and often as a Secretariat response to critical fiduciary risk management issues highlighted by the OIG, the institution of a Fiscal Agent review process has resulted in noticeable improvements in the quality of financial management and fraud risk mitigation. However, as highlighted in the case of Malawi, the OIG's work also suggests a potential flaw in the current design of the Fiscal Agent process. Whilst the Fiscal Agent's heavy focus on pre-transaction approvals or ex-post verifications of evidence significantly improves the financial control environment in the short-term, there is much less focus on building the implementers' long-term financial management and fiduciary risk management capabilities to ensure sustainability. This was also noted in **DRC** where the Fiscal Agent performs a predominantly control function despite having been engaged to help build up skills and resources at the Ministry of Health. In fact, there is limited evidence of countries successfully transitioning out of a Fiscal Agent oversight model following a period of effective development of internal capacity. This dichotomy raises significant questions around the incentives structure for Fiscal Agents, their performance framework, and more fundamentally whether they are suitable to discharge a dual mandate of both financial control and capacity building. There is risk of an inherent conflict of interest such that these mandates might need to be assigned to separate entities with different incentives and performance targets.

As part of its 2016 work plan, the OIG is currently auditing risk management at the Global Fund and expects to issue the report this year. The audit includes a review of governance, oversight and accountability associated with risk management at all levels, including the Board, its committees and management. It also covers the comprehensiveness, cohesiveness and sustainability of the Secretariat's risk management framework and processes for risk identification, assessment, treatment, and oversight.

III. Emerging strategic themes

The following themes have emerged from audit and investigation work so far this year. These will be further developed and, where relevant, additional themes will be included in the OIG's Annual Report.

01 Gaps in or instances of non-compliance with policies and procedures

As the Global Fund aspires to significantly improve the maturity level of its internal controls and risk management processes,² a key pre-requisite will be the organization's ability to not only design and implement sound business policies, procedures and processes but also an ability to execute them in a consistent, repeatable and sustainable manner. Without such operational discipline, there is a significant risk that business processes may operate in an erratic manner and fail to achieve their intended objectives. Business outcomes may hinge on key person dependencies rather than robust and consistent institutional processes. Achieving such consistency requires, amongst other things, robust compliance mechanisms in relevant aspects of business operations. In its 2016 work, the OIG has identified gaps in, and various instances of non-compliance with, policies and procedures.

Relevant OIG Work

[16-016 Wambo.org: Limited Scope Review of Processes to Procure Services](#)

[16-017 Follow up Review of Grant Closure Policies](#)

[15-020b Audit of IT Processes and Controls](#)

For example, a review of processes followed to procure services and resources for the implementation of the **wambo.org** platform revealed significant levels of non-compliance. Although there was no evidence of deliberate wrongdoing, the auditors found non-competitive procurement, non-compliance with procurement rules, and informal management of perceived conflicts of interest. A recent investigation into an instance of supplier fraud also identified non-compliance with procurement guidelines by Global Fund staff. These weaknesses have called into question the extent to which, in the specific cases involved, the Global Fund had achieved core objectives of value-for-money, efficiency, transparency and accountability in the use of organizational resources.

65% of grants due for closure between 2013-2015 remain open.

The instances noted were not necessarily unique to sourcing; similar issues have been identified in previous OIG audits. For example, a follow-up review of **grant closure processes** found some progress in closing long-outstanding grants. However, a lack of routine monitoring and accountability for compliance with laid down procedures means that a significant number of grants that should be closed remain open. For example, 65% of grants due for closure between 2013-2015 had still not been closed at the time of the audit. Delays in grant closure may have had an adverse impact on the management of grant assets and have reduced the Global Fund's ability to use them more productively. Delays can also make grant assets more vulnerable to misuse, misappropriation or embezzlement.

Following audits of **Information Technology** (IT) processes and controls in 2014 and follow-up work in 2015, challenges remain in IT security, particularly with regard to

² See OIG's 2016 "Annual Opinion on Governance, Risk Management and Internal Controls" for the Secretariat's vision to attain an overall maturity level of "actively managed and formalized" within a period of three years, and an "embedded" level sooner within that time horizon. Refer to the Annual Opinion for details on the scale used to assess the maturity levels of Global Fund processes.

compliance. A recent review of the OIG's own IT security revealed that, while the OIG servers and network infrastructure followed best practices and were secure, the laptops managed by the Secretariat's IT department have flaws which could be used to compromise Global Fund data held by the Secretariat and the OIG. In particular, the OIG found that security patches issued by Microsoft for Windows had not been installed since November 2015 and a single local administrator account password is used for all laptops in the organization which has never been changed. Following the OIG IT audits, the Global Fund has taken meaningful steps to enhance its IT policies, procedures and security. However, actual sustainable improvements in the quality of the organization's IT environment, and a commensurate reduction in the risks previously identified, will likely not be achieved unless robust compliance mechanisms are also in place to ensure adhere to sound IT business practices.

Fraudulent behavior that compromises Global Fund assets and program objectives can be facilitated by non-compliance with grant agreements or an absence of policies and procedures. For example, in **Angola**, the lack of a procedure to declare conflicts of interest was one of the factors that contributed to the unnoticed embezzlement of grant funds by two senior implementing officials through firms that they owned. One of these officials also engaged their own firm as the external auditor for a grant. The two grant implementers stole more than US\$4 million between them, which is currently being recovered by the Global Fund.

Relevant OIG Work

[*16-006 Investigation Report of Global Fund Grant in Angola*](#)

[*452-2016 Pakistan Case Closure Memorandum*](#)

In another example, this time of non-compliance, senior management of a sub-recipient in **Pakistan** breached the Code of Conduct for Recipients and the Global Fund Whistle-blowing Policy and Procedures when they retaliated against a whistle-blower by ending their employment contract. The Principal Recipient, supposed to oversee sub-recipient compliance, was aware of the matter. However, it failed to comply with grant contractual requirements when it did not take any action or report the retaliation to the Global Fund. A new grievance procedure is being put in place at the sub-recipient among other remedial actions to protect whistle-blowers.

02 Decline in Secretariat Reporting to the OIG

Currently the majority of reports of wrongdoing come from the implementer level and not the Secretariat. The Global Fund code of conduct requires staff to report irregularities to the OIG.

Fewer and less qualitative Secretariat referrals to the OIG year to date

This year **routine business reporting** from the Secretariat to the OIG of actual or potential wrongdoing in programs has decreased by 41% year to date compared with last year. In the first eight months of 2015, the OIG received 34 referrals from the Grant Management Division compared to 20 such cases in 2016. This is despite the promotion of the OIG's reporting mechanisms to the

Secretariat during the 'I Speak Out Now!' campaign (cf. page 11 for more information). The proportion of referrals from the Secretariat that have been converted into cases for investigation by the OIG has also gone down in 2016. Thirty-five percent (seven cases) of Secretariat referrals in 2016 year to date have become investigation cases compared with 44% (13 cases) for the same period in 2015. A high conversion rate of Secretariat referrals into OIG investigations is a good indicator of the quality of Secretariat referrals originating from operational risk management activities. However, within the twenty cases received from the Secretariat, there was a three-fold increase in the number of reports originating from Local Fund Agent referrals between January and August 2016, compared to the same period in 2015 (nine reports this year compared to three reports in 2015).

03 Poor service delivery trends

Audits completed so far in 2016 recognize significant progress has been made by the Global Fund in achieving meaningful program impact in countries such as India, Malawi and even in a highly challenging operating environment such as DRC. However, notwithstanding this achievement of real program impact, the audit work has also noted a trend of poor service delivery quality.

For example, in **DRC**, limited mechanisms to prioritize key activities and inadequate oversight at all service levels affect the impact of the programs. In **Zimbabwe** commendable treatment scale-up has not been accompanied by similar achievements in the quality of service delivery. Despite funding a substantial increase in the number of people on antiretroviral therapy and almost universal diagnosis of malaria cases before treatment, challenges remain. Tests to confirm HIV positive status are not carried out, there are delays in testing infants who have potentially been exposed to HIV, patients are lost to follow up and there is a lack of an effective response to malaria outbreaks.

In **Malawi**, while significant progress has been made in the fight against the three diseases, important components of activities funded by both the Global Fund and the United States President's Emergency Plan for AIDS Relief (PEPFAR) have not been implemented, affecting the availability and quality of key services to beneficiaries: these include not regularly testing and monitoring people on antiretroviral treatment, not meeting case notification targets and significant delays in the mass distribution of insecticide-treated nets.

In **India**, the OIG observed significant delays in the diagnosis and referral for treatment of new HIV patients including a large percentage of patients sampled that were detected and put on treatment late, indicating general ineffectiveness of detection, advocacy and awareness mechanisms.

Relevant OIG Work

[16-022 Audit Report of Global Fund Grant in the Democratic Republic of Congo](#)

[16-019 Audit Report of Global Fund Grants in Zimbabwe](#)

[16-024 Audit Report of Global Fund Grants in Malawi](#)

[16-023 Audit Report of Global Fund Grants in India](#)

IV. OIG thematic operational highlights

01 Quality Assurance Improvement Program (QAIP)

Following a successful external assessment in 2015 confirming compliance of its audit and investigation practices with industry best practices, the OIG has been working on a number of operational improvements in 2016, with three main strategic focuses as announced at the beginning of the year:

- Better leveraging knowledge and skills between the audit and investigation functions.

Results of this project can be seen in the development of the “One OIG” work plan for 2017. Other milestones include the creation of systems and processes to build an intelligence database using five years of investigation, and improved processes linked to knowledge management regarding findings and underlying evidence. Furthermore, a core training curriculum has been developed for OIG staff to ensure they keep up to date with the latest practices in their respective fields.

- Upgrading operational discipline and better pipeline management.

Other milestones include revised and improved audit and investigation methodology, processes, and procedures, based on ongoing experience with engagements and focusing on addressing the needs of auditors and investigators. The processes to follow-up on Agreed Management Action implementation have also been revised, shortening the verification timeline and resulting in improved performance (cf. the OIG’s Agreed Management Actions Update Report GF/AFC02/11).

- Embedding quality assurance throughout the audit and investigation lifecycle

A key focus of the QAIP is to shift quality assurance from a periodic assessment approach to an ongoing process in which clear performance standards are defined and validated throughout the lifecycle of each audit and investigation. In addition to the development or enhancement of audit and investigation methodologies, the establishment of standard operating procedures and the ongoing strengthening of the OIG policy framework governing various areas of professional practice, quality assurance processes are also being embedded in the delivery process. This is to ensure consistent execution, to disseminate best practices and to inform staff training and development needs.

- Having greater impact by improving stakeholder engagement.

The Stakeholder Engagement Models were revised earlier this year to include more realistic timelines and build in earlier engagement with the Secretariat regarding discussion of corrective actions, and in the development of post-engagements surveys.

All these work streams are comprehensively managed under a QAIP, which aims at moving beyond compliance and into strengthening our operations. This approach is addressing the desired improvements and associated change management in a structured manner.

02 'I Speak Out Now!' From campaign to sustain

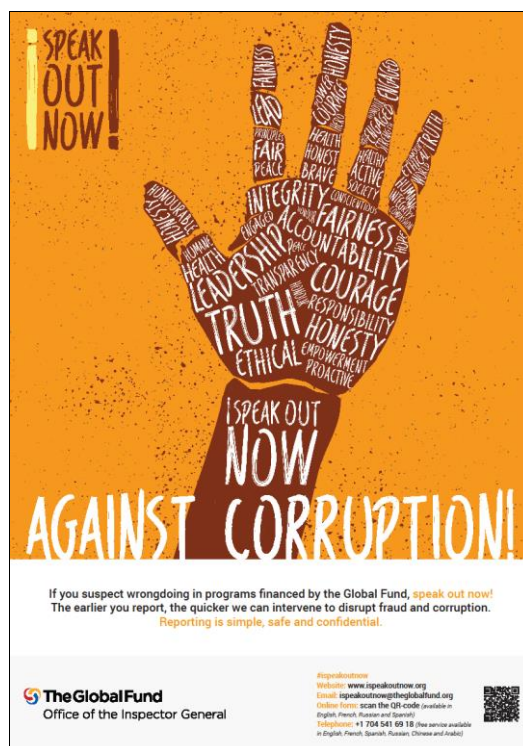
Phase 1 of the OIG's whistle-blowing campaign called 'I Speak Out Now!' was launched on 9 December 2015, on International Anti-Corruption Day. Specific launches followed in the pilot countries **Ukraine**, **Côte d'Ivoire** and **Malawi**, in collaboration with country partners. In country, the campaign focused on particular local messages using a mix of paid advertising, media and social media outreach, billboards and public service announcements on national radio to promote local hotlines set up in a spirit of country partnership. A number of communication actions also took place in Geneva. These include the launch of a multilingual multimedia e-learning platform www.ispeakoutnow.org to raise awareness of different types of potential wrongdoing as well as training sessions and extensive distribution of flyers at the Secretariat.

From a communication point of view, the OIG's campaign had a relatively successful pick-up with over 4000 people visiting the e-learning platform, good international coverage with 118 countries visiting the platform, over 450 people attending brownbags in Geneva and abroad and around 70 press clippings. Although, information that came in to the local hotlines was encouraging, leading to raids and arrests of drug thieves in Malawi, for example, the number of reports coming in to the OIG directly was disappointing, with notably a drop in Secretariat referrals as mentioned above.

Encouraging more direct reports from the Secretariat and implementers

To compensate for this, the OIG is currently adjusting the promotion strategy. Phase 2, called 'From campaign to sustain', will retarget efforts towards the Secretariat and implementers. The emphasis will be on training and education, aligning with initiatives from the newly-created ethics function at the Global Fund, building on the sustainable assets developed in Phase 1 to ensure that they are embedded in the day to day work of the Secretariat and grant recipients.

Figure 1. Poster from the 'I Speak Out Now!' campaign



V. Looking ahead: The OIG 2017 work plan

01 Purpose and methodology

Pending approval by the AFC, the OIG has designed a joint ‘one OIG’ work plan for 2017 rather than separate plans for audits and investigations as in previous years. The OIG’s overall objective is to provide assurance to the Board that the controls in place mitigate key risks. The plan for 2017 is risk-based and takes into account materiality. It comprises country or internal audits, reactive or proactive investigations, follow-up audits, advisory engagements or counter-fraud activities.

The OIG follows the money and monitors the risk

The joint plan leverages skills and knowledge; builds on previous OIG engagements; and maximizes the number and breadth of engagements while reducing overlaps. The work plan feeds into the OIG’s flagship Annual Report, which provides the Board with an opinion on the Global Fund’s governance, risk management and internal controls.

The plan draws from three sources: quantitative data, qualitative factors and inputs from various external stakeholders. More detail in the figure below.

Figure 2. Three sources contribute to the OIG plan.



02 Choice of countries

The choice of countries in next year's work plan takes into account a number of factors, with a strong risk bias. The approach covers three areas:

1. **Materiality and risk likelihood.** How much money is allocated to each country? What risks exist that might prevent the Global Fund from achieving its objectives, and how likely are those risks?
2. **Mitigating factors.** What factors exist that could lessen the risks? For example, is there a Fiscal Agent to mitigate financial risks?
3. **Qualitative input.** Lastly, the OIG takes into account qualitative factors such as when was the last time the OIG audited or investigated the country, the number of allegations received, and input from the Secretariat or other stakeholders during the consultation phase for the work plan.

Figure 3. Risk-based methodology for choosing which countries to audit/investigate.



The OIG looks at both risk and materiality when selecting countries to review; this means that countries that are high in both categories are likely to be audited or investigated more frequently than those that are less material or less risky. Following this logic, the OIG is likely to audit or investigate countries such as Nigeria and DRC more often. It also means that countries that are “very high risk” (such as Syria or Iraq), but receive little funding, are likely to be reviewed less frequently.

03 OIG assurance engagements for 2017

Based on the methodology described above, the following engagements are scheduled for 2017.

In-country engagements

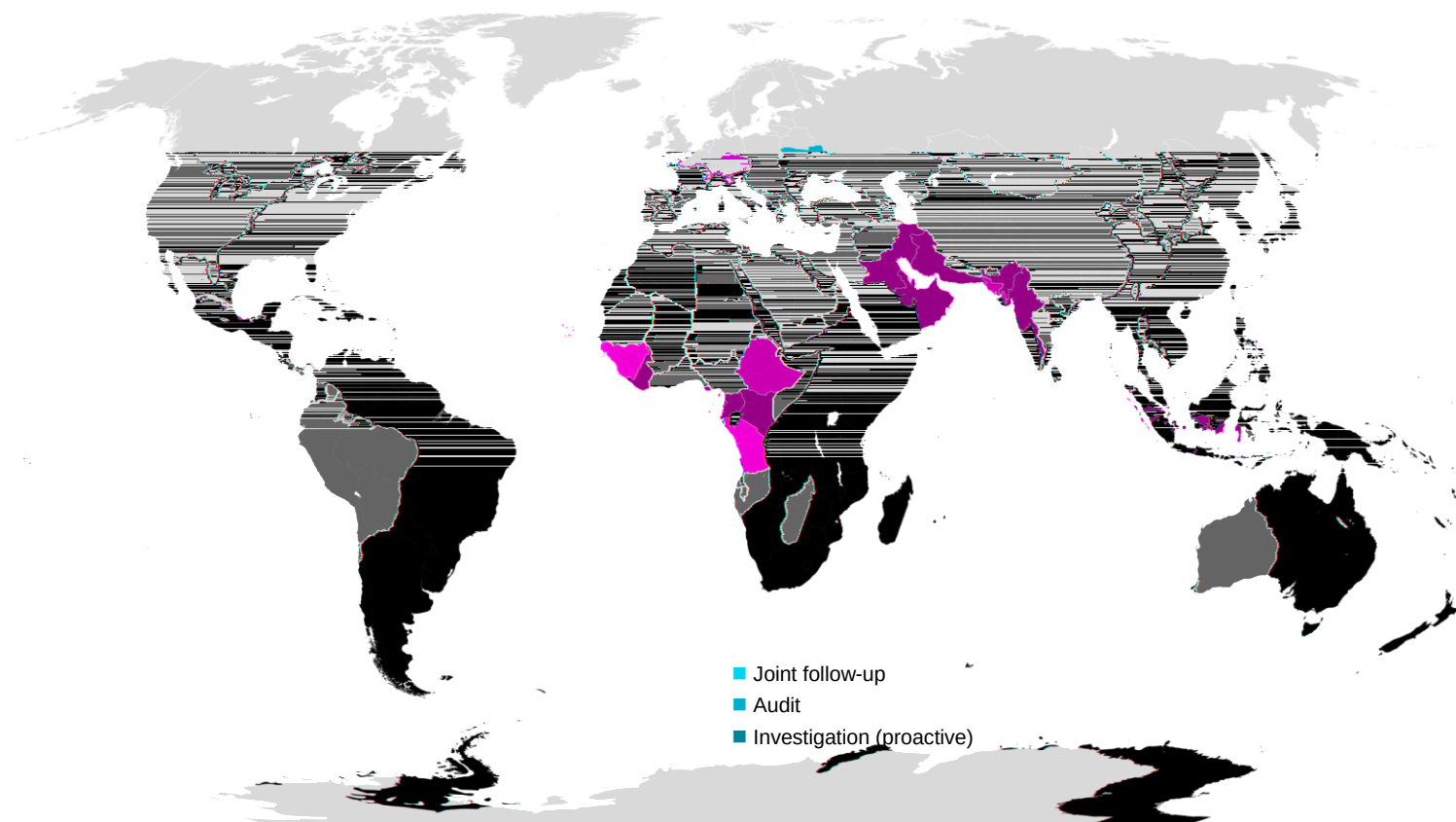
Reactive Investigations (54): Regardless of risk or allocation size, the OIG Investigations Unit will continue to respond to credible allegations of fraud and abuse. Based on historical patterns from previous years, the OIG estimates that it will open 54 new cases for reactive investigation in 2017, of which 11 will become published investigation reports and 43 case closure memoranda.

Proactive Investigations (8): Supplementing our allegations-driven reactive investigations, we will actively leverage intelligence in order to identify, prevent or disrupt wrongdoing through proactive investigations. Eight countries out of a shortlist of 10 countries have been selected (DRC, India, Zimbabwe, Uganda, Tanzania, Kenya, Pakistan, Myanmar, Indonesia, and Cameroon). This selection complements the choice of country audits below using the same risk-based methodology. Each proactive investigation will include implementer training on identifying fraud and abuse using the assets developed by the 'I Speak Out Now!' campaign.

Country audits (10): These in depth engagements (South Africa, Ethiopia, Zambia, Bangladesh, Cambodia, Ukraine, Haiti, Mali, Burkina Faso and Guinea), relying on field work in country, are designed to provide assurance over Global Fund portfolio management.

Follow up audits/investigations in country (2): Following the 2016 OIG audits of Tanzania and Nigeria, there will be a joint follow-up review in the two countries.

Figure 4. OIG engagements scheduled for 2017.



Internal engagements

Internal cross-cutting audits (3): These audits examine the wider questions, typically with system-wide implications across divisions and incorporating risk to the Global Fund's mission.

1. Data quality: assessment of the effectiveness of the structures, systems, tools at the Secretariat to ensure availability of timely quality data for decision-making, and related assurance models.
2. Grant monitoring: using a sample of countries, a review of the effectiveness of the Secretariat's mechanisms to ensure grants are implemented as designed and course correction measures taken when necessary.
3. In-country assurance: a review the effectiveness of assurance mechanisms, in particular the Local Fund Agent, in the light of the emerging risks faced by the organization.

Internal focused audits (4): These audits look more deeply at particular processes or business areas. They also touch on the highest risk/materiality countries in addition to the in-country assurance work.

1. Wambo.org: a review of how the online e-marketplace is aligned to and supports the strategic objectives of Global Fund as well as the effectiveness of its underlying processes.
2. Contract management: an assessment of the effectiveness of the Secretariat's processes for engaging and managing service providers including technical partners.
3. Use of consultants by the Secretariat: an assessment of the effectiveness of processes for the use of consultants by the Secretariat.
4. Information Technology: review of the Secretariat's IT framework, particularly with respect to cloud computing and outsourcing.

Follow up internal audits (2): The audit team will also conduct a follow-up audit of the grant-making and sourcing, previously audited in 2015 and 2014 respectively.

Advisory reviews (est. 4): The OIG has earmarked resources for advisory services. The number and scope of engagement will be based on requests received during the year.

04 Proposed operating budget for 2017

To support the 2017 work plan, the following budget at US\$17.1 million is recommended by the AFC for Board approval:

Table 1. Proposed 2017 budget versus 2016 budget and 2016 full-year forecast. All amounts in US\$ thousands.

	2016 Budget	2016 FY Forecast	2017 Budget	2016-2017 Variance	2017 Management	2017 Audit	2017 Investigation
Professional Fees	\$2,144	\$2,204	\$2,187	2%	\$217	\$1,566	\$404
Travel	\$1,912	\$1,914	\$1,992	4%	\$143	\$1,358	\$491
Meetings	\$76	\$76	\$76	0%	\$20	\$28	\$28
Communications	\$389	\$390	\$267	-31%	\$267	\$0	\$0
Office Infrastructure	\$1,722	\$1,473	\$1,557	-10%	\$1,368	\$0	\$189
Sub-total	\$6,243	\$6,057	\$6,079	-3%	\$2,015	\$2,952	\$1,112
Staff costs	\$10,074	\$10,084	\$11,027	9%	\$2,234	\$4,175	\$4,618
Total Operating expenditure	\$16,317	\$16,141	\$17,106	5%	\$4,249	\$7,127	\$5,730

Notes:

- Staff costs:** The OIG approved headcount is 52, currently staffed at 94%. Underlying staff costs provided by the Finance Department for 2017 have increased on average by 9% from 2016. The 2017 budget fully incorporates benefit costs related to tax equalization and education grants that had not previously been reflected in the 2016 budget.
- Professional fees:** the small overall increase in 2017 takes into account additional external experts who will be needed for the extra audit engagements planned for 2017.
- Travel:** in line with the Secretariat's Zero-Based Budgeting exercise, the cost of individual trips has been revised downwards for 2017. Nevertheless the increase in audit engagements planned for 2017 will result in an overall increase for this budget line.
- Communications:** the scope of the 'I Speak Out Now!' campaign will be more focused on Secretariat and implementers resulting in a smaller activity footprint and therefore lower overall costs.
- Office infrastructure:** capital expenditures regarding IT infrastructure in 2016 will be amortized over the next three years, with ongoing costs being related to management of services. This results in savings for 2017 of 10%.

05 Key Performance Indicators for 2017

There are no proposed changes to the OIG's Key Performance Indicators (KPIs) in 2017.

06 Decision Points

Decision Point GF/AFCo2/DPo6:

- The Audit and Finance Committee (the "AFC") acknowledges its review of the 2017 Annual Plan of the Office of the Inspector General (the "OIG") as presented in GF/AFCo2/14 and its request that, following the receipt of clarifications as requested by the AFC which are not expected to impact the OIG's 2017 operating expenses budget, such Annual Plan be resubmitted to the AFC for final approval.
- Accordingly, the AFC recommends the inclusion of the OIG's 2017 operating expenses budget, in the amount of US\$17.1 million, as presented in GF/AFCo2/14, in the Global Fund's overall 2017 operating expenses budget that will be presented to the Board for approval at its November 2016 meeting.

VI. Progress on the OIG's 2016 KPIs

Table 2. Progress update on performance objectives.

Theme	Performance objective	Progress to date
A. To deliver an efficient and effective service	A.1 80% of reports as per the work plans issued in draft by year end (stage 4 of the Stakeholder Engagement Model for audits, stage 6 of the Stakeholder Engagement Model for investigations)	Audit: 5 audits out of 13 reached stage 4 (38%) by the end of August. Investigations: 31 investigations out of 74 completed Stage 6 or were closed through Stage 4a Case Closure Memorandum (42%) at the end of August. The KPI is considered on track as 30 investigations are expected to complete Stage 6 or be closed through Stage 4a Case Closure Memorandum by end of December 2016.
	A.2 Costs managed within approved budget	The OIG is on track and should be using all its budget by the end of 2016. As of 31 August 2016 the OIG foresees a budget underspend of less than US\$ 88K by year end.
B. To foster confidence by being accountable and transparent	B.1 Annual quality self-assessments completed to confirm ongoing conformance with requirements of Quality Assurance and Improvement Program (QAIP), including general conformance with the Stakeholder Engagements Models timelines	Annual KPI for year-end reporting
	B.2 Triennial external quality assurance review to confirm, once every 3 years, that the quality of assessment processes, work papers, reports, and interaction with key stakeholders adheres to professional standards and guidelines	Review will not take place in 2016. Last assessment was completed in 2014.
	B.3 Annual assurance statement on governance, risk management and controls at the Global Fund	Annual KPI for year-end reporting
C. To ensure impact in our work	C.1 Agreed actions tracked, reported on monthly and validated within 30 days of Secretariat reported "Completed" date. Reports of slippage on agreed actions are escalated.	79% approved by the OIG within 30 days. Monthly reports shared with the Management Executive Committee.
	C.2 Client engagement surveys are conducted for at least 90% of audit engagements completed during the year	At 100%, exit surveys have been conducted for all the audits that have completed fieldwork.
	C.3 Conduct annual stakeholder satisfaction survey, including all Audit Committee members and all Board members (or alternates), and achieve an overall satisfaction score of 80% or better.	Annual KPI for year-end reporting
D. To recruit and retain the best people and foster a culture of trust and teamwork	D.1. All employees have a development plan approved by their managers by end of Q1. At least 90% of staff will complete by year end a minimum of 20 hours of formal training	Two employee plans out of 47 were pending approval as of the end of Q1 but have now gone through. 60% of staff had completed 20 hours of formal training by the end of August 2016.
	D.2 Staff Turnover does not exceed 10%	Staff turnover was 2% as of 31 August 2016

VII. Budget and headcount year to date

Headcount

At the end of August 2016, the OIG had 49 employees out of a budgeted headcount of 52. All positions in the Audit Unit had been filled by mid-June. There are three vacancies in the Investigations Unit. One has since been filled and the two other new recruitments are expected by the end of the year.

Table 3. Headcount and vacancies as of 31 August 2016

Unit	Headcount 1 Jan 2016	Hires	Departures	Headcount 31 Aug 2016	Budget	Vacancies
Management	8	N/A	0	8	8	0
Audit	16	5	0	21	21	0
Investigations	21	0	1	20	23	3
Total	45	5	1	49	52	3

Budget

At the end of August 2016, the OIG had a budget underspend of US\$661K (-6.07%) against the August 2016 Operating Expenses Budget.

Table 4. OIG Operational Budget in thousands of US\$.

Budget line	2016 Budget	August Budget	August Actuals	Variance Actuals vs Budget	
Salaries	10,074	6,716	6,686	-30	-0.46%
Professional fees	2,144	1,429	1,196 ¹	-233	-16.30%
Travel	1,912	1,275	1,312	37	2.90%
Meetings	76	51	21	-30	-58.82%
Communications	389	259	143 ²	-116	-44.78%
Office Infrastructure	1722	1,148	859 ³	-289	-25.17%
Total	16,316	10,878	10,217	-661	-6.07%

Notes on variances:

- Professional fees:** the underspend is due to timing differences. Five of the eight planned country audits had already been accounted for by end of August 2016 and the costs of the three remaining country audits and five internal reviews will impact the budget in Q4.
- Communications:** "The I Speak Out Now!" campaign costs will affect the budget line in Q4.
- Office infrastructure:** there will be savings in this area as costs linked to the infrastructure change project will be depreciated and only partially affect our budget this year (savings of around US\$280k are expected to be achieved by the end of the year)

VIII. Summary of OIG work year to date

16-001 Audit in Uzbekistan

Auditors found financial controls to be satisfactory in the management of Global Fund grants in Uzbekistan. However, they identified issues in the implementation of the HIV and TB grants as well as with the Country Coordinating Mechanism. For example, there is a lack of coordination over TB treatments and understanding better the high incidence of multi-drug resistant TB in the country. The Global Fund, working with in-country partners, is putting in place actions to strengthen the Country Coordinating Mechanism and to improve grant implementation including better aligned treatments for TB patients.

16-002 Audit in Tanzania

An audit of Global Fund grants in Tanzania (mainland) found that the supply chain management system was ineffective in delivering health products to patients. Stock-outs of varying magnitudes were noted and differences between stock dispatched by the Global Fund's Pooled Procurement Mechanism and received at the central medical store were valued at US\$1.55 million. Auditors also identified lapses in key financial controls which partly explain US\$ 9.6 million in unsupported costs. The case has been referred to the OIG's Investigations Unit and the Global Fund is taking preventive action against further mismanagement.

16-003 Audit of Grant-Making

In this audit, the OIG assessed how the Global Fund translates funding requests into grants that are ready to be disbursed to defeat AIDS, tuberculosis and malaria. The OIG concluded that grant-making has significantly improved under the new funding model put in place in 2014. However, the pace is slower than expected, processes are cumbersome, there is little differentiation between big or small grants and identifying key risks is not integrated into other Secretariat risk management.

16-004 Audit of the Country Coordinating Mechanism

In this audit, the OIG reviewed the role and the effectiveness of the Country Coordinating Mechanisms, a central element to the Global Fund's commitment to country ownership. The OIG found gaps in the mechanism's performance in coordinating and overseeing grants. The auditors also identified significant problems with the implementation of Country Coordinating Mechanism policies and procedures at the Global Fund and in country, particularly regarding the long term sustainability of the mechanism.

16-005 Audit in Uganda

In this audit, the OIG found the following problems: pervasive stock-outs of key medicines, unexplained stock differences, funds that could not be accounted for, lapses in services provided to patients and poor grant oversight by the Ministry of Health. The case has been referred to the OIG's Investigations.

16-006 Investigation in Angola

The OIG found fraud and collusion in the procurement of technology equipment and communications materials in a malaria grant in Angola in 2013. The OIG concluded that senior staff at the Ministry of Health deliberately diverted US\$4 million of grant funds into companies they owned or were closely affiliated with. The Global Fund has recovered close to US\$3 million and enforced new measures for the use of program funds by the Ministry of Health in Angola. Angolan authorities have arrested and indicted the officials and criminal proceedings related to this case are ongoing.

16-007 Audit of Internal Controls

In this follow up audit, OIG examined key internal operational, financial and procurement controls at the Global Fund.

The auditors found that the organization has reformed significantly since 2012 and that internal controls have improved, particularly around financial management. However, progress has been ad hoc and fragmented, leaving gaps and exposing the Global Fund to potential misuse of funds. These gaps have been flagged in previous OIG audit and investigation reports. The Global Fund is taking steps to strengthen internal controls notably in procurement.

16-008 Audit of Strategy Processes

An audit of the planning, implementation and monitoring processes of Global Fund strategy concluded that planning for the next strategic cycle, from 2017-2022, has greatly improved. However, significant issues exist in implementation and monitoring processes for the current 2012-2016 strategy. The Secretariat has a number of plans to address the flaws identified in the audit.

16-009 Audit of the Key Performance Indicator Framework

An audit found gaps in the KPI framework that monitors the Global Fund's current 2012-2016 strategy and the way the information is used to make decisions. However, the overall KPI results reported were found to be largely correct and aligned with underlying performance data. The Global Fund is revising and improving the framework in time for its next strategy cycle from 2017-2022.

16-010 Investigation in Bangladesh

An OIG investigation found that a 2011 tender for medical equipment worth US\$311,637 involved collusion, falsified bid documents, shell companies, and price manipulation. The equipment was supplied by Bengal Scientific & Surgical to Bhuiyan International Corporation, a procurement agent that managed the tender on behalf of the National Tuberculosis Control

Program, a Global Fund recipient of funds. The Global Fund has since reinforced significantly procurement practices and the agent is no longer in operation.

16-011 Investigation in India

OIG investigators found evidence of non-competitive tenders and improper procurement practices by a sub-recipient of Global Fund grants, Catholic Bishops' Conference of India, totaling US\$97,149. This included payments for information materials that were not printed, office equipment and computers. The Global Fund is putting in place actions to tighten procurement procedures and oversight at the recipient level.

16-012 Investigation in Guyana

An investigation in Guyana found evidence that employees from the Guyana Ministry of Health, a Principal Recipient of a Global Fund malaria grant, had inflated the number of bed nets reported as distributed and fabricated documents to support the inflated figures. The employees had also fabricated documentation for another surveillance activity relating to the operation of malaria committees. The OIG identified US\$56,966 worth of non-compliant expenditures. The Global Fund is putting in place corrective actions including strengthened record-keeping.

16-013 Investigation in Côte d'Ivoire

OIG investigators in Côte d'Ivoire found that two million RHZE pills, a critical drug used in the first-line treatment of TB, were unaccounted for. The OIG concluded that they were the likely source of illicit sales in street markets. The strong antibiotic drug was being sold as a so-called cure to a number of ailments raising concerns about the risks of increased Multi-Drug Resistant TB taken outside of a formal medical treatment. The Global Fund has put in place a number of actions to prevent further losses of RHZE stocks and will seek potential recoveries for the unaccounted for pills.

16-014 Audit in Nigeria

An audit of Global Fund grants in Nigeria identified significant problems in procurement, supply chain, financial and program management. The auditors found discrepancies of over US\$4 million between drugs ordered and delivered; US\$20 million paid to suppliers without confirmation of delivery; stock-outs of eight months for critical medicines; and a total of US\$7.65 million in unsupported expenditures. The Global Fund is reviewing corrective measures, particularly with regard to risk management, identified by the OIG as the root cause of many of the issues.

16-015 Investigation in Nigeria

OIG investigators found evidence of systematic embezzlement, fraudulent practices and collusion between 2010 and 2014 by a sub-recipient of Global Fund grants. The investigators concluded that a total of US\$3,816,766 in expenditure by the Nigerian Government's Department of Health Planning, Research and Statistics was non-compliant and is proposed for recovery. The expenditure was mainly related to training for a web-based health information system.

16-016 Review of Processes to Implement Wambo.org

In a review of processes to set up a new Global Fund online procurement tool called wambo.org, auditors from the OIG found instances of non-competitive procurement; non-compliance with procurement rules; and weaknesses in the design and execution of contracts. However, the OIG found no evidence of deliberate wrongdoing by staff. The OIG also found that recruitment processes for a project manager were effective.

16-017 Follow up Audit of Grant Closure Processes

In this follow-up review of a 2013 audit, the OIG noted significant improvements in the

overall design of Global Fund grant closure policies and processes as well as simplified grant closure procedures. However, the auditors identified various gaps in compliance. For example, 65% of grants due for closure between 2013-2015 had still not been closed at the time of the audit.

16-018 Investigation in South Sudan

An investigation in South Sudan identified 97 unexplained bank transactions, worth US\$447,564, carried out by Caritas Torit, a sub-recipient of Global Fund grants for a malaria program. The investigators also found a transaction of US\$53,000 used to pay salaries for an HIV program funded by another donor. As the OIG was unable to obtain reasonable assurance that the funds had been used for their intended purposes, a total of US\$500,564 is considered non-compliant expenditure and therefore potentially recoverable.

16-019 Audit in Zimbabwe

An OIG audit of grants in Zimbabwe found that implementation arrangements and internal controls over the use of grants funds were generally effective. However, the auditors found areas for improvement, notably in the quality of health service provided to patients and the supply chain management system affecting the distribution of medicines in the country.

The OIG found that controls over financial risks were generally adequate in ensuring the economic, efficient and effective use of grant funds. At the time of the audit, the United Nations Development Program, the Principal Recipient of Global Fund grants, had reported savings of US\$27 million from the procurement of anti-retrovirals thanks to unit costs and volume discounts. However, some gaps remain in implementers' financial controls, which impact the effective use and accountability of grant funds. The OIG identified non-compliant costs amounting to US\$0.4 million, as well as gaps in the management of advances, resulting in 40% of advances outstanding for over 120 days.

16-020 Audit in Cameroon

The OIG found supply chain controls and assurance mechanisms were ineffective after an audit of grants to Cameroon. The auditors found that health products were stored in poor conditions leading to risks of spoilage or theft. The Global Fund, in co-operation with technical partners and the Ministry of Public Health, is currently examining long-term systematic improvements of the supply chain.

16-021 Audit Report on Recoveries

In this review, the OIG audited how the Global Fund reports on recovering funds that have been misused or not spent in compliance with grant agreements. The OIG found that the Global Fund Secretariat has significantly improved the recoveries process including recruiting a full-time recoveries officer and maintaining better recoveries data. In the period from 2009 to 2015, the OIG confirmed that the Secretariat recovered US\$45.4 million of misused or non-compliant funds. The OIG found, however, variances between the amounts reported by the Secretariat and underlying supporting documentation, particularly regarding legacy cases, which point to weaknesses in the reporting process.

16-022 Audit in the Democratic Republic of Congo

In this audit of the Global Fund's third most important portfolio, representing over a billion dollars of funding, the OIG found that controls over procurement and supply chain management were ineffective, and that financial controls, access to care and program data needed significant improvements. Nonetheless, recent data show an encouraging upward trend in the fight against AIDS, tuberculosis and malaria.

Supply chain controls were found to be ineffective. The OIG can provide reasonable assurance on drug accountability up to the health zone level with 97% of drugs sampled traced from regional warehouses to health zones. However, 31% of drugs sampled could not be traced from health zone to local health facility level.

16-023 Audit in India

OIG auditors in India found that the Secretariat has clearly identified the main risks that could affect grant objectives. Financial risks are effectively managed; programmatic and data risk management are partially effective, although tuberculosis prevalence data is out of date. However, the auditors found that assurance mechanisms around procurement and supply chain require significant improvements. Furthermore, there is no transition plan to analyze the risks as the Global Fund progressively phases out funding from the country over the next ten years.

16-024 Audit in Malawi

An audit of Global Fund grants in Malawi confirmed that there has been significant progress in the fight against the three diseases, particularly HIV and tuberculosis. However, the malaria program has significant weaknesses related to vector control and case management: for example, a delayed mass distribution of mosquito nets may have contributed to more malaria cases. The auditors also concluded that the supply chain needs significant improvement. Poor record-keeping, inadequate facility-level storage, and weak accountability lead to variance, unreliable stock controls and drug theft.

All reports available in full on the OIG website at this address:

www.theglobalfund.org/en/oig/reports/