

**THE OFFICE OF THE INSPECTOR GENERAL:
 PROGRESS REPORT FOR JANUARY-SEPTEMBER 2009
 AND 2010 PLAN AND BUDGET**

PURPOSE OF THIS PAPER

1. This paper reports on the progress made in taking forward the priorities set out in the paper approved at the Seventeenth Session of the Board "The Priorities of the Office of the Inspector General". It proposes increased audit coverage for 2010; considers the impact of the rapid growth in the OIG's investigatory caseload; and proposes a budget for 2010.

ACTIVITIES UNDERTAKEN JANUARY-SEPTEMBER 2009

2. The 2009 audit plan provided for 11 country audits, 6 reviews and 2 country audit follow ups. The table below provides a summary of the status of this work.

Completed and posted on website	Completed field work but reporting still in progress	In process and scheduled for completion before the end of the year
1. Tanzania 2. Audit arrangements 3. Lessons learned from past audits 4. LFA tender process 5. Uganda follow up	6. Nepal 7. Democratic Republic of Congo 8. Philippines 9. Cameroon 10. Grant application process 11. Oversight of procurement in the grant process 12. Uzbekistan	13. Zambia 14. Cambodia 15. Haiti 16. Kyrgyzstan 17. Mali 18. Voluntary Pooled Procurement

3. As this shows OIG has released five reports to the Board during this period and these have been posted on the OIG website. Work on finalizing a number of other reports is also well advanced. The OIG is on track to deliver all the audits planned for 2009 with one exception - a review of the implementation of the new policies and

processes post ASA including the ERP implementation. This has been deferred to early 2010 to allow a little more time for those processes and systems to bed down.

PROVIDING ASSURANCE ON GRANT PROCESSES

4. This first priority has been achieved through the audit of a sample of country grant programs.

Tanzania

5. On the audit of the grant programs in Tanzania (Audit Report No: TGF-OIG09-001), OIG concluded that there were serious issues facing the programs, particularly in the area of supply chain management and financial and programmatic reporting. These issues affected the overall effectiveness of the programs and involved (a) excessive delays in the procurement of health products resulting in stock outs; (b) weak forecasting resulting in the expiry of drugs; (c) a weak internal control environment especially in stock management; and (d) shortcomings in financial and programmatic reporting. The Controller and Auditor General (CAG) of Tanzania qualified the financial statements of Medical Stores Department (MSD) successively for two fiscal years.

6. As a consequence of this OIG cannot give assurance on the accuracy of the reports submitted to the Local Fund Agent. Drawing on the CAG's report, OIG considers that unless corrective actions are taken to strengthen controls at MSD in particular, and at key levels of the supply chain, grant resources are at risk. Consequently, Global Fund Round 8 grants to the Government of Tanzania should be conditioned on the country addressing the serious issues in supply chain management.

Uganda

7. In relation to the current and planned grant programs in Uganda, in September 2008 (Audit report No: TGF-OIG-08-003), the OIG was not able to provide assurance that the arrangements and controls in place were adequate to safeguard Global Fund investments in the country. OIG recommended that the Local Fund Agent undertake further assessments to identify areas where the Government may need assistance in strengthening its controls. By so doing, the Global Fund would be able to invest its funds with reasonable assurance.

8. From its follow up review OIG noted the following:

- (a) The Government of Uganda has in the last year demonstrated a renewed commitment to recover funds that were misappropriated. However, by June 2009 that is over four years after the issues came to light a significant US\$ 780,000 (61 percent) was still to be recovered and accountabilities amounting to US\$ 2.3 million were still outstanding.
- (b) There have been four convictions obtained following assistance from the OIG and partner agencies (as outlined in 28-29) that have given credibility to the ongoing investigation and prosecution process with culprits receiving long jail terms.

- (c) The Government of Uganda will not be able to use the Long Term Institutional Arrangements (LTIA) in 2009/2010 because Global Fund resources were not incorporated in the planning process for the year.
- (d) The proposed LTIA is principally based on the government public financial management systems and still has some oversight and operational risks that need to be addressed in the coming year. The OIG's follow up review identified key success factors that need to be acted upon by the Government of Uganda and the Global Fund Secretariat in order to make the LTIA work effectively. In the meantime, the Global Fund is left with no option but to implement its programs through a project mode.
- (e) The Global Fund should work with other donors e.g. GAVI that are providing technical assistance aimed at strengthening the LTIA and reducing the assessed risks. Over the next year, the Global Fund should also work with the Government to ensure that its funds are incorporated in the budgeting process for the 2010/11 and that technical assistance is targeted at the areas critical to the Global Fund.

Audit arrangements

9. Another OIG report relevant to giving assurance on grant processes arose from the need to rely on Principal Recipient audit arrangements (Report No: TGFOIG-09-003). Such arrangements should provide assurance to the Global Fund Secretariat as well as other stakeholders on the proper use and accountability of disbursed funds. Against this background, the OIG undertook a review of Principal Recipient (PR) audit arrangements to assess their effectiveness. OIG concluded that the arrangements are not working in an effective manner and therefore do not provide assurance that funds are utilized for the intended purpose and that other risks are being effectively managed. This conclusion was derived from the ineffectiveness of audit arrangements put in place by Principal Recipients; the low level of compliance by Principal Recipients to conditions relating to audit as set out in the grant agreement; and systems, policies and procedures within the Global Fund Secretariat that need to be further strengthened to ensure that audit arrangements are complied with.

Lessons learnt from past audits

10. OIG also undertook a "Lessons Learnt" review (Report No: TGF-OIG-09-002) of the issues arising from country audits and reviews undertaken to date with the objective of (a) Identifying common critical issues cutting across the countries audited as well as underlying causes; and (b) Reviewing the status of implementation of audit recommendations arising from country audits undertaken prior to 2008 to determine the adequacy and timeliness of actions taken in response to reported audit findings.

11. There were common critical issues cutting across the countries audited for which OIG has made recommendations to address the root causes with a view to strengthening policies, internal controls and ensuring that identified risks were mitigated both at Secretariat and country level. These issues included:

- (a) the need to strengthen the capacity of CCMs to enable them to exercise their oversight role effectively;
- (b) lack of capacity to effectively forecast and quantify requirements resulting in

- expired drugs or stock outs;
- (c) the payment of excessive “top up” salaries and allowances being paid out of Global Fund grants when compared with those being paid by other development partners;
- (d) weak financial management and internal control systems; monitoring and evaluation frameworks not operating effectively; and
- (e) questions about the adequacy and quality of work done by Local Fund Agents (LFAs) given that many of the critical issues raised in the OIG country audits should have been picked up by them.

12. The review also covered an assessment of the status of implementation of audit recommendations arising from country audits undertaken prior to 2008 to determine the adequacy and timeliness of actions taken in response to reported audit findings. OIG noted that the Secretariat has had no formal process to follow up recommendations. Only 48 percent of the recommendations had been fully implemented at the time of this review. OIG is implementing audit software that will enable the Secretariat to track the implementation status of recommendations. This software will be fully operational by the end of 2009.

PROVIDING ASSURANCE ON OTHER MAIN BUSINESS PROCESSES

13. OIG reviewed the tendering process of Local Fund Agent (LFA) (Report No: TGF-OIG-09-004) services with the objective of obtaining assurance that the process was undertaken fairly, transparently, competitively and objectively and would result in value for money for the Global Fund. The full and open competition that started in April 2007 was completed in August 2008 with the selection of 14 entities to provide LFA services over the next four years, subject to satisfactory performance. The incumbent LFAs retained 93 percent of the business with some 7 percent going to new LFAs. There was a significant redistribution among the incumbent LFAs with the combined portfolios of the former two largest LFAs decreasing from 80 percent to 63 percent.

14. OIG concluded that the tender process followed best practice in that it promoted fairness, transparency and objectivity. The Global Fund was quick to address some initial concern that the process would not be fair by discarding an overly complex and inappropriate cost methodology whilst the process was still underway. This decision was prudent and demonstrated the Global Fund’s concern to maintain the integrity of the process. However, further improvements have been recommended by the OIG to make the process more efficient, economic and effective in future.

15. A fair, transparent and objective process should help to provide some assurance that it will result in best value for money from the LFAs contracted. However, as the detailed report shows, OIG was not able to provide assurance that best value was achieved. As the old adage goes “the proof of the pudding is in the eating”. In practice, given that 93 per cent of the contracts placed went to incumbent LFAs and, in the absence of performance standards and performance evaluation results from their prior work, it is difficult to predict whether the Global Fund will obtain best value. However, now that formal LFA performance evaluations are mandatory, the resulting performance information should provide the Global Fund with an important input for evaluating best value in future LFA competitions.

SUPPORTING KEY MANAGERIAL AND GOVERNANCE INITIATIVES IN THE SECRETARIAT

16. OIG has been providing continuing catalytic support to help the Secretariat take forward three initiatives:

- (a) Values and Integrity Initiative: Priority has been given to supporting the Secretariat in developing a code of conduct for the supplier base that serves Global Fund grant programs and its corporate procurement, together with an associated debarment processes. This will provide clear expectations of ethical conduct to the supplier base and signals that if suppliers transgress they will be sanctioned by applying the debarment process. The United Nations Office on Drugs and Crime (UNODC) consider this initiative to be 'leading edge' and intend to platform it as a model for other development partners to follow. The code of conduct and the associated debarment process will be ready for 'roll out' before end of 2009.
- (b) Accountability Framework: This is being taken forward by the Secretariat as part of the Risk Management Framework. OIG has shared the experience of other organizations in taking forward such frameworks.
- (c) Risk Management: OIG has continued to provide support to the Secretariat as the Risk Management framework is finalized, with a particular emphasis on helping to construct a corporate risk profile for the Global Fund.

INVESTIGATIONS AND RELATED INITIATIVES

An enhanced OIG Integrity Hotline

17. The OIG's Integrity Hotline is now fully operational. Comprehensive changes have been made to the OIG's web pages, which provide clear guidance on the considerably improved but streamlined mechanisms for reporting alleged irregularities to the OIG. Prior to rollout in July, twelve independent reviewers tested and critically assessed all the proposed reporting methods. The final product now offers free, accessible and confidential reporting facilities in twenty-one languages. Additionally, those who wish to remain anonymous are able to do so, while still being able to communicate with the OIG through a dedicated, secure, web based reporting system. The OIG system is now 'industry best' and awareness raising initiatives are about to be rolled out. The 'flyer' developed is at Annex B.

A rapidly increasing investigation caseload

18. The number of referrals to the OIG for investigation has continued to increase significantly. The past 12 months has seen an increase of over 150 percent in the referrals from the previous year. Between the last progress report to the FAC in April 2009 and 31 August 2009, 34 new cases have been received. OIG investigation figures as of 18 August 2009 are as follows:

Number of cases referred to the OIG since 1 January 2009	49
Number of cases under assessment	21
Number of cases under investigation	55*
Number of cases awaiting allocation	2
Number of cases finalized in 2009	17

** A number of these cases have recently been or are currently being investigated during OIG audits, the time and terms of reference for which have been modified accordingly (see paragraph 19)*

Cases pursued during audit missions

19. A new development during this period has been the decision to advance audits of grant programs where allegations have been raised and to investigate those allegations during the course of the audits, giving due consideration to the control shortcomings that allowed the irregularities to arise. The thinking is that once allegations have been raised it is important also to be able to give assurance on the operation of the grant programs in that country more widely. This approach has been followed in the case of the Philippines where a full audit of the grant programs for all three Principal Recipients was undertaken in parallel with a detailed forensic review of allegations relating to one Principal Recipient. The same approach is being followed in the case of Zambia which is presented in the case study below which also points to close collaboration with the Secretariat in terms of managing the risks arising.

Financial irregularities in Zambia

In May 2009, as a result of a whistleblower allegation, the Zambian Anti Corruption Commission (ACC), commenced an investigation into fraudulent practices within the Ministry of Health (MoH). Most of the reported fraud related to funds forming part of the expanded health basket in Zambia in which the Global Fund does not participate. However, the investigation also included one fraudulent transaction relating to a Global Fund grant. The ACC searched the offices of the MoH, resulting in the suspension of thirty staff members. To date, 12 people are currently in custody in Zambia, charged with offences relating to the investigation. All 12 are current or former MoH employees and are charged with offences in relation to the expanded basket, with seven of these being additionally charged in relation to the fraudulent appropriation of KWA 1.98 billion (approximately US\$350, 000), from the Global Fund grant. This particular figure is a matter of public record and has been widely reported in the local media.

In early July 2009, OIG Investigators conducted a mission to Zambia, where meetings were held with the ACC, the Auditor General, the Director of Public Prosecutions (DPP), and representatives of the expanded health basket fund. The mission provided significant insight into the current situation within the MoH and the issues that exist in relation to the ongoing investigations. There is reason to believe that the fraudulent practices, within the MoH, are more extensive than have been established to date. The Zambian Anti-Corruption Commission has requested assistance from the OIG to strengthen their capacity to undertake this potentially large-scale investigation and to provide specialist support including computer forensic and financial investigation

expertise.

In view of this, the OIG has made contact with a number of other agencies, with a view to undertaking a series of joint capacity assistance missions to Zambia. The purpose of these missions will be to assist the Zambian investigation teams in developing an appropriate investigation plan and strategy for cases; assist in creating an investigations management structure, in line with International best practices, and to provide specialist IT and financial investigations advice. Similar assistance missions have been conducted by the OIG in Uganda, with very positive results (see paragraphs 28-29). By so doing, OIG will also seek to establish whether fraudulent transactions, involving Global Fund grant programs, are more widespread.

Given the concerns these developments raise in terms of the control environment in the health sector in Zambia, the OIG is undertaking its own investigation and an in depth audit of all grant programs i.e. covering all the four Principal Recipients in Zambia. The work commenced on 21 September 2009.

In the light of these developments, the Global Fund Secretariat has decided not to make any further disbursements to the Ministry of Health except for life-saving interventions (drugs and other directly related costs) which will be subject to direct payments to a procurement agent or suppliers. All activity and spending linked to the Global Fund grants under the management of the Ministry of Health will first have to be subject to verification and recommendation by the LFA, followed by approval by the Global Fund. The Global Fund will institute additional controls to approve and monitor expenditures for funds currently held in bank accounts for all grants managed by the Ministry of Health. In addition, the Global Fund will not proceed with signing any new grants until they are satisfied that the situation is under control and that adequate measures are in place to allow for a return to normal arrangements with the Ministry of Health in Zambia.

Rapid reaction to allegations

20. The recruitment of additional staff has allowed the OIG to react more quickly when serious allegations are received by the office and to deploy investigators in-country at short notice. In April the OIG deployed several investigators and a computer forensic expert to Mauritania to collect evidence relying on the OIG's powers of access. This case is outlined in more detail below (paragraphs 24-26). In July and August, following reports of significant irregularities, the OIG deployed investigators to several countries in Africa to engage with in-country partners to enable an assessment to be made first hand by the OIG of the scope of irregularities, the level of possible exposure, the appropriateness of the in-country response and to determine what OIG action may be necessary. OIG was also able to commence an audit and related forensic review of allegations made in the Philippines within three weeks of the allegations surfacing. As a result of this work in the Philippines, the Secretariat have suspended funding to the Principal Recipient involved and has demanded the reimbursement, by the end of October, of US\$ 960,019 found to be subject to unjustified expenditure beyond the terms of the grant agreement, and the reimbursement of additional misappropriated funds currently being investigated by the OIG.

Cooperation with other entities

21. The OIG has continued its successful partnership with the European Anti-Fraud Agency and the UK Serious Fraud Office to provide capacity building assistance in Uganda (paragraphs 28-29 below). The OIG has recently engaged in discussions with the UN Office on Drugs and Crime and with the Basel Institute on Governance with a view to these agencies providing capacity building training and assistance in other specific cases arising e.g. Zambia and others. Such training and assistance would increase the capacity of local agencies to deal more effectively with any subsequent irregularities involving Global Fund or other donor resources.

On-going Cases

22. Information was provided to the FAC in April (GF/FAC 12/13) on several specific cases. Updates on these cases are given below.

Bed net procurement

23. In April the OIG reported that a number of allegations relating to bed net procurement irregularities had been received and were being investigated. The OIG has conducted investigations into these allegations. This has included: making contact with partners in the Roll Back Malaria Partnership and the Alliance for Malaria Prevention; interviewing witnesses in France, Denmark, India and Ghana; and speaking with representatives of major manufacturers of LLINs and with other international partners. Whilst the investigation has been inconclusive in terms of identifying clear evidence of corrupt practices, it did raise other issues which are being further pursued by the OIG and reflected in on going country audits.

Mauritania

24. At the time of preparing the progress report to the FAC in April, the OIG had just deployed two investigators to conduct 'on the ground' inquiries in Mauritania, after the LFA identified serious irregularities. These initial inquiries corroborated the problems identified by the LFA. Consequently, the OIG deployed a full investigation team, which exercised the OIG's right of access to all Global Fund related documents. The OIG team obtained copies of all documentation relating to expenditure through one Principal Recipient (approximately 25,000 pages of material) and imaged eleven computers. Following the mission, a full review of the documents was conducted in Geneva, which identified clear evidence of fraudulent expenditures. In June 2009, OIG investigators travelled to Mauritania for a second mission to obtain further evidence. Investigators met with a number of witnesses and obtained additional evidence to confirm fraud against Global Fund grants.

25. The investigators also conducted a number of site visits to establish whether businesses which had purportedly supplied goods were legitimate. These inquiries confirmed that many of the companies were non existent and that much of the documentation had been fabricated. The documents were also reviewed by a Financial Review Team (FRT) comprising accountants and forensic auditors in order to reconstruct the financial records to the extent possible. The FRT quantified the total amounts involved where there was clear evidence of wrongdoing or where supporting documentation was missing.

26. In response to the OIG's investigation, the Secretariat has suspended its funding to the Principal Recipient and demanded the reimbursement, within three months, of US\$ 1.7 millions, found to be the subject of fraud. The evidence has been referred to the Mauritanian authorities for a criminal investigation and reimbursement will also be sought, in addition to the amount referred to abuse, for substantial expenditure which is not supported by appropriate documentation. The necessary measures have been taken to ensure that life saving treatment financed by the Global Fund is not disrupted.

Democratic Republic of Congo

27. The OIG continues to liaise with the City of London Police on the pending criminal trials which are likely to take place in 2010. The OIG will continue to provide support to UK and Danish police as required.

Uganda

28. The OIG has coordinated one further multi-agency mission involving staff from the OIG, the European Anti-Fraud Office (OLAF) and the UK Serious Fraud Office (SFO) to provide specialist support for Ugandan law enforcement and prosecution authorities. This has taken the form of investigation, case management, prosecutorial, criminal analysis, and IT forensic support. Since the April report two further defendants have been convicted before the High Court of Uganda bringing the total number to four on charges of fraud involving Global Fund resources. Both were sentenced to 5 years imprisonment and ordered to repay all money misappropriated. A large number of other investigations are nearing completion and further charges are expected. These cases send a very strong message that corruption against Global Fund programs will be pursued and prosecuted.

29. The very 'hands on' support provided on these cases by the OIG in partnership with OLAF and the SFO has helped to manage an otherwise unmanageable workload, and to ensure that cases that may otherwise have been beyond the capacity of the local authorities, are pursued. The significant results achieved through this multi-agency approach have also been highlighted by OLAF and the SFO in their recently released annual reports as an example of successful anti-corruption measures.

STRENGTHENING THE OFFICE OF THE INSPECTOR GENERAL

30. OIG held a two day retreat at which it reviewed its strategy in light of the changes that have occurred since it was developed almost two years ago. This retreat helped OIG identify skills, tools and processes that needed to be adapted to help OIG work smarter and more cost efficiently and effectively.

31. Recruitment of staff has continued to be a challenge to OIG. Past recruitment drives have not been successful, with some strong candidates declining offers because of the financial package on offer. The process to recruit a senior legal adviser with the capacity to provide support to local prosecutors is also under way.

32. OIG is finalizing audit and investigations protocols with the Secretariat. OIG will also develop further protocols to ensure effective collaboration with the

Secretariat. One such area is the relationship between the OIG's senior legal adviser and Legal Counsel of the Global Fund. OIG is also embarking on an awareness raising campaign on the role of the OIG both within the Secretariat and at country level.

33. OIG has also identified processes to ensure that consistently high quality outputs continue to be delivered. The OIG has continued to procure tools to support its work. An audit software has been procured and staff will receive training on its use before the end of the year. OIG has started the process for identifying investigation case management software. This process should be completed before the end of 2009.

PROPOSED 2010 PRIORITIES AND PLAN

34. The proposed audit plan for 2010 is at Annex A. OIG is proposing increased audit coverage in response to feedback from the Board at its 17th Session to have a higher level of country based coverage. In response to this request OIG is now proposing 20 country audits in 2010 (a 100 percent increase) recognizing that with 140 country grant programs an even higher number would be desirable. The paper at Annex C rationalizes the purposed increase in the number of OIG country audits. Inevitably, such an increase has resource implications. The number of Secretariat based 'reviews' remains at six.

35. The OIG methodology for country audits of having specialists on the teams (i.e. procurement and supply management and public health specialists) has proved to be effective in securing well informed audit findings and will continue in 2010. The number of audits proposed is based on leveraging the best use of available core staff resources, and efficiency gains. The average cost per audit falls as the number increase (see paragraph 42 (b)). It is anticipated that each audit will take at least 5 weeks of field work.

36. Investigations are generally reactive and the requirement for investigation staff, travel and the level of associated expenses are subject to the number and type of allegations received. While the number of future referrals cannot be forecast with accuracy, historical reporting and trends in reporting numbers and types of cases can assist in providing the best possible estimate of likely future requirements. There has been a significant year on year increase in the number of cases referred to the OIG. Reports received by the OIG in 2009 are 150 percent higher than those received in the previous 12 months. The increasing number of referrals being received has outpaced OIG recruitment.

37. OIG's analysis of referrals since 2005 also shows that the allegations referred to the OIG have become more complex, with a greater range and combination of allegations. The percentage of referrals categorized as containing an element of fraud, embezzlement, or corruption (in other words, cases at the more serious end of the reporting scale) has increased from around 32 percent in 2008, to approximately 57 percent in 2009 thus far. This type of allegation requires significantly greater resources than 'simpler' cases that previously made up the bulk of the referrals.

38. As a result of recent and pending initiatives to raise awareness of ethical expectations and reporting mechanisms, a significant further increase in the number of referrals of alleged irregularities is expected in 2010. Those initiatives include:

- (a) The pending implementation of a Secretariat/OIG protocol to make staff aware of their obligations to report matters to the OIG;
- (b) Sending on an annual basis to all Board Members, Secretariat staff, CCM members, Principal Recipients, and LFAs a memo reminding them of their duty to report allegations to the OIG;
- (c) Requiring the signing and return of a letter of representation from all Principal Recipient's, LFA's and Regional Team Leaders stating that all appropriate matters have been referred to the OIG;
- (d) The creation of the enhanced OIG Integrity Hotline, with multi-language web-reporting and toll-free telephone reporting lines (paragraph 17); and
- (e) The finalization of the Suppliers Code of Conduct (paragraph 16a)

39. Building on the success achieved through a multi-agency partnership with local law enforcement and prosecutorial agencies in Uganda, it is anticipated that the OIG will be called upon to undertake further capacity building work in other countries in 2010. This will draw on the support of other entities to the fullest extent possible but the efforts nevertheless need to be co-ordinated by the OIG. It is estimated that capacity building work will be undertaken in 2 countries, each requiring three missions of 10 days' duration for 2 investigators (a total of 60 days)

PROPOSED OIG BUDGET FOR 2010

40. In the past due to lack of information and since the office had just been set up and was evolving, it was difficult to effectively project what OIG would need to spend to fulfill its mandate. OIG has now been able to undertake audits and investigations in different ways and is in the process of procuring tools and implementing processes aimed at working more efficiently and effectively.

41. The proposed 2010 budget is summarized in the table below.

	2010 Budget US\$ 000	2009 Budget US\$ 000	2009 Est. exp. US\$ 000
Staff (24 staff compared with 19 budgeted in 2009)	4,354	3,300	1,839
Professional fees	4,101	1,617	3,623
Travel	1,460	1,310	925
Meetings	127	135	40
Communications	210	60	40
Office infrastructure	52	248	100
Total	10,304	6,670	6,567

42. Justification for the budget above is provided below:

- (a) Staffing: The proposed change in the number of staff is 4 (5 new posts less 1 given up).
 - The OIG responded to the Board's request to control costs by giving up the position of Deputy Inspector General. The responsibilities of the Deputy Inspector General have been distributed among core staff.
 - The increase in referrals to OIG and the increased complexity of cases far

exceeds the capacity of the current staff levels. Core investigation staff have been increased by five positions to handle this large increase in cases.

- There will be no increase in audit staff. Instead of recruiting more core staff to undertake audits, it is more cost efficient to use regionally and locally based consultants since they come at a lower cost and have the advantage of providing the local country context. An analysis of costs shows that costs per audit would double if core staff were used instead of hiring consultants.

- (b) **Audit Costs:** The costs have gone up to take into account the increase in audits. It also takes account of the increasing use of consultants on the audits. The table below shows the total costs per audit for 20, 15 or 10 audits (current audit levels).

	20 Audits US\$	15 Audits US\$	10 Audits US\$
Core staff	1,127,067	1,127,067	1,127,067
Consultant costs	4,000,000	3,000,000	2,000,000
Total costs	5,127,067	4,127,067	3,127,067
Average cost per audit	256,353	275,138	312,707

- (c) **Travel:** The increased level of referrals and audits inevitably comes with an increase in travel costs.
- (d) **Communications:** The increase in the communications costs relates to translation of reports into at least two other languages.

This document is part of an internal deliberative process of the Fund and as such cannot be made public. Please refer to the Global Fund's documents policy for further guidance

The Office of the Inspector General: 2010 Audit Plan Background

1. The 2010 Audit plan has been prepared based on the OIG Charter and Terms of Reference and the overall OIG strategy as contained in the "The Priorities for the Office of the Inspector General" (GF/FAC10/03). The audit plan shows how these priorities will be tackled and the implications of this for the audit team. It is prepared in compliance with the International Standards for the Professional Practice of Internal Auditing.
2. This plan has been developed based on the following basic principles:
 - (a) Audit resources are limited, thus prohibiting one hundred percent audit coverage each year. This limiting factor makes it essential to utilize risk assessments to help OIG prioritize audits.
 - (b) This plan is viewed as a flexible and dynamic tool that can be amended throughout the year to reflect changing Global Fund risks and priorities.
 - (c) This plan gives consideration to work performed by other auditors e.g. the audit work that will be undertaken by UNDP.
 - (d) This plan is developed with the understanding that there are inherent risks and limitations associated with any method or system of prioritizing audits. As a result, the risk factors and scoring process will be periodically evaluated and modified, in order to improve the audit plan.
3. The following is the proposed list of the audits planned for 2010. Situations often arise that may call for a change within an audit plan. All such changes will be discussed with the Secretariat in a timely manner.

Cluster	Selected projects	Basis of selection
Country Programs	<ul style="list-style-type: none"> At least two audits per Regional Team Zimbabwe follow up Two audits undertaken in collaboration with UNDP Two audits of organizations that are managing Global Fund programs as Principal Recipients across a number of countries e.g. PSI Grant disbursement process Lessons Learnt from Country audits and reviews 	<ul style="list-style-type: none"> The risk-based approach through the utilization of risk assessment criteria; Input from the Secretariat and external stakeholders
Corporate Services	<ul style="list-style-type: none"> Travel audit Implementation of the new policies and processes post ASA including the ERP implementation 	<ul style="list-style-type: none"> The risk-based approach through the utilization of risk assessment criteria; Input from the Secretariat and external stakeholders

Cluster	Selected projects	Basis of selection
Strategy Performance and Evaluation	<ul style="list-style-type: none"> • Performance based funding at work • AmFM • Procurement of bed nets across countries 	<ul style="list-style-type: none"> • The risk-based approach through the utilization of risk assessment criteria; • Input from the Secretariat and external stakeholders • New process • Knowledge of operations and internal controls derived from previous audits and investigations

**If you have
evidence of
mismanagement,
fraud or unethical
conduct, you
should report it.**

**Office of the Inspector General
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Reporting Irregularities

The Office of the Inspector General

The Office of the Inspector General is an independent unit reporting directly to the Board of the Global Fund. Its purpose is to provide independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting on the Global Fund's programs and operations. To this end, all aspects of the Global Fund's activities, including those carried out on its behalf by its program recipients, in-country partners and suppliers are subject to Office of the Inspector General review. The Office of the Inspector General may conduct and report on any audit, investigation or other oversight work deemed appropriate. They have authority to access all records and documents relating to grants maintained by the Global Fund, Principal Recipients, sub-recipients, Local Fund Agents or their sub-contractors. In addition, the Office of the Inspector General may seek information from any personnel involved in Global Fund-supported projects and require such persons to cooperate with any reasonable request for information.

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What should you report?

If you hold information indicating that anyone involved in Global Fund programs (such as Principal Recipients, sub-recipients, Local Fund Agents, suppliers or Global Fund Secretariat staff) is engaged in any of the following behaviors, you should report it:

- fraud
- inappropriate use of program assets
- waste
- product substitution or other irregularities in tender processes (for example, bid manipulation, bid collusion, coercive practice or fraudulent bids)
- bribery, abuse of power, abuse of authority
- conflict of interest
- mismanagement
- employee misconduct (including acceptance of gratuities, travel-related fraud, benefits and allowance fraud).

What should you include?

Please make your complaint as specific as possible and include details such as:

- the type of alleged wrongdoing you are reporting;
- where and when these events occurred;
- the people involved and anyone who may have knowledge about the matters you are reporting;
- how the individual, organization or company committed the alleged wrongdoing;
- why you believe the conduct should be investigated.

Should you have further information or evidence (for example, documents) that you believe will assist in making a proper assessment, please provide this material to the Office of the Inspector General as soon as possible.

Who should you report it to?

All concerns relating to Global Fund grants or partners should be reported to the Office of the Inspector General of the Global Fund.

How should you report it?

By telephone:

Directly to the Office of the Inspector General
+41 22 341 5258
(24-hour secure voicemail)

By fax:

+41 22 341 5257
(dedicated secure fax line)

By e-mail: Send your message to
inspector.general@theglobalfund.org

By letter:

Office of the Inspector General
The Global Fund to Fight AIDS, Tuberculosis and Malaria
Chemin de Blandonnet 8
1214 Vernier, Geneva, Switzerland

Through a third-party reporting service:

+1 704 541 6918
(This number is available free of charge and the service is available in English, French, Spanish, Chinese, Arabic and Russian)

Through the Internet:

Go to website
<https://www.integrity-helpline.com/theglobalfund.jsp>
and fill in the form. (You can choose to remain anonymous. This service is available in 21 languages)

This reporting service is provided by Global Compliance, who will provide the details of your report to the Office of the Inspector General. Global Compliance will ask if you wish to be anonymous or if you wish to provide your contact information. If you choose to be anonymous, Global Compliance will provide you with a report number and a personal identification number (PIN) so that you can follow up on the response to your complaint with the Office of the Inspector General. If you provide your contact information, the Office of the Inspector General may contact you directly for more information.

Frequently Asked Questions

What happens next?

Your report, like all allegations reported to the Office of the Inspector General, will be reviewed by staff in that office. Where a matter falls within the charter and terms of reference of the Office of the Inspector General, an assessment will be made to determine the most appropriate action. This may lead to an investigation by the Office of the Inspector General, or a referral of the matter to national authorities for investigation. Alternatively, where appropriate, the matter may be referred to the Global Fund Secretariat for action.

Is it possible to remain anonymous?

You can remain anonymous, regardless of which of the above options you choose to submit your report. However, it can be difficult to assess and investigate allegations if we are not able to contact you for further information or clarification of the details you provide in your initial report. We therefore encourage you to disclose your identity. If it is important for you to maintain anonymity, we suggest that you use the anonymous reporting option available through Global Compliance (see How should you report it?). In this way your details will not be registered or passed on to the Office of the Inspector General.

If I provide my personal details to the Office of the Inspector General, is my identity kept confidential?

If you provide your personal details when making a report to the Office of the Inspector General, they will not be disclosed to the Global Fund Secretariat or to external organizations unless you give your consent. Should further information be required to properly assess the matter, the Office of the Inspector General will use the e-mail address and telephone number that you have provided.

Does the Global Fund protect people who report wrongdoing?

The Global Fund has instituted arrangements to protect those who report problems (often referred to as "whistle-blowers"). Comprehensive information is provided in the whistle-blower policy which can be accessed from <http://www.theglobalfund.org/en/oig/?lang=en>

The proposed increase in the number of OIG country audits

Purpose of this paper

1. This paper has been prepared to support the proposed increase in the number of audits undertaken of programs supported by the Global Fund at country level (country audits). Audits of country grant programs should be distinguished from OIG reviews of grant management functions which are also planned. The paper addresses why country audits are necessary, what number would be appropriate and how these audits are selected.

Background

2. Through its audits, OIG provides assurance on the effectiveness of internal controls and identifies actions that will enable the GF to achieve better results. The OIG recognizes that an overall strategy and plan is important to meet its goals, objectives, and mission and these are set out in the "Priorities for the Office of the Inspector General" (GF/FAC10/03) approved during the 17th Session of the Board.

3. To establish and maintain professional competence, the OIG applies the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors (IIA) and International Organization of Supreme Audit Institutions (INTOSAI).

Why country audits are necessary?

4. The scale and risks associated with the money spent at country level call for a high priority to be given to country audits.

5. The scope of the Global Fund's external audit does not cover what happens to funds once they have been released to Principal Recipients (PRs) in countries. The mechanisms in place to provide assurance that the funds disbursed to countries are used in accordance with the grant agreement are: (i) the work undertaken by Local Fund Agent (LFAs); (ii) financial audits undertaken by auditors appointed by the PRs; and (iii) the country audits undertaken by OIG.

6. The work of the three mechanisms in providing assurance about the use of funds is complementary with each mechanism bringing a different set of information for decision making at the Secretariat level. Two reviews undertaken earlier this year (lessons learnt from past OIG audits and a review of PR audits arrangements) have identified shortcomings in terms of how these mechanisms operate in practice. OIG have offered recommendations which would, once implemented, strengthen these arrangements. In the meantime the mechanisms do not provide the Global Fund Secretariat with the required assurance expected from this work.

7. In practice, OIG is able to place only limited reliance on the work of the LFAs and the financial audits by the auditors appointed by the PRs. OIG's country audits also relate shortcomings in the internal audit arrangements in PRs, another potential source of assurance. Moreover, the emphasis of reviews and audits is placed at PR

level yet in most cases the actual implementation of activities and money spent happens at SR/SSR level. These reviews/audits do not cover key functional areas like procurement and supply management (PSM) which in most country budgets accounts for over 70% of the work plans and budgets. OIG have recommended that they should do so. The OIG's audits cover SRs and functional areas like service delivery and PSM and as a result provide a holistic picture of the overall program implementation in a country.

What number should be undertaken?

8. The IIA standards recognize that due to resource constraints it is impossible to have 100% coverage of an audit population and therefore call for the prioritization of audits on the basis of risk but require the work undertaken to be sufficiently comprehensive to ensure the effective and regular review of all operational, financial and related activities.

9. At the time of developing the OIG priorities paper referred to above the proposal was that OIG undertake only 8 country audits per year, given that it had limited capacity at the time. The Board responded by requesting an increase in the number of audits of country grant programs. In response the number of country audits was increased to 11 for 2009 and to the proposed 20 for 2010.

10. It has been difficult to find good comparators against which to benchmark. A reasonably comparable health partner (GAVI) does not at present have a function equivalent to OIG and nor does the Gates Foundation. The approach followed has, therefore, been informed by benchmarking OIG with three development partners that undertake audits of their country operations. This comparison has to be qualified on the grounds that the funding architectures are very different i.e. (i) other partners have country offices (which mitigates risk); (ii) they often have smaller portfolios at country level (iii) their country audits only relate to processes within their country offices and not the programs which is the focus of OIG's approach.

- (a) The World Bank has moved away from a cyclical approach to its country based work. They have 50 country directional units (some small countries/islands are grouped together e.g. Pacific/Caribbean) and now audit only the high risk countries and those on the borderline between high and medium risk i.e. 18 in 2008.
- (b) In the case of UNICEF, 28 offices have been selected from a risk ranking list to be audited in 2009. All UNICEF country offices are audited within a cycle of 5 years, and the ten offices with the largest program allocations are subject to audit every two years.
- (c) In the case of UNDP, high risk offices are audited every 2 years, medium-high risk offices every 3 years, medium-low every 4 years, and low risk offices every 5 years. On average, UNDP has about 35 comprehensive country office audits a year.

11. OIG's annual audit plan for country based audits is based on a combination of risk ranking and cyclicity as described below:

- (a) The OIG has developed a risk assessment model which is under further development by Country Programs. The model ranks all countries according to six objectively verifiable, quantitative indicators that together determine the overall risk to the achievement of the Global Fund country program objectives: (i) size of grants (ii) number of grants (iii) burn rate of the grants; (iv) perceived risk of grants to fraud and misappropriation based on the Transparency International Perception Index; (v) the LFA rating; and (vi) if any allegations have been received from the country. Countries with greater risk will be audited more frequently, but it is important to audit lower risk areas as the risk assessment process is not an exact science.
- (b) In terms of cyclicity, the OIG considers the last time the area was audited. The more time that has passed since the area was last audited the greater the risk ranking, as intelligence on the country will be dated. The higher the risk the shorter the cycle.

12. The risk model has identified 35 countries as high risk. Of this number, OIG will cover about 12 in 2010. The Secretariat is responsible for managing risk and full account is taken of the Secretariat's own assessment of risks in deciding on which country grant programs to audit. The receipt of allegations may call for an audit to be advanced and in consequence other audits may need to be deferred. Two countries will be selected as offering best practice (i.e. low risk) and two audits will relate to PRs that cover a number of countries e.g. PSI. A follow up review will be undertaken within a year for countries with serious audit findings.

13. On the basis of cyclicity, if 20 country audits are undertaken per year, then OIG would expect to audit each country at least once every nine years, and high and medium risk countries more frequently:

- (a) High risk countries every 3-4 years;
- (b) Medium risk countries every 6 years; and
- (c) Low risk countries every 8 years

14. The IIA are not prescriptive about the appropriate cycles of coverage but the cycles proposed are longer than those applied by UNICEF and UNDP which have lower risk operations and a case could well be made for a shorter cycle. At this time the coverage proposed represents the bare minimum required. Each year the appropriate level of coverage will be reviewed, taking account of the hoped for improvements in the strength of other assurance mechanisms (PR audit arrangements, the work of LFAs, PRs internal audit arrangements etc).