



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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Board Information

THE OFFICE OF THE INSPECTOR GENERAL PROGRESS REPORT FOR NOVEMBER 2011-MARCH 2012

PURPOSE:

This paper provides an update to the Audit and Ethics Committee (AEC) and to the Board on the activities of the Office of the Inspector General (OIG).

PART 1: Introduction

1.1 This paper provides an update to the Audit and Ethics Committee (AEC) and the Board on the activities of the Office of the Inspector General (OIG). The newly formed AEC had not met at the time of drafting. More detailed material to support this report will be presented to them at their induction meeting.

1.2 Items for Board information included in this report are as follows:

- i. Part 2: The scope of this report
- ii. Part 3: The actions taken in response to the High-Level Panel Recommendations
- iii. Part 4: Theme 1-Quality
- iv. Part 5: Theme 2-Partnership
- v. Part 6: Other Key Achievements
- vi. Part 7: The resources consumed

PART 2: The scope of this report

2.1 The overarching theme is **'turning the page'** to support the Board and the Secretariat in securing the 'transformation' of the Global Fund envisaged in the High Level Panel report. The paper recognizes that **we all work for one Global Fund**. It presents the actions we have already taken in response to the High Level Panel recommendations, and our activities and achievements over the past five months. The sub themes are **quality and partnership**. The report outlines what we have already done to strengthen linkages and collaboration with our partners, in particular the Secretariat but also the many external entities with whom we interact, and to improve further the quality and timeliness of our deliverables.

PART 3: The actions taken in response to the High-Level Panel Recommendations

3.1 **The relationship with the Secretariat:** The working relationship with the General Manager and his newly appointed management team has been described as 'collaborative and constructive'. The Inspector General meets at least weekly with the General Manager and we both escalate critical issues immediately (most recently on South Africa and Mozambique). The Inspector General has a standing invitation as a 'guest' to the Management Executive Committee and all other internal management committees, not as a 'decision maker' but to maintain contact and to offer counsel. At working level there is a substantially stronger relationship between the Secretariat and OIG staff. Meetings take place more frequently and issues are invariably discussed in person. Both sides are working hard to ensure that interactions are polite, professional and strike the correct tone and style, in order to prevent misunderstandings.

3.2 **Participating in the transformation exercise:** Collaboration with the Secretariat has included the OIG's co-leading Work stream 1 of the Consolidated Transformation Plan. Working initially with the OED and then with the General Manager's office, we have completed eight projects out of eleven and are well on track with the remaining three (improved timeliness of reports, updates to the Board on recommendations, strengthening interaction with UNDP).

3.3 **Accelerating recruitment into the OIG:** Significant delays in recruitment have previously had an adverse impact on the delivery of the OIG's activities. The Audit Unit will soon be fully staffed. In mid-March we welcomed two new audit managers to the team and an additional audit team leader and a team assistant joined us in mid-April. The selection process for the Public Health and Procurement specialists is well advanced. There continues to be some delays in the recruitment of staff into the Investigations Unit,

particularly at more senior team leader level, but there have been several additions as well including four junior investigators and an analyst. Currently there are 7 vacancies out of the 18 established posts. An obstacle has been the quality of the applications received and the salary offers that have been made, resulting in the declination of some offers. In response a specialist contractor is supporting the management of a number of cases. Several investigation positions have been filled recently and a number are currently in progress. A number of short term contracts have also been executed in the interim, and this has bridged the gap from the lack of full time staff. Several of these individuals have performed well. The HR Unit has also committed to undertaking a classification exercise and salary survey to help address challenges with recruitment.

3.4 Positive feedback on the behavior of contractors in the field: All staff and contractors have signed the OIG code of ethics and professional conduct. Since the last progress report, exit surveys by auditees have rated audit fieldwork at 3.4 (up from 3.3 on a scale of 1=poor to 4=excellent for the preceding period). In the one case in which a PR raised specific issues about audit contractors, we gave their managers immediate feedback and called for corrective action before we consider working with them again. On investigations we have used independent monitors in two locations (South Africa and Bangladesh) to observe the conduct of the OIG teams. We received positive feedback from the monitors who measured what they observed against the OIG code of ethics and professional conduct. The concluding meetings for the investigation in South Africa were also observed by two Global Fund Board members. More generally there is an open invitation to all AEC and Board members to observe the concluding sessions of both OIG audits and investigations.

3.5 Improvements in the timeliness of reporting: The timeliness of reporting improved substantially in the second half of 2011. Drafting of audit reports took less than three months. We have also concluded conversations with the Secretariat on a protocol that defines the time to be spent by all stakeholders on specific steps in the completion of the audit reports. The OIG Audit Unit have also recently held a day long workshop to devise a reporting template that will help to facilitate the more timely drafting of reports. In the past requests to have reports translated has also delayed the release of reports and in response we are proposing a translation policy to the AEC that will speed up reporting. There are a number of investigation cases in the pipeline. For both audits and investigations the decision has been taken that existing staff should not start any new pieces of work until their backlog of existing work has been cleared.

3.6 The audit reports in the pipeline include findings under all grants made to a given country. However, all audits and reviews initiated after November 2011 are **restricted to Round 6 and later**. Internal reviews are shared with the General Manager, and will be summarized for the AEC but will no longer be posted on the public website.

PART 4: Theme 1- Quality

4.1 Audit units must undergo **quality assessments** at least every five years to meet the standards of the Institute of Internal Auditors (IIA). We undertook the first periodic assessment of our activities in January/February 2012. It was a self-assessment led by the Institute of Internal Auditors which will be followed by an external validation of the actions taken in response towards the end of 2012.

4.2 The opinion of the IIA team leader was that the Audit Unit “generally conforms”¹ to the mandatory guidance of the IIA. Areas for improvement included the conciseness and

¹ The IIA’s Standards Evaluation system recognizes three levels of conformance: “Generally conforms”, “Partially conforms” and “Does not conform”.

timeliness of reporting and the need to establish a Quality Assurance and Improvement Program to ensure continuous improvement of the Audit Unit's activities. The progress achieved in taking forward these initiatives will be reported to the AEC during the course of 2012.

4.3 The Investigations Unit is committed to a **'peer review' of the investigation function**, building on the observations of the High Level Panel. Such reviews are a feature of some investigation functions within the international community. Peer reviews by a competent, independent and objective comparable body are the standard method to assess the investigation function.

PART 5: Theme 2-Partnership

5.1 The last 5 months have been characterized by a strong emphasis on partnership, both with the Secretariat and also with external entities with whom we work both in terms of audit and investigatory activities.

Reinforcing our partnership with the Secretariat:

5.2 The first steps taken to reinforce our partnership with the Secretariat have been the Protocol that we agreed and that we have begun implementing since the beginning of 2012, the joint work with the OED on the Consolidated Transformational Plan and the greater attention we have paid to the tone and style of our communication.

5.3 The OIG is committed to **supporting the Secretariat** as it further strengthens its focus on risk analysis and 'impeccable grant management', in particular in the functional areas that we have highlighted in past audits and lessons learned reports. In Q1 of 2012 we undertook two joint training exercises (training of senior fund portfolio managers in grant management and induction training of new program finance staff). In addition, we are confident that we can leverage the OIG's in-country experience in helping the Secretariat strengthen the following areas and processes.

5.4 The OIG has offered to contribute resources to the Secretariat to fine tune risk analysis and mitigation concerning **procurement and supplies management**, particularly given that over 40 percent of all disbursements are used for procurement, much of this for life-saving drugs.

5.5 **Governance and oversight at the country level**, in particular through CCMs, is an area that needs greater attention given the risks that the OIG has identified in the majority of audits undertaken. We would be keen to add our expertise to discussions and policies for improving CCM accountability and management.

5.6 The area of **Sub-Recipient management** is one that could similarly benefit from the OIG's experience engaging with this risk area at country level so that the Secretariat can offer better informed guidance on risk mitigation.

5.7 Much of this will need what the HLP has called a "central depository of useful and needed resources to address risks or weaknesses most frequently encountered across the portfolio", which is something the OIG can contribute to given our in depth work across over 50 countries in the grant portfolios. **We have made available 25 percent of the time a senior audit manager**, to support risk management initiatives, and stand ready to expand this support.

5.8 A lesson we learned from the OIG's own Quality Assurance Review is a need to revisit the universe of other providers of assurance on the programs we audit and to **increase our reliance on other assurance providers**. This ranges from internal and external auditors and the LFAs at the country level to the Technical Evaluation Reference Group (TERG) and

to other funders, including Bilaterals and specifically UNDP. This prompted us to generate an 'Assurance Map' which we will present to the AEC proposing specific ways of improving our reliance on other providers of assurance:

5.9 National Audit Offices: In our experience to date, we have not been able to rely to any great extent on the assurance provided by the external auditors in recipient countries. Regular audits of Principal Recipients have not always taken place or are often delayed. We are now working with the Secretariat to reflect on what we are asking the external auditors to do and to find ways to help leverage in support to build the capacity of the national auditors. In 2012 the OIG will be working with national audit offices to explore mechanisms to take forward these initiatives. We will begin in Anglophone Africa through a meeting of Auditors-General co-hosted by the OIG and the Secretariat in Nairobi in mid-May.

5.10 The Internal Audit Units of Principal Recipients: Effective internal audit units can provide another important source of assurance. However, some of the same weaknesses are observed in the internal audit functions of many PRs. A recent analysis of the internal audit unit in a Southern African country found shortcomings including "undocumented, unapproved and incomplete work scoping and annual plans; inadequate training of staff; a lack of adequate working papers and quality control; and an absence of risk assessment". Many countries currently show similar patterns; however, with appropriate capacity building the OIG would over time be able to rely much more extensively on the results of internal audit of PRs in our own assurance work. We are in conversation with the African Federation of Institutes of Internal Audit whose strategic plan includes such capacity building activities and the World Bank, which is funding some such work. We have also developed a twinning arrangement to support the Inspector General's office within the Ministry of Health in Mozambique. One of his audit managers is joining the OIG's audit in Angola in April. As part of this new approach we recently included the PR's internal audit team in a diagnostic review we undertook in China and helped them to develop a risk based audit plan.

5.11 Interns from Recipient Countries: As part of our emphasis on building and strengthening capacity in the internal audit function in recipient countries, we intend to host 3-4 interns from the internal audit units of recipient for 6-month periods. They would be based in Geneva but travel out with us on say 2 audits or diagnostic reviews. This would not only build skills, but also strengthen relationships between the OIG and recipients. We are exploring mechanisms for funding this towards the end of 2012.

5.12 Similar initiatives are being taken in relation to investigation. The OIG has engaged with the anti-corruption authorities in two African countries to enable them to take forward fraudulent activities identified where the Global Fund has sustained losses. In the case of Mozambique the OIG has invited the Inspector General in the Ministry of Health to investigate irregularities identified during a recently completed audit. The OIG has offered support, proposed investigative steps and will be returning in June to offer further support.

5.13 The LFA function requires extensive 'reinvention' to maximize its inherent potential as a provider of assurance at the country level. The OIG will support the Secretariat in providing more rigorous direction, and a call for greater focus on risk identification, better control over quality with reference to minimum standards for implementation, training in key risk areas such as fraud, etc. The Global Fund would ultimately benefit greatly from being able to place greater assurance on LFA work at the country level.

5.14 Knowledge Sharing: The OIG team has expanded its work in contributing to a better understanding of risk management, good financial management practices, sub-recipient management and related frequently observed risk areas in-country by sharing knowledge with PRs, SRs and other partners. To date this has taken the form of the OIG team extending its stay in country to offer a tailored course designed to address the risk areas

observed. The most recent such offering took place in China and was much appreciated by the attendees. Going forward, we plan to make this a standard feature of our presence in-country.

5.15 We have been working closely with the Technical Evaluation Reference Group (TERG) this year to define areas of complementarity and to share findings to strengthen our respective work. We compare our respective work plans and reflect together on what has emerged from our programs of work. The OIG has been invited to attend a TERG retreat in May 2012. The TERG has already decided to follow up on the OIG-identified patterns regarding PMTCT and plans to work with us to complement our audit of the VPP function with an evaluation. TERG members have asked to attend the concluding meetings of audits and diagnostic reviews.

5.16 We recognize that the relationship with UNDP needs to be built on mutual trust. A Co-operation Agreement has now been finalized in relation to investigatory activities and there is also an established protocol on the access to UNDP audit reports of Global Fund financed programs. We have shared information on certain investigative efforts, shared drafts of reports in countries with UNDP for their input, exchanged information on our respective audit plans and schedules, and benefitted from reading UNDP's audit reports through the new remote access agreement. We are currently exploring options for having UNDP auditors join our team on Sub-recipient audits/reviews.

5.17 Since mid-2011, the OIG has been conducting Diagnostic Reviews in addition to formal country audits and internal Secretariat reviews. Diagnostic Reviews make results available for action more rapidly by pointing out the major risks that grant managers need to address. An additional innovation is our collaboration on Secretariat-led Financial Management Reviews. This involves adding audit/diagnostic review resources to special-purpose financial reviews planned and contracted by the Secretariat in order to increase the assurance gained from the exercise and to avoid the additional burden on the recipient of having two reviews. We are about to begin the first such joint process for Benin in April.

5.18 Going forward, the OIG has agreed, with support from the Chief Risk Officer, to facilitate Control Risk Self-Assessments, both in the Secretariat and at the recipient level. This will allow managers to reflect on risks and controls and explore practical solutions with our professional guidance in terms of 'lifting the stones' beneath which the risks lie. It can also be used as a practical tool in advance of an audit or diagnostic review. In collaboration with the country team the first such exercise will be piloted in Uganda in early May, facilitated by the OIG senior audit manager referred to in paragraph 5.7. The OIG will then work with the Secretariat to roll this out in all High Impact Countries.

More extensive collaboration with external partners

5.19 Over the past 5 months the OIG has taken initiatives to pursue formal joint working mechanisms with international partners to further collaboration on matters of mutual interest and overlapping responsibility, especially on the investigation side. This builds on the Memoranda of Understanding (MOUs) that already exist with the World Bank (INT) and UNDP's Office of Audit and Investigation (OAI). Other investigation MOUs with the European Anti-Fraud Office (OLAF) and DFID are close to conclusion and others with UNICEF and USAID are proposed. The agreements provide a framework for joint efforts, information sharing with appropriate data protection safeguards, proper handling and maintaining of sensitive information, and evidence in matters where there may be a mutual interest.

5.20 Through these mechanisms, the OIG Investigations Unit has engaged with these partners in the areas of drug diversions, thefts and leakage, as well as Long Lasting Insecticidal Net ("LLIN" or "bed net") investigations. These MOUs have hastened the pace of investigative work, reduced costs to the OIG as partners have agreed to the sharing of expenses, and provided a low cost means of securing much needed extra resources for

large investigations. In one significant case, the World Bank-INT has offered to provide supplemental investigative resources, and the OIG and OLAF have agreed to such a mechanism in principle.

PART 6: Other key achievements

6.1 The OIG is looking forward to engaging with the AEC on its 2012 audit plan and to proposing a multi-year plan for consideration. Its priority in the reporting period has been to focus on advancing a backlog of reports in the pipeline. Several weeks back we were on track to release a package of 9 audit reports before the May Board. But since then there have been delays beyond our control in securing feedback from recipients. One country, for example, took over 4 months to respond to an initial draft and others have asked for more time to provide final replies. Moreover, the Secretariat has been pre-occupied with the restructuring exercise and has not had the time to focus on providing final comments to the reports involved. We released four reports to the Board on 23 April 2012 and will most likely be in a position to release another five or six reports several weeks after the Board meeting. Synopses of the key messages from the reports released before the Board will be provided in an oral briefing to the Board.

6.2 The OIG Investigations Unit has several high priority, large scale investigations currently in progress. These matters are scheduled to conclude in 2012. Significant progress on all of these cases has been made during the reporting period, and it is expected that a number of investigation reports will be issued in Q2 and Q3 of 2012. In the reporting period, these cases have been well advanced by investigation missions to the countries involved, collaboration with partners, the review and analysis of volumes of documentary and other evidence, efforts to trace evidence and identify proceeds of misappropriation, and forensic efforts and analysis. The Investigation Unit's return to Mali was interrupted by the recent coup and dislodging of the government, as an investigation team was in flight at the time of the events. The Investigation team will return when the domestic situation settles and it is safe and productive to continue the in country work. The Investigation Units focus, given the evolution of the caseload, is slowly turning from Africa to Asia.

6.3 The OIG has proposed, and undertaken the lion's share of effort in drafting an Appeals procedure for Implementers to raise challenges to the work of the OIG, short of arbitration. While the standard contract with Implementers provides for UNCITRAL arbitration as the principal mechanism to resolve disputes with the Global Fund, some recipients have complained that the procedure is costly and inconvenient - as the cases are required to be heard in Geneva. As an alternative, the OIG has proposed, and worked with the Legal Unit, on a Voluntary Dispute Resolution Procedure, to allow recipients to bring claims to an independent external panel in an attempt to resolve matters prior to arbitration. In a sense, the VDRP acts as a non-binding dispute mediation mechanism. The FAC and the Board approved the Procedure at the December Board meeting, and recruitment for Panel members is currently on-going.

6.4 Other initiatives in progress for consideration by the AEC are:

- Proposals to rework the OIG's Charter and Terms of Reference of the OIG in response to the Quality Assurance Review undertaken;
- Establishing a mechanism to track the OIG's performance against the KPIs proposed;
- The need to finalize an Implementers Code of Conduct and to establish a Sanctions Panel to regulate cases of vendor and recipient misconduct; and
- Endorsement of the OIG's Code of Conduct and Professional Practice and the Secretariat's Code of Conduct.

PART 7: The resources consumed

7.1 In 2011 the OIG expended \$15.4M against a budget of \$19.8M (including a \$3M contingency). The shortfall arose due to the difficulties experienced in recruiting appropriately qualified staff and in contracting consultants. For 2012 the OIG has been unable, at the time of drafting this report, to obtain reliable data on its use of the budget to 31 March 2012. It would expect to be in a position to do so by the time of the first meeting of the AEC.