

**OIG PROGRESS REPORT (APRIL – OCTOBER 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). It also proposes a plan, priorities and a budget for 2013.

## **Part 1: Introduction**

1.1 This paper provides an update to the Audit and Ethics Committee (AEC) and the Board on the progress made by the OIG in fulfilling its mission. It also proposes its plan, priorities and budget for 2013 taking account of suggestions communicated to the OIG by the AEC.

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

- Part 2: Progress Update
- Part 3: Repositioning the OIG: plans and priorities for 2013 (and beyond)
- Part 4: A summary of the OIG's budget submission for 2013

Annex A: OIG Audit Plan and Resource Requirements

Annex B: OIG Investigation Unit in 2013 and beyond

Annex C: The OIG budget for 2013

## **Part 2: Progress Update – Audit Unit**

2.1 The second half of 2012 saw us continue to work on the theme of partnership we reported on at the last Board meeting. This played out both in further strengthening valued external partnerships and in our engagement with colleagues in the Global Fund Secretariat. In addition, major areas of focus were quality assurance, particularly through a formal external quality review, and the closer alignment in our work with the strategic objectives of the organization, specifically through a completely redesigned approach in the proposed multi-year audit plan with the goal of providing assurance to the Board. These emphases, in particular our focus on quality and much stronger alignment with the Global Fund's Strategic Framework, benefitted from close direction from the Chair of the Audit and Ethics Committee.

### **2012 Audit Plan: Update and Findings**

2.2 Since our last update to the Board drafted in April 2012, the **OIG Audit Unit has issued 28 reports** comprising 19 audit and 9 diagnostic review reports.

<b><i>Month</i></b>	<b><i>Audit</i></b>	<b><i>Diagnostic Review</i></b>
April	Ethiopia, Kenya, Uzbekistan	Cuba
July	Laos, Papua New Guinea	
August	Burundi, Malawi, Mozambique, Ukraine	Gambia, Eritrea, Peru, Georgia
September	Angola, Senegal	Myanmar
October	Bangladesh, Djibouti, Ghana, Kyrgyzstan, Namibia, Zanzibar	Benin, Caribbean Community, China
November	Chad, Kazakhstan	

Table 1: Audit Unit Reports released since April 2012

2.3 The Audit Team has made **significant improvements in the timeliness** of audit reports in 2012. The average days taken to release the audit report (last day of fieldwork to date of release) has decreased sharply from 162 days in 2011 and to 48 days in 2012.<sup>1</sup> Five of the reports published this year pertain to fieldwork undertaken in 2012, i.e., they were delivered much more rapidly than before.

<sup>1</sup> Since the 2012 audit plan has not yet been completed, the 2012 numbers will change.

2.4 Despite these internal improvements, **we are reliant on prompt feedback from both the country and Secretariat** to draft reports. The countries have invariably asked for time extensions. A revised review process lasting 12 weeks has been developed with Secretariat input; however, many of the remaining delays that need to be overcome to further improve the timeliness of our audit reports are not within our control.

2.5 The OIG is on track to deliver against this year's audit plan. As of 31 October, we will have completed five audits and five diagnostic reviews. Four engagements are currently underway (Congo, Guatemala, India and Zimbabwe) and one more is on schedule to be completed before the end of the year (Thailand).

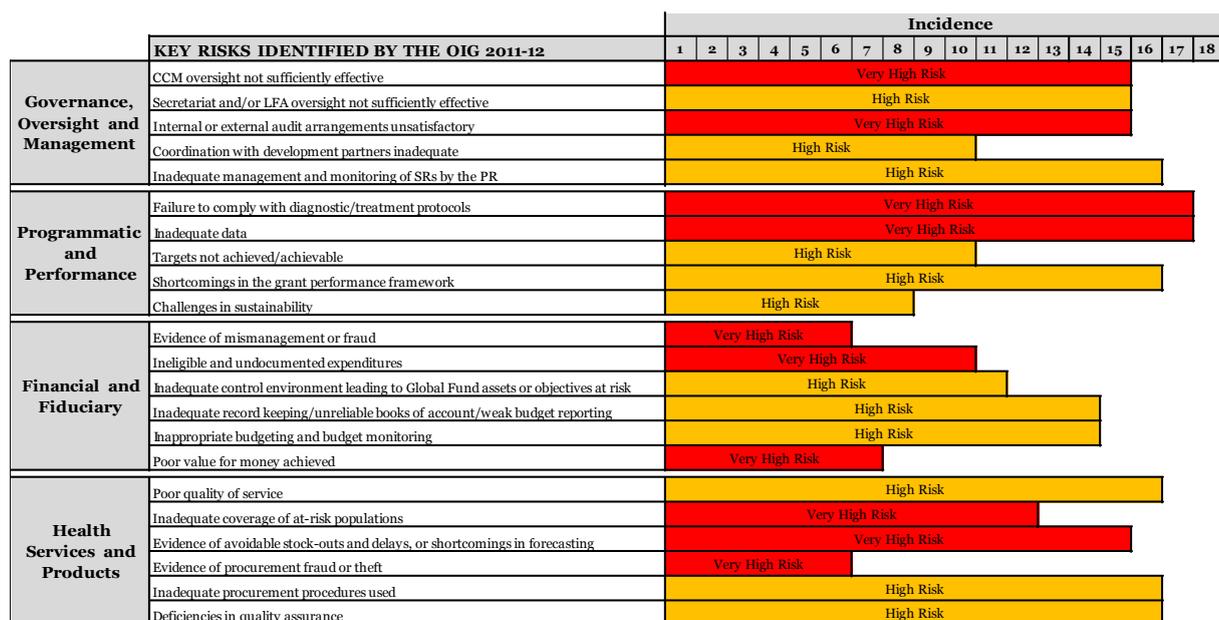
2.6 Two advisory engagements relating to internal business processes were undertaken since the last OIG Progress Report (Voluntary Pooled Procurement and Disbursements). The former was completed as a consulting engagement at the request of the acting CFO and we have received feedback that this was useful in helping management to consider options as it rethinks grant-related procurement options going forward.

2.7 Three country audits were deferred/cancelled this year: Yemen and Pakistan (deferred to 2013 due to ongoing security concerns) and Guinea (cancelled since the initial risk assessment resulted in an immediate referral to the Investigations Unit). The latter was replaced by an audit in the Republic of Congo, which was next in line in the risk assessment underlying our 2012 audit plan.

2.8 Two planned internal reviews were cancelled following an in-depth desk review: the planned audit of the AMFm and the planned multi-country audit of bed net procurement. While it would have been useful to the organization to assess certain aspects of the AMFm program that had not been covered in the recent evaluation through an audit, the timing between the release of the evaluation results and the Board decision did not make this a realistic option. Investigation findings on bed net-related issues similarly implied that an audit at this time would not have been appropriate.

2.9 An analysis of the engagements undertaken over the past two years highlight a number of **recurrent key risks** (shown in the Graph 1) that are not consistently mitigated in grant management practice.

2.10 These findings have been discussed in depth with our colleagues in the Secretariat responsible for operational risk management, who have provided the AEC with details on how risks are being or will be mitigated. Many of the risks are explicitly tackled in the Secretariat's operational risk management framework; however, they are yet to be fully embedded in the routine work of portfolio managers. The OIG stands ready to continue work in an advisory capacity with the Secretariat to identify what further mitigating actions are needed in the common risk areas identified.



Graph 1: Key Risks Identified by the OIG Audit Unit in 2011-12

2.11 A number of **recurrent thematic findings** related to program performance can be highlighted. All reports published so far this year confirmed an increased uptake of HIV counseling and testing and of prevention of maternal to child HIV transmission services. Impressive increases in tuberculosis case detection were reported from Kenya, Burundi and Georgia and increases in the treatment success rate from Burundi, the Gambia, Georgia, Lao PDR, Malawi, Namibia and Senegal. Georgia and Uzbekistan reported good progress towards malaria elimination with only one case of domestic transmission of malaria reported in Georgia in 2011.

2.12 But challenges remain. Our audits in Malawi, Mozambique and Papua New Guinea have shown that the funding modalities of the Global Fund do not align easily with **pooled funding arrangements**. Similarly, a recurring theme in the 2012 OIG reports is the difficulty of aligning grant monitoring processes with national health information systems or with joint government/donor monitoring frameworks.

2.13 A number of reports raised concerns over public attitudes towards **vulnerable populations** (Senegal, Eritrea). In countries where same sex relationships, commercial sex or injection drug use are criminalized, the harm reduction programs supported by the Global Fund have not yet made sufficient progress in terms of expanding their reach (e.g., Georgia, Ukraine and Uzbekistan).

2.14 The audits and reviews of clinical HIV care and of MDR tuberculosis treatment programs in many countries documented **insufficient laboratory support**. Laboratory facilities for tuberculosis culture and drug resistant testing were either not available or not easily accessible in Burundi, Eritrea, Senegal and Kenya. This was usually related to a complex and protracted process of rehabilitating and equipping tuberculosis laboratories.

2.15 Lastly, the **quality of data** reported by implementers was not consistently based on meaningful calculations. For example, the school education program on HIV in Burundi simply submitted the total number of students in each school that had a trained group of peer educators. In Cuba, the reported number of sex workers reached was calculated as a percentage of the estimated number of people attending condom demonstrations in tourist sites. These data are not a good measure of the outcome of interventions. We did also observe examples of **very well targeted high quality education and prevention programs**, for

instance on tuberculosis in Peru, malaria in Eritrea, and HIV prevention among gay adolescents in Jamaica under the regional Caribbean grant.

### **The Audit Unit's engagement with Secretariat Management**

2.16 Now that staffing in the Secretariat and the Audit Unit has stabilized and new colleagues have settled in to their jobs, we considered it opportune to introduce the work of audit to our colleagues in an informal way. To this end, the Director of Audit and the Audit Managers have held meetings with all regional teams in the Grant Management Department and plan to expand this to the rest of the Secretariat before the end of the year. These meetings have included brief presentations on the purpose of audit, the way we do our work, what is changing and where lessons learned existed. We typically end with a lengthy Q&A and an open-ended discussion, which allows for frank feedback on the opportunities for improving our relationship. These meetings were strongly welcomed by those who participated.

2.17 Collaboration has been strong also in the joint work on the *Better Grants for Increased Impact* project. We **made available our most senior audit manager** to the project for a period of three months, focusing on finding ways to place greater reliance on assurance providers, e.g., LFAs and the external auditors of Principal Recipients. This informal secondment has had benefits both for management and for the OIG in terms of information exchange and continued relationship building.

2.18 Further, in June 2012, the Secretariat and the OIG collaborated on a **control risk self-assessment in Uganda** as part of the Operational Risk Management framework. The workshop created a collaborative working environment for both in-country stakeholders and the Global Fund Secretariat to identify key risks that are likely to impact the successful outcome of grants as well as the appropriate measures to mitigate such risk. The workshop created awareness and promoted ownership of operational risk management at the country level. It resulted in an action plan that listed key risks and commitments to mitigate these risks by all stakeholders, with firm deadlines put in place and an agreed mechanism for monitoring and reporting performance.

2.19 Similar work was performed in the **Democratic People's Republic of Korea**, where an OIG team participated in a control risk self-assessment workshop informed by a week of site visits to program sites jointly with the Secretariat. Worthwhile program outcomes were observed, but also a number of risks that needed to be mitigated.

2.20 Exit meetings at the conclusion of audits and reviews both in-country and at the Secretariat have benefitted this year from **participation from senior Secretariat staff**. In the experience of the OIG, the presence of regional managers and division heads at the debrief ensures that by the time our audit findings and recommendations are presented to the CCM and PRs, the Global Fund speaks with one voice.

2.21 In developing the multi-year audit plan for 2013-15, the OIG took great care in **soliciting input from the appropriate divisions in the Secretariat** to ensure the plan was risk-based and reflected Secretariat priorities. We held meetings with all but one division to understand the way in which they viewed mission-critical risks. Based on these discussions, we modified our risk ranking of business processes that make up the audit plan. Near the end of the process, we held a brown-bag lunch to showcase the evolving plan. This allowed us to gather additional input. Contributions from the Chief Risk Officer, the former acting Chief Financial Officer and the Chair of the AEC further strengthened the plan.

2.22 In order to ensure that evaluation and audit can work hand in hand, the OIG has established a **strong working relationship with the Technical Evaluation Reference**

**Group** (TERG). We share annual workplans, and OIG audits going forward will be timed to align with TERG evaluations. Lessons learned from OIG audits have helped to frame TERG evaluations and vice versa (e.g., on PMTCT).

2.23 Lastly, the OIG and the Secretariat worked together very closely to begin **clearing** the very large number of **outstanding recommendations**. Some 300 recommendations have been validated as complete over the past two months and the OIG and Secretariat worked together to identify which recommendations were no longer applicable due to changes that had taken place at the grant implementation level. We are working together with the IT department to design a tool, integrated in existing grant management software that will facilitate the follow-up and validation of recommendations. The completion and roll-out of this tool is planned for early 2013.

### **The Audit Unit's Engagement with External Partners**

2.24 In mid-May of this year the OIG Audit Unit co-hosted a meeting of **Auditors General of Anglophone African countries** with the Secretariat in Nairobi. This was part of a wider initiative by the Global Fund to increase the reliance it can place on other providers of assurance. The outcome was a better understanding of each other's roles and scope of work. It forged stronger relationships and paved the way for greater involvement of Supreme Audit Institutions (SAIs) in the oversight of Global Fund grants. Audit teams now regularly meet with SAIs as part of any country work performed.

2.25 The OIG participated in the annual planning process of the **Office of the Inspector General at the United States Agency for International Development (USAID)**, one of our respected peers, for benchmarking purposes. This was a positive learning experience to understand better how the USAID OIG is structured, identify areas for better collaboration between the two offices, share lessons learned from engagements and identify ways in which the approach to work undertaken by the two offices can be strengthened. There is scope to learn from its experience in placing considerable reliance on State Audit Offices.

2.26 The developing country NGO delegation to the Board has invited the OIG to make presentations based on its experience in over 60 countries at **risk management fora** planned by them, which will bring together groupings of some 150 civil society grant implementers. Similarly, the Audit Unit has been invited to make a presentation on risk-based auditing to francophone offices of the **International HIV/AIDS Alliance** in November as part of the joint initiative of the German **Gesellschaft für Internationale Zusammenarbeit** and the Alliance to strengthen capacities of Global Fund recipients in Sub-recipient and risk management.

2.27 We have further **strengthened our relationship with UNDP**, now regularly share pertinent audit findings and are currently doing joint audit work in Zimbabwe (that respects the UN single audit principle). We look forward to working with the new director of OAI, who was recently appointed.

### **External Quality Assessment of the Audit Unit**

2.28 As required by the International Audit Standards, the Audit Unit underwent an **external quality assessment** in 2012. This began with a self-evaluation led by an independent consultant from the Institute of Internal Auditors-US in February (reported in our previous progress update). The self-assessment was validated by a review team from IIA-Australia in October 2012. In addition to the validation, the AEC asked the review team to provide advice on a number of matters in the Audit Unit including its mandate, its communications with stakeholders, its relations with the Investigations Unit, its professional maturity and its key performance indicators.

2.29 Overall, the review team found that the Audit Unit “generally conformed” to the Attribute Standards of the IIA. The Unit “partially conformed” to the Performance Standards, leading to an overall rating of “**partial conformance**” with the IIA Standards.<sup>2</sup> Specific areas for attention centered on the continuous professional development of staff, audit planning, and communicating and monitoring results. We plan to repeat the External Assessment of the Audit Unit within 12 months to validate the steps taken to achieve general conformance with the IIA.

2.30 On the additional analysis requested by the AEC, the reviewers found that the mandate of the Audit Unit was typical of an internal audit activity operating under the IIA Standards, with some engagements (particularly country audits) being more characteristic of external audit. The team found that the balance between audits of internal business processes and work at the country level was not entirely consistent with the Audit Unit mandate and that this limited the assurance that the Unit could provide to the AEC.

2.31 The team found that the Audit Unit was now well resourced but had a high average audit cost, largely driven by the size and scope of country audits. It recommended that the Audit Unit should consider the cost-benefits of continuing such reviews, compared with conducting **more focused audits** to better align with the IIA’s risk-based approach and the organization’s strategic objectives. The review team recommended that the multi-year audit plan should take account of the work of other assurance providers, in order to maximize audit resources and that the Audit Unit should reconsider its **high dependence on external contractors**, which resulted in a significant proportion of organizational knowledge being lost to the Unit.

2.32 In order to achieve “general conformance”, overall the review team made a number of recommendations to improve the work of the Unit. The Audit Team has developed a **comprehensive action plan** detailing the steps required to enable the team to achieve an overall “generally conforms” rating within 12 months. The majority of recommendations (including those from the original self-assessment exercise) are well underway, with many of them incorporated in the 2013-2015 Multi-Year Audit Plan and/or pending AEC consideration.

2.33 During the next year, the Audit team will **embed the new processes** that have been developed; these include implementing a Quality Assurance and Improvement Program and further improving the standardization of working procedures. Given the increased emphasis on internal Secretariat processes and in-country controls, we will use the newly-crafted Assurance Map to ensure that we test, and where possible rely on, the work of other assurance providers.

### **Progress Update-Investigations Unit**

2.34 The Investigations Unit have released 6 reports during this period: 3 relating to GF grant programs and 3 internal cases where the reports have been provided to the Secretariat for follow up action. The three cases relating to GF grant programs involved:

- **Bangladesh:** loss of \$1.89M of disbursed funds to a sub-recipient (52%)
- **Djibouti:** loss of \$8.5M (52% of grant disbursements)

---

<sup>2</sup> The IIA’s structured rating system recognizes three levels of conformance: “Generally conforms”, “Partially conforms” and “Does not conform”.

- **South Africa:** the report on one Principal Recipient (NRASD) did not identify evidence of fraud, mismanagement or losses of grant funds

2.35 Two of the internal cases involved staff and one a member of a CCM who were accused of violation of rules, regulations, policies or procedures of the Global Fund. In each of these cases, the OIG coordinated with the Human Resources Department and the Legal and Compliance Department to agree on the way forward and on which body should conduct the investigation, under the Protocol that exists between the three departments. As each of these cases either involved a claim of “gross misconduct”, or were from an external party, it was determined that the OIG should undertake the investigations in line with the relevant disciplinary procedure protocol. The practice of the OIG is to not publish internal investigation reports as standalone documents, but rather to summarize findings in its progress reports to the Board. The aforementioned investigations are summarized as follows:

- In one instance, the preliminary findings indicate a loss of not less than USD 40,000 to the Global Fund due to benefits fraud. In this same case, indirect losses were also suffered by the Global Fund through defrauding of the Staff Health Insurance Plan.
- The two other investigations did not result in findings of loss to the Global Fund and findings were communicated to the General Manager or to the AEC, as appropriate, for their action.

2.36 During the reporting period the Investigations Unit has focused on the following areas as a priority:

- a. Counterfeit and sub-standard health products-namely Long Lasting Insecticidal Nets (LLINs or “bednets”) designed and purchased for the prevention of malaria; anti-malarial medication (ACTs); and AIDS medication (ARVs);
- b. The theft or diversion of health products including the leakage of AMFm drugs to neighboring countries, and the theft, diversion and leakage of ACTs in particular throughout the continent of Africa;
- c. Collusion and corruption in procurement, in particular: bribery, unlawful gratuity and “kickback” payments to secure contracts from local government officials engaged with Global Fund resourced programs;
- d. Misappropriation of grant resources, including:
  - Fabrication of documentation to support purported expenditures of grant funds for goods and services that were not provided to the grant programs;
  - Falsification of purported “events” financed by Global Fund grant resources;
  - Collusion between suppliers and the submission of false documents to create the appearance of legitimate competition in procurement, and where there is financial loss, unjust enrichment to the supplier or financial damages to the programs;
  - Purchase of goods ultimately not used for grant implementation purposes; and
  - Theft of grant funds.

2.37 The OIG has sought to brief the AEC fully on the circumstances of these cases but given the sensitivities involved consider it inappropriate to say more in this Progress Report. However, it would be appropriate to draw attention to the two bodies of work presented below given that they have already surfaced publicly in various fora and have been the subject of close partnership with other entities:

### **Counterfeit LLINs and sub-standard health-products**

2.38 The OIG investigators, working closely with the USAID Inspector General, and the US Centre for Disease Control, identified approximately 2 million LLIN bednets distributed in one

country as part of a mass distribution campaign that had insignificant levels of insecticidal content and were effectively untreated, and manufactured, produced and delivered by a manufacturer that had assumed the identity of another supplier in the process. Given the serious health risks associated with the lack of insecticidal treatment, the OIG gave notice midstream in its investigation so that the Secretariat could mitigate the health risks to the population of the country that received the untreated nets. The nets in question are being replaced at a cost of \$12M. The OIG briefed the Secretariat on evidence of counterfeiting involving other health products so that they could take appropriate action to mitigate the public health risks. The OIG is also taking forward these cases with other relevant international entities, and national authorities as appropriate.

## **Theft and Diversion of Health Products and Collaboration with Partners**

2.39 The Investigations Unit is focusing on the theft and diversion of health product and medicines, as well as counterfeit and sub-standard products, in a number of locations in Africa and Asia. Often, these issues go hand in hand. The goals in these investigations are the same, to identify the persons responsible for the thefts, the nature and extent of the schemes including how they were executed, and efforts to enable restitution and recovery.

2.40 A significant development in the reporting period is that the OIG has engaged much more significantly with partners, in country authorities and anti-corruption bureaux, and will seek to increase this engagement with a view to seeking assistance with its un-addressed priority cases. A major development in the reporting period was the OIG led Drug Diversion and Theft Working Group and Task Force, a multi-agency initiative that includes the investigation offices of the OIG, USAID and UNDP. Within the Group, our respective resources are pooled and full collaboration is underway on cases of drug thefts in mutually affected countries. The focal points from the OIG, UNDP/Office of Audit and Investigations (OAI), as well as the Inspector General at USAID, meet regularly to combine strategies, coordinate efforts, disclose and discuss results, and fashion ways forward. The Task Force has been a significant success thus far.

2.41 On a similar note, the OIG has, based on recommendations from the Audit and Ethics Committee (AEC) at its last session, acted swiftly in seeking support from other agencies and national authorities on these priority areas of mutual interest. In that regard, the OIG has actively engaged with national law enforcement authorities in several African countries, as well as Interpol, and has signed a number of Memoranda of Understanding (MOUs) in the reporting period with sister oversight offices. An MOU with Interpol is imminent, through which the OIG will collaborate closely on drug theft and counterfeiting issues.

2.42 Likewise, the OIG has secured an MOU with the European Union and a commitment to work collaboratively with the Anti-Fraud Office (OLAF) on cases of mutual concern. The OIG has developed a strong partnership with USAID/OIG and is working collaboratively on a number of investigations. An effort is underway by the OIG in Uganda with respect to ongoing investigations of misappropriation of Global Fund grant funds, modeled on an arrangement that the OIG established a few years ago between OLAF, OIG and the UK Serious Fraud Office.

2.43 On a similar note, the OIG Investigation Unit has reached out and engaged with Anti-Corruption Bureaux in several other countries in Africa and has cooperation agreements either in place, or under active consideration, to enable the OIG to provide support and capacity building assistance to these local authorities in cases involving allegations of misappropriation of Global Fund grant resources, or counterfeiting, theft or diversion of health products in their countries. The OIG will seek to utilize these arrangements to help make progress on the unaddressed Priority Caseload.

## **Frustrations in releasing investigation reports and other challenges**

2.44 The Investigations Unit is finding the release of reports to be extremely challenging. A number of investigation reports should be released before the end of 2012, if responses to draft reports by subjects are presented promptly and within the reasonable time frames specified. In many cases where the OIG has identified credible evidence of misappropriation, the amounts at issue are large and the findings potentially significant. In all cases, the OIG is required, consistent with its processes and procedures to allow subjects of reports, as well as Recipients, CCMs, LFAs and the Secretariat to have notice of the allegations and a reasonable opportunity to comment before a report is finalized. This process entails that the OIG provide either: a) an Adverse Finding Notice, or b) a draft report to these entities outlining the allegations, the findings, and the basis for the findings, prior to finalizing the report. In many instances, indeed almost all, subjects use this opportunity to delay and frustrate the reporting process, and keep reports from being released—certainly not in a timely fashion. In one recent case a draft investigation report was shared with in-country stakeholders on 28 June 2012, and, after multiple reminders, comments were received only on 20 October 2012. The report contained issues that had been shared with the country throughout the investigation, and the information in the report was no surprise.

2.45 **Lack of supporting documentation** continues to be an issue. Contrary to assertions made in various fora, that the OIG is tracking down and forcing recipients and vendors in remote regions to produce legitimate receipts for purchases of basic commodities such as fuel and food, this is far from the case. Such misrepresentations malign the work of the OIG and, more importantly, seriously risks minimizing serious issues of possible misappropriation. Contrary to these assertions, the OIG is not coercing “mom and pop” recipients and vendors to produce isolated receipts. Rather, the OIG focuses upon large scale uses of funds where there is no supporting materials submitted or in the records of the PR, and there is *no* indication of how these funds were spent, what programmatic uses the funds have been put, and that the funds have in any way benefited patients.

2.46 Typically, the Investigations Unit focuses upon these issues when there are other “red flags” of misappropriation, or when the recipient or vendor has been known to submit fake documents or otherwise misused grant funds. The typical scenario focused upon is where a vendor, that has other indicia of fraud, has submitted invoices for large amounts of certain products (typically fuel) where it is physically impossible for that vendor to use the quantity of petrol that has been purportedly purchased.

2.47 **Engagement with the Secretariat during the course of investigation** has proven to be challenging. On the positive side, there has been extensive collaboration between the OIG and the Secretariat leadership and many Country Teams. This seeks to fashion a way forward that balances the Secretariat’s need for timely information so that it can take appropriate grant management decisions, and the OIG’s need to conduct and conclude the investigation, and fully, so as to identify the full nature and extent of the schemes, those responsible, and importantly, comply with due process requirements and the subjects’ rights that the matter proceed in confidence. When the Secretariat, understandably, seeks information from the OIG concerning what it is finding midstream, and to take immediate action upon an adverse finding by the OIG, more often than not the OIG has not concluded its case, and the subjects of the investigations have not yet been given an opportunity to respond to allegations. Action, especially replacing subject PRs in these situations, can cause severe problems, for the OIG, the Secretariat and the Organization. Action by the Secretariat without notice of findings to the subjects, or a solicitation of their response, often is met with a severe reaction and outcry, often public. There have been cases in this reporting period directly on point. Looking forward the OIG will draw such situations to the attention of the Executive Grant Management Committee at the appropriate time.

## **The growing investigatory caseload and sources of investigation referrals**

2.48 The OIG has a heavy caseload, which includes many unaddressed cases and significant allegations that impact priorities as specified in the OIG Charter and Terms of Reference. Referrals to the OIG continue to come in apace, and beyond the resources the OIG currently maintains to address them. The current (October 2012) number of active cases is 142 (up from 82 in October 2010). Of these 58 are ‘awaiting allocation’, 53 are ‘under assessment’ and 31 are under investigation. Of the 31 cases under investigation 17 are categorized as “priority cases”. There are currently 20 cases that have already been classified as “priority cases” that are unaddressed due to resource constraints.

2.49 Referrals from the work of the LFAs has been on the rise. A challenge has been that the reviews have not always been passed on to the OIG by the Secretariat in a timely way. There has been some decline in referrals from the Secretariat and the OIG Audit Unit. Referrals through the OIG whistle-blower hotline continue to be at a relatively low level and in the coming months the OIG will undertake an awareness raising initiative on the existence of this confidential reporting facility.

### **Prioritization of the investigation caseload**

2.50 Because of the myriad of referrals and allegations submitted to the OIG, the Investigations Unit must prioritize its work. The process begins with an assessment of allegation to determine whether the matter falls within the OIG mandate, and if so, deserves investigation priority. Such an assessment is undertaken ultimately by the Director of Investigations and the Inspector General, after a panel in the investigations team undertakes an initial screening and makes a recommendation.

2.51 The assessment criteria includes consideration of:

- the nature of the allegation (whether it concerns Fraud and Abuse as defined in the OIG Charter);
- the expected availability of evidence;
- the ultimate risk to patients and beneficiaries of grant funds;
- the risk of financial loss;
- the threats to Global Fund grant programs;
- the risk to the integrity of Global Fund grant processes and reputational risk; and
- the resources available and the other demands of the Office.

The Investigation Unit also applies a Prioritization Matrix which it has presented and explained to the AEC.

2.52 Managing prioritization is an ongoing challenge. Sometimes, because of the limited resources and the relative large size of some of the investigations, shifting resources from ongoing casework to high priority cases is needed. The risk here is to ensure that lower priority cases are not ignored.

2.53 In this endeavor, assessing different parts of a case separately may be required, in addition to parceling out segments of cases that might be developed more quickly. The OIG recently followed this approach in the case of Bangladesh. It reported on one sub recipient while the balance of the case proceeded on a separate track. In that case, the Principal Recipient was able to take prompt remedial action to mitigate risk and salvage grants funds. Had the issues relating to this particular sub recipient not been addressed in advance of the release of the full report, further losses may well have been sustained, and programs may well have suffered greater damage. However, there is no “one size fits all” approach. Each case needs to be independently evaluated on its merits, as every case, including the nature of the allegations, the availability of relevant evidence and witnesses, and the likelihood of success, is different and indeed varies greatly.

## **Recruitment challenges for the Investigations Unit**

2.54 Recruitment has been a challenge. The Investigations Unit started the reporting period with 9 vacancies. This has impacted on a growing number of cases that remain unaddressed. The AEC called upon the OIG to address recruitment as a priority. 6 of the 9 posts have now been filled. Previously the compensation offers to candidates were deemed unacceptable. The lack of core staff has a material financial implication, as the OIG is required to fill the void with external resources.

2.55 The OIG has filled the void arising from recruitment challenges by contracting firms and higher priced consultants. The goal is to reduce the reliance on external consultants, and to create in house capacity. The OIG anticipates that it will be two to three years before this will translate into significant budget savings.

## **Part 3: Repositioning the OIG: plans and priorities for 2013 (and beyond)**

3.1 **Underpinned by the OIG's Charter and Terms of Reference:** The mission of the OIG is to provide the Global Fund Board with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations. This translates into a series of audits and for investigations into mechanisms for reporting potential fraud and abuse, investigation of a growing number of priority cases and various counter fraud activities. In formulating this plan and priorities the OIG has fundamentally re-thought the nature of the work it proposes for 2013 and beyond. The outcome feeds into the formulation of its resource requirements. The 2013 audit plan forms part of the OIG's multi-year audit plan (2013-2015) which is introduced in Annex A. The priorities for the Investigations Unit are introduced at Annex B.

### **The underlying planning principles: what has changed and why?**

#### **Audit:**

3.2 The starting point was to reflect on the extensive body of detailed work undertaken to date by the OIG in over 60 countries. This has had a significant impact in terms of identifying serious risks and shortcomings in fiduciary control that the Global Fund has faced. This work, conducted at the Board's request, equated to "external audit". The High Level Panel drew heavily upon the outcome of this work conducted by the OIG in identifying the key risks impacting the Global Fund. Efforts at transforming the operations of the Global Fund to address these risks are currently underway and will be fully embedded over the coming year or two.

3.3 The AEC did not consider it appropriate for the OIG to continue doing "more of the same" i.e., detailed country-based audits. Going forward, greater reliance should be placed on other assurance providers. The AEC also asked that the OIG closely align its work to the Standards of the Institute of Internal Auditors.

3.4 The purpose of the 2013-15 audit plan is to build up to a sufficient body of evidence to allow the OIG to provide an overall opinion over the key controls that will allow the organization to meet its objectives by the end of the triennium. The multi-year plan is risk-based, fully aligned with the Global Fund's strategic objectives, and mindful of the changes taking place in the business model. Over the three year period, the OIG will audit all mission-critical business processes at least once (with scope for re-visiting some given the changes taking place during this time) and conduct brief focused audits in all 20 high-impact countries as well as over 50 high-risk countries.

3.5 The radical re-think in the nature of audit engagements will lead to a) a substantially stronger alignment of the audit plan to the Global Fund strategy, and b) the goal of providing an overall opinion/assurance statement to the Board. For 2013 this will translate into 28 assignments which will include short missions to around 30 countries. In terms of resources the new multi-year plan is designed to do “more with less”, and identifies a required budget of \$7.5M offering savings of 20% on the 2012 budget. It will involve replacing contracted resource by 5 additional core staff based in Geneva, as recommended by the Quality Assurance Review.

### **Investigations:**

3.6 Our reflections on the priorities to follow in 2013 and beyond were:

- A recognition that there is a synergy between the outcome of the work of the Investigations Unit and the identification of risks that need to be pursued by management and the Audit Unit. For example, the issues arising from counterfeit health products point to the need to address the risk that insufficient attention is being paid to the effectiveness of in-country testing and quality assurance. This in turn points to the need for regular Lessons Learned reports arising from investigations, with a view to strengthening processes that allow fraud, corruption, compromised health products and diversion to occur and flourish.
- A reflection that investigations are by their nature unplanned. In practice, there is a growing caseload of unaddressed “priority” cases awaiting investigation. These are cases where prima facie evidence of fraud and abuse has already been identified. Currently, we are investigating 17 priority cases and 22 cases involving counterfeit and diverted (stolen) health products. But in addition there are 20 “priority” cases which the OIG do not have the capacity to investigate if they are unaddressed. Given past trends, the number of “priority” cases increases by three each quarter. This is relevant to determining our resource requirements.
- The need to work with the AEC on developing an “Ethical Framework” to focus on anti-corruption and money laundering initiatives. This points to giving an even greater priority to supporting capacity building initiatives with prosecutors and investigators in our recipient countries and to offering further training on fraud awareness training to relevant stakeholders.
- The need to demonstrate the quality of our endeavors was also in the forefront of our mind pointing to the commitment to undertake an independent, objective peer review in the first quarter of 2013 by qualified and unbiased peers.

3.7 To take forward the priorities arising we plan to place greater reliance on core Geneva based staff. We are calling for an additional 4 staff posts thereby reducing reliance on contractors and to restructure the Investigations Unit to provide for 4 teams to address “priority cases”, divided by type of case and region, and one team to address capacity building, prevention, counter fraud and in taking forward the “Ethical Framework” agenda.

3.8 These considerations also make it difficult to forecast resource requirements. Annex B shows how we would utilize the \$11.35M recommended by the AEC. This shows that in addition to completing the 17 priority cases under investigation we can only take an additional 6 “priority” cases i.e. leaving 14 cases unaddressed. Whatever else comes in, in addition to priority cases, will also be left unaddressed. We note the AEC’s recognition that when the 2013 budget is exhausted we will need to return to the AEC to make the case for additional resources during the year on an exceptional basis.

**The OIG therefore proposes to shift its attention and use of resources in the following ways in 2013:**

	<b>2013</b>	<b>2012</b>
<b>Activity</b>	<b>% Resource cost</b>	
Priority Case load	66%	78%
Counterfeit, stolen, substandard medicines and leakage of health products	8%	8%
Capacity Building Prevention and Risk Mitigation Efforts	10%	0%
Internal cases	4%	4%
Screening	8%	6%
Other costs	4%	4%

The proposal for 2013 marks a significant change. The manner in which the OIG proposes to address its priority case load, counterfeit and stolen health products, and prevention and risk mitigation efforts in 2013, is explained in Annex B.

#### **Part 4: The overall 2013 budget proposed**

4.1 The total budget proposed is \$21.1M which represents a 16% reduction over the budget for 2012. The resource requirements for the Audit Unit are presented in Annex A and for the Investigations Unit at Annex B. Annex C proposes the overall budget for the OIG in 2013. A key feature is recognition that there are benefits in placing increasing reliance on core Geneva based staffing and in offering a significant reduction in professional fees. The budget was submitted to the AEC which has oversight of the appropriateness of the resources allocated to the OIG. It is for the AEC to review the budget proposed and to make recommendations to the Board. The AEC has already recognized that if the OIG requires additional budgetary resources during the course of 2013 to meet a growing investigatory caseload, the AEC will consider the merits at that point in time and make a decision, processing the request through the usual approval channels.

4.2 We consider the budget proposed to be the minimum required to fulfil the mission of the OIG effectively, and we may well need to request additional resources in 2013 to meet the growing investigatory caseload.

## **OIG AUDIT PLAN AND RESOURCE REQUIREMENTS FOR 2013**

1. This document introduces the 2013 audit plan, which forms part of the OIG's multi-year 2013-2015 rolling audit plan. The purpose of the 2013-2015 plan is to build up a sufficient body of evidence to allow the OIG to provide an overall opinion in line with the expectations of the Audit and Ethics Committee (AEC) by the end of the triennium. The detailed 2013-2015 plan was provided to the AEC for consideration.
2. The multi-year plan is risk-based, fully aligned with the Global Fund's strategic objectives, and mindful of the changes taking place in the business model. Over the three year period, the OIG will audit all mission-critical business processes at least once (with scope for re-visiting some given the changes taking place during this time) and conduct brief, focused audits in all twenty high-impact countries as well as over fifty high-risk countries.
3. For 2013, the budget requirements for this plan are USD 7.5 million, a 20% reduction from the 2012 budget.

### **Planning principles**

4. The 2013 audit plan (as well as the entire 2013-2015 multi-year plan) is risk-based, and determines the key priorities for the OIG Audit Team. These priorities are consistent with the Global Fund's strategic objectives, insofar as they aim to give assurance over the key controls that will allow the organization to meet these objectives.
5. The OIG is taking care to select areas that complement but do not duplicate the themes chosen by the TERG. OIG thematic audits will be designed to provide assurance over identifiable business processes of the Secretariat by auditing how they are implemented at the headquarters and country level. The thematic evaluations proposed by the TERG on the other hand look at cross-cutting issues such as drug resistance and infections averted, which are outside the ambit of an audit.

### **What has changed and why?**

6. The extensive body of detailed audit work undertaken by the OIG in over 60 countries has had a significant impact in terms of identifying the serious shortcomings in fiduciary control that the Global Fund has faced. This work (albeit conducted at the Board's request) equated to "external audit". The High Level Panel drew heavily upon the outcome of this work conducted by the OIG in identifying the key risks impacting the Global Fund. Efforts at transforming the operations of the Global Fund to address these risks are currently underway and will be fully embedded over the coming year or two.
7. The AEC did not consider it appropriate for the OIG to continue doing "more of the same", i.e., detailed country-based audits. Going forward, greater reliance should be placed on other assurance providers. The AEC also asked that the OIG closely align its work to the Standards of the Institute of Internal Auditors.
8. The OIG has thus fundamentally rethought the nature of audit engagements going forward leading to a) a substantially stronger alignment of the audit plan to the Global Fund strategy, and b) the goal of providing an overall opinion/assurance statement to the Board annually from 2015.

9. In order to achieve this, the OIG will undertake five kinds of engagements going forward:

a. Audits of internal Global Fund Secretariat business processes required to fulfill the mission of the organization (26% of resource allocation). These will be designed to give assurance over the effectiveness and appropriateness of policies, processes, procedures and controls in place to ensure that institutional objectives are met. In doing so, they will add value to the fundamental redesign of the Global Fund.

b. Thematic audits at the country level to test whether controls are in place to mitigate the risk of not achieving the strategic objectives of the Global Fund in country (32%). These will audit a single business process (theme<sup>3</sup>) in six to eight countries, and will include a short control risk assessment of grant management in the country and associated oversight arrangements.

c. Reviews of the quality of the work of other assurance providers (11%). These will establish the extent to which the Board can place reliance on the work of other providers of assurance at the Secretariat, regional and country level.

d. Testing the risk model in a number of low-/medium-risk countries (13%). This will ascertain whether the models used by the Secretariat and by the OIG to rank country grant portfolios by risk is accurate by conducting an audit of governance, financial management, procurement and supply chain and public health intervention in a number of low- or medium-risk countries. Based on this work, the risk models used may be refined.

e. Advisory engagements to support management in the transformation of the institution (9%). Since many business processes will remain in flux in the coming months, a strong emphasis will be on lending management a helping hand through consulting/advisory work. This will be done on the request of management and not form part of the OIG's assurance work.

10. In addition, other engagements that are important for the furtherance of the mission of the Global Fund (e.g., follow-up on previous audits and closer collaboration with external audit, the ombudsman, the staff council and other important actors in the Global Fund family) form part of the plan (65%). Some four per cent of resources will be allocated to quality assurance initiatives, training, people management, external events and partnerships.

11. While planning is underpinned by a multi-year framework, the audit team will update its risk assessment at least annually and address emerging issues as they arise.

12. Individual engagements will require a greater focus on performance audit in light of the strong emphasis placed in the Global Fund's strategy framework on impact and outcomes of public health interventions and on human rights. Simultaneously, the OIG attention to fiduciary and financial controls must remain strong given the Global Fund's core role as a financial instrument and the strategic focus on value for money.

### **Resource needs**

13. The new multi-year plan is designed to do "more with less". To permit this to happen, the OIG will concentrate its assurance work on only the most critical activities likely to have the

---

<sup>3</sup> For example, an audit of "value for money in procurement" or "equitable access to services by vulnerable populations".

greatest impact on the internal controls of the Global Fund. These controls, in turn, will enable the organization to have the greatest impact on AIDS, TB and Malaria.

14. The OIG will make substantial savings (20% on the 2012 budget) by using smaller, more senior teams to analyze and assess key activities and to provide a higher level of assurance and advice to management. We have scaled back the number of consultants used, and reprogrammed the consultancy budget into the recruitment of five new staff to ensure that the Global Fund benefits in the long term from the experience and knowledge gained by our staff.

15. The cross-cutting nature of our proposed audit plan has also enabled us to make significant cost savings. By testing two or more themes on a given visit to the field, we will be able to produce a higher number of shorter reports on a timelier basis, without compromising on the coverage at the country level.

16. The OIG will also produce “Capping reports” that summarizes the findings from “thematic” audits and (annually) a lessons learned report that summarizes the findings and recommendations from the previous year’s engagements.

17. This approach allows us to show significant efficiencies in terms of the cost per report issued (a reduction from over USD 300,000 to less than USD 120,000), is more in line with peer organizations.

18. The OIG has developed a detailed costed 2013 audit plan which includes 28 engagements, as summarized in the table on the following page.

19. The following table gives a comparison to the 2012 budget.

	<b>2012</b>	<b>2013</b>
<b>Staff costs</b>	2,925,694	4,361,694
<b>Professional Fees</b>	5,245,000	2,070,000
<b>Travel</b>	1,223,783	960,000
<b>Office Infrastructure</b>	50,000	50,000
<b>Meetings/Training</b>	65,750	105,750
<b>TOTAL</b>	<b>9,510,227</b>	<b>7,547,444</b>

## 2013 RESOURCE NEEDS BY TYPE OF ENGAGEMENT

Type of Engagement	Number	Countries covered*	Resource cost		Total cost	Percentage Resource Allocation
			Staff costs†	External resources incl. travel		
<b>Internal processes</b> To provide assurance on the adequacy and effectiveness of controls and procedures over key processes at the Secretariat (e.g., grant budgeting)	10	--	\$1,419	\$534	\$1,953	26%
<b>Thematic audits</b> Audits designed to provide assurance on the adequacy and effectiveness of controls over specific business processes at country level (e.g., grant closure)	4	38	\$1,120	\$1,280	\$2,400	32%
<b>Assurance providers</b> Audits designed to review the quality of other providers of assurance (e.g., external auditors of PRs)	1	8	\$390	\$430	\$820	11%
<b>Testing the risk model</b> Risk based country audits to test effectiveness of the risk model	3	3	\$469	\$487	\$956	13%
<b>Advisory</b> To provide advisory/consulting services in support of management initiatives (e.g., implementation of new IT systems)	6	--	\$625	\$56	\$681	9%
<b>Other engagements</b> Other non-assurance services (e.g. collaboration with the external auditor)	4	--	\$338	\$84	\$422	6%
<b>Other costs</b> QAR, training, recommendation follow-up, AEC preparation, people management, external events and partnerships					\$315	4%
<b>TOTAL</b>	<b>28</b>		<b>\$4,361</b>	<b>\$2,871</b>	<b>\$7,547</b>	

\* this includes some duplication since more than one "theme" may be audited in one country

† Staff costs have been allocated 100% against engagements

## OIG INVESTIGATIONS UNIT PRIORITIES FOR 2013 AND BEYOND

1. This Annex proposes a set of priorities for the OIG Investigations Unit for 2013 and beyond. In 2011 and 2012 the focus has been on investigation of a growing caseload of “priority” cases involving fraud and abuse and another growing block involving diversion (theft) of health products and counterfeit health products. What is now proposed is a greater focus on tackling the underlying risks, and on preventive initiatives, training and capacity building as proposed by the AEC.

### What has changed and why?

2. In addition to a continuing focus on investigations involving a growing caseload of high priority cases we intend to offer help to the Secretariat in tackling the underlying risks of fraud and abuse arising and to offer capacity building and training to national authorities and other stakeholders. That said, we assume that the Board (and the AEC) would be troubled to see a growing volume of unaddressed “priority” cases where there are indications of fraud and abuse emerging, that typically, based on past practice over the last three years, involves significant financial losses of grant funds. We intend to report regularly to the AEC on the numbers and characteristics of such cases so that the resources at our disposal can be adjusted accordingly.

3. In order to achieve the priorities proposed the OIG intends to:

- **Continue to investigate “priority” cases** involving fraud and abuse, applying the prioritisation model the OIG has developed and applied. These are cases where the OIG has already identified, following preliminary assessment, credible indications of fraud and abuse. This is in line with paragraph 6 of the OIG Charter and Terms of Reference. This requires the OIG to “undertake investigations of potential fraud, abuse, misappropriation, corruption and mismanagement (collectively, “fraud and abuse”) within the Global Fund...”
- **The caseload will be monitored closely.** As the table presented below shows the budget recommended by the AEC would enable us to complete 17 priority cases under investigation and take on 6 additional “priority” cases, leaving a number of the current caseload of “priority” cases unaddressed. It should also be noted that the caseload of “priority” cases is growing on average by three a quarter. The AEC has been provided with two priority case list charts, under seal and *in camera*, with a summary explanation of the nature of the case.
- **Further develop capacity building activities** with prosecutors and investigators in counties where we engage with national authorities, that can take our work forward and achieve convictions of wrongdoers in criminal courts and restitution of losses. It is important in this regard that our work is well advanced, thorough, and evidence based as only in these circumstances will prosecutors likely accept our cases for further action. Further, such initiatives will help to ensure that allegations of mutual interest are properly addressed e.g. cases of stolen and substandard health products and instances of misuse of grant funds. As referenced above, the OIG will seek to engage with these authorities in an effort to help supplement its efforts with the un-addressed priority cases. Details of existing initiatives in progress are related in paragraphs 2.40-2.42 of this Progress Report.
- **Support the development and application of the “Ethical Framework”** proposed by the AEC. The OIG’s input will be continued training to the Secretariat,

LFAs and recipients on fraud, anti-corruption, money laundering risks and assistance with Anti-Money Laundering initiatives, and the ways in which these issues can present in Global Fund financed programs; production of a Fraud Risk Manual; and raising awareness of the Whistle-blower hotline to increase the ability and ease with which instances of possible misconduct may be reported. Resources permitting the OIG would propose undertaking fraud risk diagnostic missions to high risk countries.

- **Provide a Lessons Learned report** in 2013 (and each year subsequently) drawing out the key underlying issues and risks identified in investigations and proposing appropriate mitigation. Active engagement with the Secretariat on identifying the appropriate mitigation is essential...
- **Commissioning a peer review of the Investigation Unit.** Terms of reference will be provided to the AEC. It will take place in the first quarter of 2013. The OIG will propose and select independent peers to undertake the review.

### **Resource needs and structural changes**

4. The changing nature of the priorities proposed by the AEC calls for 10% of the budget proposed to be allocated to capacity building, preventive and awareness raising initiatives. The table below shows the proposed use of the remaining budget. It needs to be recognized, however, that no two investigations have the same characteristics and it is difficult to estimate requirements precisely at this stage.

5. Over the next two to three years the OIG intends to reduce its dependence on contracting firms and consultants and to create a stronger in house capacity for computer and accounting forensics, data management and analysis and data mining. Over time this will translate into budget savings. Consistent with this shift, four additional posts are proposed for 2013 (one investigator, two analysts and one IT specialist to manage the complex tools we apply). And consistent with the changed priorities proposed above the OIG Investigation Unit has restructured into four teams to address priority cases, divided by subject matter and type of case, strengthen its diagnostic/analytic capacity, and also establish one unit to address capacity building, prevention and to take forward the Ethical Framework agenda.

## 2013 INVESTIGATION RESOURCE NEEDS BY TYPE OF ENGAGEMENT

Type of Engagement	Resource Cost		Total cost
	Staff	External resources and travel	
<b>In-country fraud and abuse cases</b>			
<i>Investigations at country level addressing allegations of fabrication fraud, misuse and corruption</i> Completing 17 current cases plus 6 unaddressed cases	<b>\$1,482</b>	<b>\$6,097</b>	<b>\$7,579</b>
<b>Health products Counterfeit and theft cases</b>	<b>\$200</b>	<b>\$700</b>	<b>\$900</b>
<i>Market examinations, 22 investigations of diversion and theft, including source of malfeasance, nature and extent, and testing of health products</i>			
<b>Internal Investigations</b>	<b>\$400</b>		<b>\$400</b>
<i>Staff accused of misconduct - Estimate of 4 cases</i>			
<b>Capacity building and fraud risk-training</b>	<b>\$1,100</b>		<b>\$1,100</b>
<i>Providing training to Secretariat, LFAs and recipients on risks of fraud and abuse, and money laundering</i>			
<b>Screening, assessment and Preliminary investigation of received allegations (estimate of 30-40)</b>	<b>\$900</b>		<b>\$900</b>
<b>Other costs (admin, training, IT, meetings)</b>			<b>\$474</b>
<b>TOTAL</b>	<b>\$4,082</b>	<b>\$6,797</b>	<b>\$11,353</b>

The manner in which the OIG proposes to address its priority case load, counterfeit and stolen health products, and prevention and risk mitigation efforts in 2013, is explained above.

	<b>2013</b>	<b>2012</b>
<b>Activity</b>	<b>% Resource Cost</b>	
Priority Case load	66%	78%
Counterfeit, stolen, substandard medicines and leakage of health products	8%	8%
Capacity Building Prevention and Risk Mitigation Efforts	10%	0%
Internal cases	4%	4%
Screening	8%	6%
Other costs	4%	4%

## THE OIG'S 2013 BUDGET SUBMISSION

### Purpose:

This paper presents the OIG's 2013 Budget submission for AEC review and referral to the Board through the FOPC.

### 1. BACKGROUND

The role of the AEC

1. The AEC is required under its terms of reference to provide an "oversight", through an annual review, of the appropriateness of the resources allocated to the OIG in relation to its function and deliverables. This budget is therefore submitted to the AEC for review, submission and recommendation to the Board. The OIG understands that the recommended budget, along with an approved [audit] work plan, would be provided to the FOPC by the Coordinating Group as an input into their overall recommendation to the Board regarding the annual operating budget of the Global Fund. Prior to the preparation of this budget the Chair of the AEC indicated that in his view there should be a reduction in the size of the OIG's budget. This has impacted our thinking in proposing the 2013 budget but we are mindful of the need for the Board to be assured that the OIG has adequate resources to discharge its mandate effectively and to provide the necessary assurance to the Board.

The component parts of the budget

2. There are three elements:
  - the budget proposed for the OIG's Audit Unit (Annex A also refers)
  - the budget proposed for the OIG's Investigations Unit (Annex B also refers)
  - the budget for the Inspector General, a central support team (Senior Legal Advisor, Communications Officer, Business Process Manager, Executive Assistant and Recruitment/IT Consultants) and the cost of office rent, utilities and IT support.

The 2013 budget proposed

3. The total budget proposed is US\$21,108,256 which represents a 16.1% reduction over the budget for 2012. The breakdown by component parts is presented below, together with an analysis of the budget and forecast expenditure for 2012. As this shows the OIG is likely to come in 25% under budget for 2012. This has arisen because:
  - a. Two country audits had to be deferred because of security considerations, as were two other audits. Four additional audit staff arrived only part way through the year.
  - b. For most of 2012 there were 9 vacancies in the Investigations Unit. In the absence of these core staff we were unable to start work on many in country investigations which formed part of a growing backlog of cases awaiting investigation. These investigations are managed by the core staff and would have required contractor support for the reasons we have explained to the AEC (estimated to cost in excess of US\$ 3 million).

Overall OIG budget proposal 2013					
in US\$		2013 in US\$	2013 in US\$ (split)		
Staff Numbers		45	IG (5)	Audit (18)	Inv (22)
Staff costs		\$9,553,165	\$1,108,576	\$4,361,694	\$4,082,895
Professional fees		\$7,241,885		\$2,070,000	\$5,171,885
Travel costs		\$2,585,000		\$960,000	\$1,625,000
Communications		\$130,000	\$30,000	\$50,000	\$50,000
Office Infrastructure (IT)		\$420,000		\$50,000	\$370,000
Meetings/Other costs		\$109,500		\$55,750	\$53,750
SUBTOTAL		\$20,039,550	\$1,138,576	\$7,547,444	\$11,353,530
Additional (HR, office rent, utilities...)		\$1,068,706	\$1,068,706		
<b>TOTAL</b>		<b>\$21,108,256</b>	<b>\$2,207,282</b>	<b>\$7,547,444</b>	<b>\$11,353,530</b>

Overall OIG budget 2012									
in US\$		2012 in US\$	2012 Budget (split)			Forecast expenditure for 2012 in US\$	Forecast (split)		
Staff Numbers		35	IG	Audit	Inv		IG	Audit	Investigations
Staff costs		\$7,009,115	\$943,595	\$2,925,694	\$3,139,826	\$5,900,000	\$850,000	\$2,750,000	\$2,300,000
Professional fees		\$13,720,000		\$5,245,000	\$8,475,000	\$9,000,000		\$3,800,000	\$5,200,000
Travel costs		\$2,600,540		\$1,223,783	\$1,376,756	\$2,550,000		\$1,200,000	\$1,350,000
Communications		\$30,000	\$30,000			\$30,000	\$30,000		
Office Infrastructure (IT)		\$420,000		\$50,000	\$370,000	\$350,000		\$50,000	\$300,000
Meetings/Other costs		\$129,500	\$129,500			\$100,000	\$100,000		
SUBTOTAL		\$23,909,155				\$17,930,000			
Additional (HR, office rent, utilities...)		\$1,259,619	\$1,259,619			\$1,000,000	\$1,000,000		
<b>TOTAL</b>		<b>\$25,168,774</b>	<b>\$2,362,714</b>	<b>\$9,444,477</b>	<b>\$13,361,582</b>	<b>\$18,930,000</b>	<b>\$1,980,000</b>	<b>\$7,800,000</b>	<b>\$9,150,000</b>

4. A key feature of the 2013 budget submission is recognition that it is more cost effective on the Audit side to place increasing reliance on core Geneva based staff rather than contractors. On the investigations side, contractors are essential for the Unit to carry out its work. We are therefore proposing an increase in core staffing from 35 to 45 but with a significant reduction in professional fees. Additional core staff also help to ensure effective interaction with the Secretariat.

#### Interaction with the Secretariat in constructing the budget

5. The OIG was required to input its budget into the Secretariat's budget software so that they can consolidate the OIG's budget submission with the Secretariat's submission. The OIG did so on 25 September proposing a budget of US\$22,452,538 but pointing out that it was subject to change in the light of further analysis of our requirements and subsequent review by the AEC. At that point we also proposed a contingency of US\$ 2 million to cover professional fees in the event that the investigation caseload increased still further. Such a contingency would not be used without the prior review by and approval of the AEC. The practice of including a contingency has been followed in the last two years at the direction of the Finance and Audit Committee. The Secretariat has removed this contingency in their submission to the FOPC. We pointed out that it is for the AEC to reflect on the merits of including a contingency.
6. The Secretariat also decided to apply a Secretariat wide cut of 10% in professional fees and travel to the OIG budget. Under its Charter and Terms of Reference, the OIG is independent, and it is for the Board to determine the OIG's annual resource requirements. As such, it is for the AEC to reflect on the applicability of this to the OIG. The immediate effect, however, is substantial and will have consequences to the work of the OIG. The OIG has had to reduce the budget originally input to the budget software to US\$21,108,256. The AEC Chair has indicated that he does not expect to see any change to the reduced budget featuring in the budget software. But he has

indicated, as further considered below, that if during the course of 2013 the OIG requires additional budgetary resources to meet the investigatory caseload, the AEC will consider the merits at that point in time and make a decision, processing the request through the usual approval channels.

#### The proposed Audit Unit Budget

7. The Audit Unit budget for 2013 has been constructed based on the proposed multi-year audit plan with the goal (endorsed already by the AEC) of providing an overall assurance statement at the end of the coming triennium (2013-2015). It is designed to do “more with less”. The OIG will concentrate its assurance work on only the most critical activities likely to have the greatest impact on the internal controls of the Global Fund. To achieve this, and to a much greater extent than in 2012, the plan is focused on reviewing internal Secretariat processes and the work of other assurance providers, as well as reviewing the risk and control environment at country level. This will ensure that mission-critical, organization-wide control issues are quickly escalated to senior management for remedial action. The budget submission represents the minimum needed to enable us to meet this goal. It also reflects a fundamental shift in the way in which the OIG will conduct audits, away from primary focus on country programs.
8. As the table above shows we propose a budget of US\$ 7.54 million, a 20% reduction over the budget approved for 2012. This translates to less than US\$120,000 per audit output (shorter, more focused reports which help us to build a strong evidence base over time to enable us to provide overall assurance) compared to over US\$300,000 in 2011 and 2012. We are therefore able to offer significant efficiencies, and is more in line with peer organizations.
9. As noted above we have also re-programmed the Audit Unit. In the past, around half of the audit budget was spent on external contractor support. Whilst this was used in part to obtain needed specialist skills, it meant that capacity was not built within the team. The budget for 2013 follows the recommendation from the External Quality Assessment review that we needed to strengthen core in-house capacity rather than relying so heavily on purchased services. We are therefore proposing five additional posts (four audit team leaders and one analyst).

#### The proposed Investigation Unit Budget

10. Whilst continuing to give the highest priority to investigations of “priority” cases there will be a greater focus in 2013 on tackling the underlying risks, and on preventive initiatives, training and capacity building within an “Ethical Framework” proposed and recommended by the AEC. Therefore, some 10% of the proposed budget is allocated to this focus area. Investigations are by their nature unplanned which makes it very difficult to budget for the resources needed to undertake the work. The Unit reacts to what it is presented with, and undertakes its preliminary assessments against its priorities. We have commented above on the reasons for the underspend in 2012. Currently there are 20 priority cases that are unaddressed, and on average there are an additional three priority cases per quarter. Most of the vacant posts have now been filled and with the budget proposed we can complete the 17 current “priority” cases under investigation and take on an additional 6 “priority” cases by the end of 2013. That would still leave 14 “priority” cases unaddressed, and an inability to address further referrals. The OIG intends to report regularly to the AEC on the numbers and characteristics of such cases so that the AEC is fully aware of what the OIG is unable to undertake, and to adjust resources as appropriate (see paragraph 6 above).

11. Consistent with the shift in resourcing mentioned above, four additional posts are proposed (one investigator, two analysts and one IT support specialist to manage the complex tools we deploy and assist in addressing the types of cases we are presented with).

The proposed budget for the Inspector General and central support unit

12. The unit comprises a small core team to support the overall mission of the OIG (see 2 above). In recognition of the importance of communicating the outcome of the work of the OIG effectively to multiple audiences and in line with the evolving OIG Communications Strategy and encouragement from the Chair of the AEC we are proposing to recruit a communications specialist. The costs for rent and utilities (overseen by the Secretariat) are outside the control of the OIG.

Conclusion

13. We consider the budget proposed to be the minimum required to fulfill the mission of the OIG effectively, and we may well need to request additional resources in 2013 to meet the growing investigatory caseload.

This document is part of an internal  
deliberative process of the Global Fund and  
as such cannot be made public until  
after the Board meeting.