

GF/B30/4

Board Information

**OFFICE OF THE INSPECTOR GENERAL
PROGRESS REPORT – JUNE TO OCTOBER 2013**

Purpose: This paper provides an update on the activities of the Office of the Inspector General (OIG) for Board information.

Contents

| | |
|---|----|
| Part 1: Letter from the Inspector General | 3 |
| Part 2: Issues for the Board's Attention..... | 5 |
| 2.1 Issues identified in the period..... | 5 |
| 2.2 Issues identified in prior periods | 7 |
| Part 3: Audit Unit progress update..... | 8 |
| 3.1 Progress against the 2013 Audit Work Plan | 8 |
| 3.2 Quality Assurance | 9 |
| 3.2.1 Key observations..... | 9 |
| 3.3 2014 Audit Unit Work Plan..... | 9 |
| Part 4: Investigations Unit progress update..... | 10 |
| 4.1 2013 Investigations Work Plan | 10 |
| 4.1.1 Investigation reports..... | 10 |
| 4.1.2 Case Closure Memoranda..... | 10 |
| 4.1.3 Initial Formal Assessments | 11 |
| 4.1.4 Allegations received through various reporting channels..... | 11 |
| 4.2 Joint Inter-Agency Task Force (JIATF) | 11 |
| 4.3 Quality Assurance | 12 |
| 4.4 2014 Investigations Work Plan | 12 |
| Part 5: Resources | 13 |
| Part 6: Communications strategy and disclosure policy | 14 |
| Part 7: Annexes | 14 |
| A: Matters arising from the last Audit and Ethics Committee meeting | 14 |
| B: 2013 Audit Work Plan progress update..... | 14 |
| C: Material (Very High Priority) issues identified in prior periods..... | 14 |
| D: 2014 Audit Work Plan | 14 |
| E. Investigations closed and reports issued (summaries) | 14 |
| F: Key performance indicators..... | 14 |

Part 1: Letter from the Inspector General

Dear Board members,

With this, my first formal introduction to the Board, I have decided to use the construct of a letter. The aim of communicating in this way is to connect on a more personal level. Over time the intention is to stimulate content-rich dialogue and debate in our combined quest to protect the assets, reputation and sustainability of the Global Fund.

I will use this letter to highlight key activities within the Office of the Inspector General as well as major changes in the internal control environment of the Global Fund itself. My focus will be to aid the continual improvement of the control environment and thereby advance the successful mission of the Global Fund.

From an OIG perspective, 2013 has been a transitional year as we build on the excellent work of Norbert Hauser who has strengthened the credibility of the Office. He has been a calming influence on the team and has shown good judgment and leadership during a difficult period. I and the team would like to thank him for his guidance, support and overall contribution.

Through him the Audit unit is on track to deliver the 2013 assurance plan and we have received external recognition that our work now “generally complies” with International Internal Auditing standards. Significant progress has been made in recent months with clearing the backlog of legacy investigation cases but there is still a lot to do. My priority is to clear this backlog and appoint a new Director of Investigations. By the time of this forthcoming Board meeting, I am confident that we will have found the right person to oversee the Investigations unit and be on course to have cleared the backlog by Q1 2014.

From a wider Global Fund perspective the current replenishment cycle has demonstrated renewed confidence from donors. FISA (Finance, IT, Sourcing, Administration) have augmented their senior management team with key appointments (Head of Controlling and Program Finance, Chief Information Officer and Manager, Grant Finance). This should accelerate efforts to improve the efficiency and professionalism of the Global Fund. In addition, the new funding model has been piloted in three countries and the results are feeding into final designs for implementation next year. We have been involved in this process.

These positive shifts, however, need to be weighed against the backdrop of a noticeable uptick in fraud and corruption allegations emanating from the various reporting channels. Whilst precise reasons for the increase are not clear at this stage and may not be representative of a trend, there is a need to remain vigilant to this evident threat.

On a similar note, whilst the changes occurring with the Global Fund are directionally positive, they can also introduce increased levels of operational risk unless managed carefully. In Part 2.1 of this report we highlight various aspects of the Global Fund’s operating models that require further clarity in order to improve their chances of success. In Part 2.2 we also highlight issues identified in prior periods where key recommendations have yet to be implemented. We believe that this may be a sign of “initiative overload” within certain parts of the Secretariat as the risk of failing to achieve mission objectives in the short term are prioritised against the implementation of longer term control environment improvements.

Going forward we will be introducing a robust issue tracking mechanism and working with the Secretariat to ensure that key recommendations are implemented in a timely manner. The emphasis will be on high priority recommendations linked to the achievement of strategic objectives.

Finally, by the end of the year we aim to have formulated our communication strategy which will incorporate the disclosure and whistle-blowing policies and best practice thinking for audit and investigation reports.

I look forward to serving the Board and working in partnership with you all.

Kind regards

A handwritten signature in black ink, appearing to read 'M. O'Malley', with a stylized, cursive script.

Martin O'Malley
Inspector General, the Global Fund

Part 2: Issues for the Board's Attention

2.1 Issues identified in the period

Our assurance work has identified five key control risk areas that have not yet been fully mitigated through the ongoing reforms at the Secretariat:

- 1 Assurance providers: Limited reliance can be placed on assurance providers constituting the first and second lines of defense. For example, Country Coordinating Mechanisms are neither sufficiently independent nor adequately resourced to provide reliable assurance. External audit arrangements over grant recipients are less than satisfactory, and the involvement of risk management staff in operational processes blurs the distinction between the first and second lines of defense.
- 2 Record-keeping: Information management and the building of institutional knowledge at the Global Fund requires improvement. The majority of audits undertaken this year have highlighted a lack of documentation and inconsistent record-keeping. In particular, documents required for routine grant management, such as the external audit reports of grant recipients, or data on the price and quality of pharmaceuticals, are not consistently available or reliable. Whilst individually these findings may be medium or low-risk, in aggregate we consider this matter to be high risk.
- 3 Accountability: Individual responsibilities are not always well-defined. For example, the relationships between specialists in country teams and technical hubs in grant management have not been sufficiently delineated. In country teams, it was unclear who was ultimately responsible for approving grant-related documents. This was partly addressed in August 2013 through the "Country Team Responsibilities Matrix". An important next step will be to clarify the roles and responsibilities of stakeholders who have a management control function outside of the country team.
- 4 Grant closures: 50% of grants due for closure had not been closed at the time of our audit and only one grant closure audited was fully in compliance with policy and guidelines.
- 5 Recoveries: of the USD 118 million identified in OIG reports as not spent in line with the terms of the grant agreement, USD 24 million have been refunded in cash and written commitments exist to repay USD 10 million. The Secretariat has retrospectively approved or written off USD 13 million. The recovery of the remainder has been slow and policies to guide the recoveries process remain in draft.

Key actions agreed with management are summarized in the table below:

| Key actions agreed with management | Owner | Due Date |
|--|--------------|-----------------|
| 1 The Secretariat should determine how best to derive combined assurance on the use of grant funds from external audit, Local Fund Agents, the Country Coordinating Mechanism, other donors, etc. | GM, RM, FIN | 31 Dec 2013 |
| 2 Specific medium and low-priority recommendations related to record-keeping have been made in management letters to various business process owners. | various | varies |
| 3 The Risk Management Department should work with the relevant divisions and departments in the Secretariat to establish an accountability framework that defines the roles, responsibilities, authorities and accountabilities of various stakeholders. | RM | 30 Sept 2013 |
| 4 The Secretariat should, as a matter of priority, close all long-outstanding grants, particularly those due for closure prior to 2012. The Grant Management and Finance divisions should jointly review and identify areas for simplification in the grant closure process. Proposed changes should be embedded in the Finance “Step-Up” project and other grant management systems platforms such as Salesforce. | GM and FIN | 31 Dec 2013 |
| 5 The Secretariat should urgently resolve all long-outstanding recoveries cases and set indicative timelines within which identified “losses” are presented to the Recoveries Committee for consideration and to the Executive Director for approval. Policies need to be finalised. | RC | 31 Dec 2013 |

Key

RC: Recoveries Committee
GM: Grant Management Division
RM: Risk Management Department
FIN: Finance Division

2.2 Issues identified in prior periods

As at 30 September 2013:

| Type of reports | Recommendations | Recommendations due | Fully implemented | Partially implemented | Not yet implemented |
|------------------------------------|-----------------|---------------------|-------------------|-----------------------|---------------------|
| Pre-2013 In-country reviews | 188 | 79 | 47 | 32 | 0 |
| 2013 In-country reviews | 89 | 33 | 20 | 5 | 8 |
| Internal audits at the Secretariat | 64 | 4 | 3 | 1 | 0 |
| Total | 341 | 116 | 70 | 38 | 8 |

Of the 46 recommendations overdue (38 partially implemented and eight not yet implemented):

| Overdue | 0 to 30 days | 30 to 60 days | 60 to 90 days | >90 days | Total |
|--------------|--------------|---------------|---------------|-----------|-----------|
| Very High | 9 | 4 | 5 | 0 | 18 |
| High | 0 | 6 | 14 | 8* | 28 |
| Total | 9 | 10 | 19 | 8* | 46 |

* These eight overdue items mainly concern issues identified in the Central African Republic where recommendations have proved difficult to implement.

We have grouped the overdue recommendations into six categories that cut across processes both at the country and Secretariat level:

| | Category | Total |
|----|--|-----------|
| 1. | Procurement and supply chain management | 15 |
| 2. | Internal financial controls | 14 |
| 3. | Program data quality – completeness & accuracy | 5 |
| 4. | Recovery of losses | 5 |
| 5. | Country level oversight & assurance | 4 |
| 6. | Program implementation | 3 |
| | | 46 |

Full details of the status and action plans to address the “Very High” priority recommendations are captured in Annex C. These will be reported monthly to the Secretariat and presented to the AEC and the Board at each meeting.

Part 3: Audit Unit progress update

3.1 Progress against the 2013 Audit Work Plan

At the end of the third quarter, 70% of the 2013 plan has been completed and we are on track to fully complete our engagements by the end of the year.

| 2013 | Original Plan | Revised Plan | Completed | Work in Progress | Progress against Plan |
|--------------|----------------------|---------------------|------------------|-------------------------|------------------------------|
| Assurance | 20 | 21 | 7 | 14 | 69% |
| Advisory | 8 | 10 | 5 | 5 | 86% |
| Total | 28 | 31 | 12 | 19 | 70% |

Changes to the plan:

- Three advisory engagements were added based on requests from the Secretariat: Financial and Procurement Controls in the Democratic Republic of the Congo, Results-based Financing in Rwanda, and Themes Requiring Management Action.
- Two assurance engagements were added as requested by the AEC: Key Controls in the New Funding Model and Quality and Strength of Assurance Provision.
- One assurance engagement was added on request of the Strategy Investment and Impact Committee: Review of the Market Dynamics Advisory Group.
- One assurance engagement was cancelled given the changes introduced in the approach to external audit in 2013: Validation of Financial Data in Preparation for the External Audit.
- One advisory engagement was cancelled due to the delayed arrival of the CIO and to accommodate the audit on the New Funding Model: Advisory on IT Systems.
- One assurance engagement was postponed to 2014 (Controls over Grant Budgeting) given the engagement added on Assurance Provision.
- The scope of the engagement on governance was widened to include effectiveness and efficiency. It will now be completed in 2014.

A summary of completed assignments for the period can be found in Annex B.

3.2 Quality Assurance

A recent follow up to an external assessment against International Internal Auditing Standards has confirmed that the OIG Audit Unit now “generally conforms with standards”.

3.2.1 Key observations

The follow-up review found that recommendations from 2012 to achieve conformance have been implemented and the Audit Unit has made considerable progress in rebuilding its relationships with the Secretariat. It has developed and started implementing a range of contemporary audit practices including revision of its audit reporting processes.

The Audit Unit has developed a formal quality assurance and improvement program, and a more rigorous, risk-based approach to annual audit planning. It has changed its sourcing model to build greater in-house capacity and has worked diligently to reduce the very large number of outstanding audit recommendations existing in 2012.

Each of the aforementioned actions has supported an increase in maturity of the Audit Unit’s operations, and embedding these practices over the next 12 months is likely to further increase maturity.

Moving forward, the Audit Unit should consider championing a combined assurance model across the Global Fund. This would require collaboration with the Secretariat to identify and coordinate assurance activities currently provided by the first, second and third lines of defense across the Global Fund. The ultimate goal of a combined assurance approach would be to achieve more efficient and effective use of assurance across the organization and to enhance the reliability of assurance for the Executive Director, AEC and the Global Fund Board.

3.3 2014 Audit Unit Work Plan

At its sixth meeting, the AEC reviewed and approved the 2014 Work Plan of the Audit Unit.

Details of the plan can be found in Annex D.

Part 4: Investigations Unit progress update

4.1 2013 Investigations Work Plan

The Investigations team has processed 136 cases this year so far using a new assessment process developed under the interim Inspector General. Cases from prior years (so called “legacy” cases) have been prioritized based on the seriousness of the allegation, importance in terms of the sums involved, impact on service delivery and level of complexity.

| | | Total |
|--|---|--------------|
| Active cases on 1 Jan 2013 | + | 171 |
| New cases opened in 2013 | + | 26 |
| Cases closed and reports issued in 2013 | - | 3 |
| Cases closed with Case Closure Memo in 2013 | - | 133 |
| Active cases on 30 Sept 2013 of which: | = | 61 |
| <i>opened in 2013</i> | | <i>22</i> |
| <i>“legacy” cases</i> | | <i>39</i> |

A revised work plan has been developed such that by 31 December 2013, a further 14 “legacy” cases will be closed and reports covering Cambodia, Madagascar, Nigeria, Papua New Guinea, Kazakhstan and Burkina Faso will be published. By 31 March 2014 a further 23 “legacy” cases are expected to be closed.

4.1.1 Investigation reports

A summary of the three reports published this year so far can be found in Annex E.

4.1.2 Case Closure Memoranda

Not all allegations received and investigated result in the publication of a final report on the Global Fund website. Consistent with the Uniform Guidelines for Investigations (developed by participating International Organizations and multilateral institutions) these cases are closed using a “Case Closure Memorandum” when the OIG has determined that:

- i) Upon assessment a full investigation is not warranted. This is determined by applying the OIG’s prioritisation matrix developed under the interim Inspector General;
- ii) Interim findings do not justify the commitment of further resources; or
- iii) The investigation concludes there is insufficient information to substantiate the complaint.

When pertinent, the memorandum is sent to the Secretariat to ensure useful information is shared and acted upon. Of the 133 memoranda issued in 2013, 101 cases were closed at the initial formal assessment stage.

4.1.3 Initial Formal Assessments

Several factors are considered during the initial formal assessment stage. These include:

- i) the seriousness and credibility of the allegations;
- ii) the threat to Global Fund programs and the integrity of its processes;
- iii) the estimated extent of potential loss of program funds;
- iv) the scope, cost and size of the investigation;
- v) the ability and capacity of the OIG to undertake the investigation; and
- vi) the perceived level of resources needed commensurate with the risk and gravity of the allegation.

The cases are assessed by an investigator, often involving information from the relevant Fund Portfolio Managers and Local Fund Agents. Once the investigator has determined that the case does not justify a full investigation, the Team Leader and ultimately the Inspector General will sign off on the closure memorandum.

4.1.4 Allegations received through various reporting channels

Fuelling the case intake are various reporting channels of which a whistle-blowing hub. The table below shows allegations which have been screened. The increase in 2013 may be due partly to the visibility given to whistle-blowing on the Global Fund home page since June.

| Channel | 2011 | 2012 | 2013 (30 Sept) |
|---------------------------|-----------|-----------|-------------------|
| Secretariat | 14 | 3 | 11 |
| Generic email | 23 | 21 | 52 |
| Global compliance hotline | 6 | 9 | 4 |
| OIG Audits | 4 | 8 | 2 |
| Total | 47 | 41 | 69 |

Upon receipt, allegations are screened by an OIG panel and the nature of the allegation determines whether a formal initial assessment is undertaken and a case is logged.

4.2 Joint Inter-Agency Task Force (JIATF)

The task force, comprising three core members (Global Fund OIG, USAID OIG and the Office of Audits and Investigations of UNDP), has continued to focus on the theft, diversion, and counterfeiting of Global Fund and USAID funded anti-malarial medicines in sub-Saharan Africa and South East Asia. Over the past few months, JIATF has reinforced its three main strategic objectives:

1. We have stepped up our in-country activities over the last quarter. This allows us to build up a comprehensive picture concerning the scale and dynamics of the problems of theft, diversion, and counterfeiting. Information derived from these activities is being systematically analyzed by JIATF, enabling proactive, intelligence-led investigations to be conducted.
2. Tracking counterfeit anti-malarial medicines continue to be a key focus. Information exchange with the World Health Organization's Rapid Alert Unit (a public alert

system which sounds the alarm when counterfeit medicine enters the supply chain) is proving to be an effective tool. We have also run training sessions on pharmaceutical crime to the Zambian and Malawian law enforcement and drug agencies.

3. We are working closely with the Secretariat to influence Global Fund procurement policy in order to reduce the risk of theft and counterfeit drugs appearing in the official pharmaceutical supply chain. In September, a memo containing the first policy recommendations based on JIATF findings was sent to the Secretariat. Recommendations included suggested improvements to packaging to reduce the risk of theft.

In July, the Global Fund (Secretariat and OIG), together with Interpol, organized a joint event focusing on theft, diversion and counterfeiting of anti-malarial medicine. This led to the creation of a high level Working Group to develop a clear road map to address these crimes.

JIATF further developed strategic partnerships through a National Engagement Strategy. Memoranda of Understanding were signed with the Tanzania Food and Drugs Regulatory Agency in July and the Malawi Department of Public Prosecutions in September.

JIATF's in-country activities have resulted in the discovery of a number of counterfeit artemisinin-based combination therapy medicines (ACT) in the West Africa Region. These contain little or no active pharmaceutical ingredients. JIATF is now working closely with the affected drug manufacturers, together with a number of national and international law enforcement and drug regulatory agencies in response to these discoveries.

4.3 Quality Assurance

The Investigation Unit's self-assessment, completed in May, identified areas for improvement. The unit self-assessed the results to identify the most appropriate remedial actions for the shortcomings. Investigation guidelines, including notably case management workflows and report finalization procedures, have been revised, and benchmarking against the procedures of peer organizations has taken place. In consultation with the AEC, a peer-review of the unit is planned for mid-2014.

4.4 2014 Investigations Work Plan

The plan is made up of four parts:

1. Cases opened before 2013 (39 'legacy cases')
2. Twenty-six new cases taken on board in 2013
3. Pro-active elements based on priority areas (FOREX, JIATF...)
4. Ongoing screening, assessment and investigation of new allegations

At its sixth meeting, the AEC reviewed and approved the 2014 Work Plan of the Investigations Unit.

Part 5: Resources

The Office continues to have sufficient resources in order to fulfill its mandate and it is proposed that the 2014 budget is kept at the same level as the 2013 budget pending a detailed review of costs by the Inspector General. The 2013 favorable variance is primarily due to careful control of professional fees and the tight management of consultants and the scope of their work.

| As at 31 July 2013 | YTD Budget | YTD Actual | YTD Variance | Committed |
|---------------------------|---------------------|--------------------|---------------------|--------------------|
| Staff | \$5,572,681 | \$4,912,174 | \$660,507 | \$0 |
| Professional fees | \$4,263,358 | \$1,976,239 | \$2,287,119 | \$867,474 |
| Travel costs | \$1,569,702 | \$642,031 | \$927,671 | \$12,935 |
| Training / other | \$63,875 | \$66,223 | -\$2,348 | \$8,124 |
| Communications | \$75,833 | \$22,845 | \$52,988 | \$0 |
| Office Infrastructure | \$767,702 | \$704,493 | \$63,209 | \$410,684 |
| Total | \$12,313,151 | \$8,324,005 | \$3,989,146 | \$1,299,217 |

Since the last Board meeting nine positions have been filled. Twelve positions remain vacant of which the Director of Investigations role is the most critical. Three of those vacancies are currently filled by temporary staff whose contracts end on 31 December 2013. Short term contracts with consultants are being used to offset the impact of the vacant positions or spikes in workload.

| OIG Unit | Current headcount | <i>of which joined since July 2013</i> | Vacancies | Total |
|---------------------|--------------------------|---|------------------|--------------|
| Front Office | 5 | 3 | 1 | 6 |
| Audit Unit | 16 | 3 | 2 | 18 |
| Investigations Unit | 15 (+3 temporary) | 3 | 9 | 24 |
| Total | 36(+ 3 temporary) | 9 | 12 | 48 |

Given the importance of the Director of Investigations role an external targeted search is underway and will conclude in October. A verbal update from the Inspector General will be provided to the Board.

Progress against our KPIs is captured in Annex F.

At its sixth meeting, the AEC agreed with the OIG's proposal to maintain its 2014 operating expenses budget at the same overall amount of USD 21.1 million as 2013 until further analysis has been completed, and recommended this amount to the Finance and Operational Performance Committee ('FOPC') for inclusion in the Global Fund's overall 2014 operating expenses budget. The AEC noted that upon review of an updated 2014 OIG Budget, and work plan, the AEC would notify the FOPC of any necessary adjustments to the budget.

Part 6: Communications strategy and disclosure policy

With the arrival of a Communications specialist at the Office of the Inspector General, we are in the process of developing an OIG communications strategy which will be aligned with the general Global Fund communications strategy wherever possible. At the same time, OIG communications will maintain a distinctive identity from the Secretariat in order to reaffirm the independent status of the Office.

We will continue to sharpen the outputs of the Office of the Inspector General both in terms of timeliness as well as quality. In addition, the engagement model with the Secretariat and other key stakeholders will be revisited. A cornerstone of our communications strategy will be a proposal to revise the disclosure policy, particularly with regard to internal audits, taking into account the role of the AEC, the High-Level Panel recommendations and the revised OIG Charter.

Over the past twelve months, there has been a growing trend among international peer organizations towards fuller disclosure, including internal audits. For example, United Nations specialized agencies have started to publish all of their audit reports on the internet.

Maintaining the Global Fund's leadership in transparency and accountability while taking into account the evolving role of the Office and stakeholder expectations will need to be carefully thought through.

The Office of the Inspector General and the Secretariat are also working with the AEC to finalize the revised whistle-blower policy which will then be subject to approval by the Board. Once approved, the policy will form the basis of a more targeted approach to raise awareness of this reporting facility to implementers and partners.

Part 7: Annexes

- A: Matters arising from the last Audit and Ethics Committee meeting
- B: 2013 Audit Work Plan progress update
- C: Material (Very High Priority) issues identified in prior periods
- D: 2014 Audit Work Plan
- E. Investigations closed and reports issued (summaries)
- F: Key performance indicators

Matters arising from the 5th AEC meeting

| # | Action item | Status update |
|---|---|--------------------------------|
| 1 | The AEC approved the set of KPIs providing the OIG added a performance measurement on efficient communication | Completed |
| 2 | OIG to report on performance against KPIs at next AEC meeting, in preparation for next Board meeting | Completed |
| 3 | OIG to present draft report to Board at next meeting | Completed |
| 4 | Interim IG to formally invite AEC members for a visit to OIG premises around next meeting | Completed |
| 5 | OIG to draft joint OIG-AEC recommendation to add privilege and immunity conditionality to grants | Work in progress. ¹ |
| 6 | OIG to conduct two additional engagements (Audit of the quality and strength of assurance provision across the GF, and Audit of delegation of authority at the Global Fund in view of the new funding model) and include them in the next audit workplan update | Work in progress |
| 7 | Present OIG budget and workplan for 2014 for AEC approval during the 6 th AEC meeting | Completed |

¹ There have been ongoing discussions between the OIG and the Secretariat Legal Counsel over how to strengthen grant agreement language regarding the protection and legal status of all Global Fund employees, including OIG auditors, investigators and their contractors. In 2009, rather than make the recognition of the legal status of the Global Fund as an international organization a condition to funding, the Board chose to encourage the signature of a comprehensive agreement in treaty form. This agreement has been signed by seven countries so far. The OIG believes that the Secretariat should reinforce the importance of this agreement with countries seeking additional funding. This is especially important as the Global Fund will be taking a closer and more active role in the development, as well as the oversight of the programs with the New Funding Model which will entail new areas of risks and potential local compliance requirements.

Progress against the 2013 Audit Plan (as at 30 September 2013)
Annex B

| | Secretariat Division or Department | Audit Name | Engage-ment | Report Status |
|----|--|---|--------------------|-------------------------|
| 1 | FISA (Finance, IT, Sourcing, Administration) | Follow-up on IT review | Assurance | Released |
| 2 | Risk Management | Quality of the QUART | Advisory | Released |
| 3 | Risk Management | Risk Register | Advisory | Released |
| 4 | Risk Management | Minimum Standards | Advisory | Released |
| 5 | Grant Management | Country Team Approach: Embedding Specialists | Assurance | Released |
| 6 | Grant Management | Grant closure | Assurance | Released |
| 7 | Grant Management | Assurance at Country Level: Use of External Audit | Assurance | Released |
| 8 | FISA | Payroll | Assurance | Released |
| 9 | FISA | Benefits | Assurance | Released |
| 10 | FISA | Follow-up on ASA recommendations | Assurance | Released |
| 11 | Strategy Investment and Impact | Performance-based funding 1: Review of the TERG | Assurance | Released |
| | | Performance-based funding 2: Performance Measurement | | Secretariat Reviewing |
| 12 | Legal and Compliance | Recoverables | Assurance | Released |
| 13 | Grant Management/ FISA | Procurement and Supply Management 1: Quality Control | Assurance | Released |
| | | Procurement and Supply Management 2: Quantification and Forecasting | | Drafting Report |
| 14 | External Relations and Partnerships | Strategic Communication | Assurance | Audit Underway |
| 15 | Grant Management | Advising Civil Society delegation to the Board | Advisory | Ongoing 2013, Report Q4 |
| 16 | FISA | Collaboration with External Auditor | Advisory | Ongoing 2013, Report Q4 |
| 17 | Grant Management | Capacity Building | Assurance | Audit Underway |
| 18 | Strategy Investment and Impact | Quality of Service | Assurance | Audit Underway |
| 19 | Governance | Cost of Governance | Assurance | Audit Underway |
| 20 | FISA | Key IT Controls | Assurance | Scheduled for Q4 |
| 21 | Grant Management | Testing the Risk Model: Pakistan | Assurance | Drafting Report |
| 22 | Grant Management | Testing the Risk Model: Haiti | Assurance | Drafting Report |
| 23 | Grant Management | Testing the Risk Model: DRC | Assurance | Drafting Report |
| 24 | FISA | Advisory on Finance Systems (Step-Up Project) | Advisory | Audit Underway |
| 25 | FISA/Risk Management | Joint Training on ERM | Advisory | Scheduled 25-26 Nov |

| | Added | | | |
|----|------------------|---|-----------|------------------|
| 26 | Grant Management | Themes requiring management action: CCM, LFA, PSM, PH | Advisory | Released |
| 27 | Grant Management | Democratic Republic of the Congo | Advisory | Released |
| 28 | Grant Management | Key Controls in the New Funding Model | Assurance | Drafting |
| 29 | Risk Management | Quality and Strength of the Assurance Provision | Assurance | Drafting |
| 30 | Grant Management | RBF in Rwanda Initiative | Advisory | Drafting |
| 31 | FISA | Review of the MDAG | Assurance | Scheduled for Q4 |

| | Cancelled | | | |
|--|------------------|--|-----------|--|
| | FISA | Validation of Global Fund Financial Data in preparation for EA | Assurance | Cancelled due to changes in EA in 2013 |
| | FISA | Advisory on new IT Systems | Advisory | Cancelled in light of delayed arrival of CIO and added item 28 |

| | Postponed | | | |
|--|------------------|-----------------|-----------|---|
| | FISA | Grant Budgeting | Assurance | Postponed to 2014 in light of added item 29 |

Key

| |
|-----------------------|
| Released |
| Draft or under review |
| Audit in progress |

Summary of audits completed in the period

Our audits this year to date include assurance and advisory work in 16 high-impact and an additional 42 high risk country portfolios.

Part 1. Assurance engagements

The following assurance reports were issued to the Executive Director and the AEC and/or published on the website since the last progress report to the Board.

1.1 Integrating specialists in country teams

This audit assessed whether the Country Team model of integrating specialists into the Grant Management Division was effectively implemented. The integration was widely acknowledged as a good and timely concept, given the new strategic direction of the Global Fund. It resulted in improved engagement, collaboration and partnership at both Secretariat and Country levels. The success of the integration process was, however, impacted by the Global Fund transition which affected the Division's ability to support the integration process in a timely manner.

Key recommendations

- Clarify accountability with respect to Country Team members across the organization.
- Streamline processes to improve the efficiency and effectiveness of Country Teams in managing grant programs.

NB: A number of initiatives to address some of the identified weaknesses were already underway at the time of the review. These included the development and implementation of guidelines for Country Team operations including decision making.

1.2 External audit of grant recipients

This audit evaluated the effectiveness of external audit assurance and the extent to which the Global Fund can place reliance on this assurance for managing grants. The overall findings and recommendations were reflected in a 'chapeau' report which identified issues at the level of the Secretariat, the Local Fund Agent and the Principal Recipient.

A further ten regional reports were issued to outline specific findings at country/regional level in the ten regions. Although a number of good practices were noted (such as embedding audit requirements in grant agreements and use in disbursement decisions), we concluded that existing arrangements were not satisfactory.

Key risks were not consistently covered, processes to assure the independence and evaluate the external auditor were not sufficient, extensive delays existed in the submission of reports, further delays were caused by the Secretariat in addressing and documenting audit concerns, and the High Level Panel's recommendations on external audit had not been implemented. Given the significant cost allocated to the external audit of the Global Fund portfolio, the review raises questions as to the value for money obtained by this assurance and whether those funds would be better spent on more targeted, risk-based assurance activities.

Key recommendations

- Implement the High Level Panel recommendations relating to external audit.
- Improve the timeliness of external audit assurance by taking prompt action around concerns raised by external audit reports.
- Determine how best to derive combined assurance from (potential) assurance providers.

1.3 Audit of the Technical Evaluation Reference Group

This audit assessed the extent to which the Global Fund Board can rely on the work of the Technical Evaluation Reference Group (TERG) for assurance. There has been considerable improvement since 2012 and the group now contributes extensively to the performance of the Secretariat as well providing strategic input. Current TERG activities, however, continue to focus on its role in bringing about institutional learning rather than on the assurance function emphasized in its current mandate. The independence of the group from the Secretariat should also be strengthened.

Key recommendations

- Strengthen the TERG's focus on its independent evaluation/assurance role.
- Separate its institutional learning function from internal evaluation work at the Secretariat.
- Strengthen the institutional separation between the group and the Global Fund Secretariat.

1.4 Human Resources follow-up

We carried out a follow-up review of the status of implementation of recommendations made in the July 2011 audit of the Global Fund's Human Resources function. The review established that out of the 35 recommendations, 11 had been fully implemented, seven were on-going and two were no longer relevant. The remaining 15 were reviewed and re-categorized as 'management actions' in light of our recategorization of recommendations. The 2012 staff engagement survey results provided insights on key areas where Human Resources-related improvements had occurred in 2012 as well as areas for further work.

A new "People Strategy" document, central to anticipated changes in the Human Resources function, was rolled out in June this year. Any outstanding recommendations are now embedded in the strategy and its work plan. They aim to foster a common culture in order to harmonize behaviors and ensure organizational development and sustainability, enhance internal communication, strengthen the Global Fund's career and talent management and improve manager/employee relations.

1.5 *Quality control arrangements for pharmaceuticals*

This audit assessed the arrangements in place at the Secretariat and in-country to safeguard quality control over pharmaceuticals. It examined the extent to which the Global Fund can rely on quality to ensure that end users receive quality products. We concluded that processes for monitoring quality control of pharmaceuticals purchased with Global Fund support and for ensuring compliance with policy were not satisfactory.

Key recommendations

- Ensure compliance with post-shipment quality control requirements.
- Better planning with the National Regulatory Authorities.
- Improve engagement with WHO-pre-qualified and/or ISO-accredited laboratories for sampling and testing and regular reporting of quality control test results to the Global Fund Secretariat.

1.6 *Processes underpinning grant closure*

We audited the Global Fund's grant closure processes in order to assess their adequacy, effectiveness and compliance with established closure policies and procedures. The audit was primarily carried out at the Global Fund Secretariat and concluded that major improvements were needed in the management of grant closure activities to ensure that grants were wound down appropriately.

Key recommendations

- Speed up the closure of long-outstanding grants.
- Simplify the grant closure process.
- Allow for discretion in closing grants to suit different circumstances.
- Ensure that existing policies are followed.

1.7 *Inspection on grant closure in Cameroon, Ghana, Nigeria and Zambia*

As part of the audit of the Global Fund's grant closure process, we conducted inspections of closure-related processes in Cameroon, Ghana, Nigeria and Zambia. At the time of the inspections, 41 out of 49 grants due for closure in the four countries had not been closed. As a result, bank balances were still being held in-country after the end of the grant. This leads to more administrative work for the Secretariat and Principal Recipient staff, as well as increased costs for Local Fund Agents. The audits also noted that cash balances were still being held by Principal Recipients for long periods after the grant expiry date. Information relating to funds still held by sub-recipients and third parties at grant expiry was not readily available.

Key recommendations

- Speed up the closure of long-outstanding grants and ensure compliance with laid-down grant closure processes.

1.8 Payroll processes

This audit assessed the adequacy and effectiveness of, as well as compliance with, established human resources policies and procedures in place to ensure that payroll at the Global Fund Secretariat is accurate and timely. The audit included a special focus on the controls in the Oracle System used to process payroll. We concluded that key internal controls over the payroll process were adequate and effective. There were no material findings.

1.9 Benefits processes

The objective of this audit was to assess the adequacy and effectiveness of policies and procedures in place for the accurate and timely processing of employee benefits. The benefits audited included installation and repatriation grants, child allowance, education grants, expatriate premiums and terminal benefits. We concluded that internal controls over the processes underpinning the payment of employee benefits need some improvement. The key audit findings included two instances of staff receiving expatriate premiums for children who no longer qualified. The report also noted the absence of systematic reviews of data entry by HR analysts and payment of accrued or unused leave days for staff which could not be verified on formal leave records. At the time of the audit, a new on-line absence management module was being implemented to strengthen controls on leave payment.

Key recommendations

- Review regularly expatriate premium payments for staff with dependents over the age of 21 years.
- Automate alerts for dependent children who reach the age of 21 years.
- Put in place more systematic quality control over data entry by HR analysts.

1.10 Recoveries

The objective of this audit was to assess the effectiveness of the processes and controls related to the recovery of funds not spent in line with the grant agreement. USD 118 million in “losses” have been identified. Cash refunds received amounted to USD 24 million, with written commitments to repay USD 10 million. The Recoveries Committee was in the process of defining policies and processes to guide the recoveries process. These are expected to address the areas that have previously affected the Global Fund’s ability to recover losses swiftly. The Recoveries Committee needs to strengthen controls to ensure that it maintains objectivity and independence as an oversight function to the recoveries process. The involvement of Risk Management staff in operational processes blurs the distinction between the first and second lines of defense and weakens risk management at the Global Fund.

Key recommendations

- Set indicative timelines within which losses are presented for action.
- Clearly articulate the recoveries process with an emphasis on early recovery.
- Consider having a Recoveries Team staff function as a full-time Recoveries Officer.

Part 2. Advisory engagements

In line with the Charter of the OIG and the three-year 2013-2015 audit plan, the audit team occasionally conducts consulting/advisory services for the Global Fund Secretariat. The nature and scope of OIG advisory services are agreed with management. Such services may involve advice and analysis to promote improvements in governance, risk management and control processes. The OIG takes care to ensure that its independence and objectivity are not compromised. In the current period, three reports on consulting engagements were issued.

2.1 Democratic Republic of the Congo

Upon request from the Secretariat, we performed a review of the design and adequacy of the key controls currently in place to safeguard Global Fund investments in the Democratic Republic of the Congo. The Global Fund has invested a significant amount of money and effort in strengthening these controls. We observed many good practices in place. One example of good practice was the presence of fiduciary agents monitoring sub-recipient expenditure at all Principal Recipients. However, in three out of four Principal Recipients (particularly at the Ministry of Public Health), controls were not satisfactory and required strengthening. This included scarce and ineffective controls by the fiduciary agent, lack of payment guarantees for advance payments, weaknesses in the accounting system, delays in appointing internal and external auditors, inadequate capacity in the procurement unit, and a lack of procedures in place to ensure competitiveness and value for money.

Key recommendations

- Critical improvements need to be made to financial and procurement processes at the Ministry of Public Health.

2.2 Themes Requiring Management Action related to Public Health Program Implementation

This report noted good practices and recurrent findings on program implementation, monitoring and evaluation based on the audits and diagnostic reviews carried in 2012. The findings included inadequate prioritization of interventions for key and vulnerable populations, gaps in and non-adherence to implementation guidelines, interruptions to service delivery, service quality issues, weaknesses in laboratory quality assurance mechanisms and poor data quality.

Key recommendations

- Define how Grant Management can strengthen identified weaknesses during grant making and renewals.
- Assess the compliance of supported programs in recipient countries with national and international guidelines.

NB: In response, Grant Management has provided an action plan that includes strategic information notes, technical checklists, concept note guidance, instructions, tools and measurement frameworks to ensure focus on evidence-based high impact interventions and access to services by key and vulnerable populations.

2.3 Themes Requiring Management Action related to Procurement and Supply Management

The purpose of the report was to identify recurrent findings related to procurement and supply management identified in audit and investigation work. The report identified a number of weaknesses pertaining to quantification and forecasting, procurement, stock management of health commodities, distribution processes, and coordination among stakeholders, including at Principal Recipient and sub-recipient level. The issues noted in this report mean that major improvements are needed at the country level in order to rely on procurement and supply management arrangements.

Key recommendations

- Design revised processes to ensure compliance with Global Fund terms and conditions,
- Require applicants to set aside a percentage of the grant budget to strengthen procurement and supply management ,
- Review the adequacy of procurement and supply plans in light of country capacity, and strengthen partnerships with technical partners.

NB: The Secretariat has developed an action plan that includes a review of processes, engagement with countries to define a budget percentage for strengthening procurement and supply management and the facilitation of technical support by partners.

Overdue 'Very High Priority' Audit Recommendations (as at 30 September 2013)
Annex C

| Overdue | 0 to 30 days | 30 to 60 days | 60 to 90 days | >90 days | Total |
|----------------|---------------------|----------------------|----------------------|--------------------|--------------|
| Very High | 9 | 4 | 5 | 0 | 18 |

| No | Category | Days o/s | Status of outstanding actions | Completion status | Owner |
|-----------|--------------------|-----------------|---|--------------------------|---------------------------------------|
| 1 | Recovery of Losses | 53 | <p>The Global Fund Secretariat should request the LFA to calculate the total amount that was overcharged to the grant and the SEP-CNLS malaria program should reimburse the malaria grant account.</p> <p>Status of actions: Final review to be done by the Country Team to facilitate any final discussions required with the PR and stakeholders in order to fulfill this recommendation.</p> | Partially | Burundi SEP-CNLS with the Burundi FPM |
| 2, 3 | Recovery of Losses | 22, 22 | <p>In line with the Global Fund guidelines, PSI should prepare and submit to the Global Fund through the LFA a basis for the allocation of common costs. Once approved, this should be applied consistently to all future budgets and costs. PSI should refund the funds that were not accounted for (related to overhead cost and to disbursement issued to the national entities).</p> <p>PSI should account for grant program income incurred and expended. All expenditures incurred contrary to the approval should be refunded and all balances undeclared should also be refunded. PSI should provide confirmation that the incomes generated from the sale of condoms donated by USAID have been refunded to USAID. Otherwise, in the absence of such confirmation, PSI should refund this amount to the grant program.</p> <p>Status of actions: PSI had raised objections to findings which were related to several countries (Madagascar, South Sudan). Discussions between the</p> | Partially | Togo PSI with Togo FPM |

| No | Category | Days o/s | Status of outstanding actions | Completion status | Owner |
|----|-----------------------------|----------|--|-------------------|--------------------------------------|
| | | | Secretariat and PSI have been on-going and no final status has been reported. Decision on recovery by the Recovery Committee is expected October 2013. | | |
| 4 | Internal Financial Controls | 22 | <p>Global Fund resources should not be commingled with funds from other donors. A separate bank account should be maintained for all Global Fund resources received by PSI in Washington. In the country where the Global Fund grants are implemented, PSI should allocate a separate interest bearing bank account for Global Fund grants. Proper books of account should be maintained and reconciliations prepared that show what Global Fund monies have been spent on, outstanding balances at any point in time and a reconciliation of bank balances to show what balances relate to the Global Fund.</p> <p>Status of actions: PSI had raised objections to findings which were related to several countries (Madagascar, South Sudan). Discussions between the Secretariat and PSI have been on-going and no final status has been reported.</p> | Partially | Togo PSI with Togo FPM |
| 5 | Internal Financial Controls | 84 | <p>The PR should improve data reliability in the accounting system which is currently prejudiced by the inaccurate migration of closing balances and the incompleteness of the opening balance in the new version of the PR's 1C software that arose from data migration.</p> <p>Status of actions: Matching accounting data to management information (i.e., SR reports, reports to donors) was implemented at the end of 2012. The PR plans to perform first reconciliation between accounting and management information (using updated 1C functionality) but this is outstanding.</p> | Partially | Ukraine PR with Ukraine FPM |
| 6 | Internal Financial Controls | 84 | PSI should enhance its financial internal controls to ensure appropriate documentation and reporting of financial transactions by the SRs and that grant funds are used for the approved grant activities. | Partially | South Sudan PSI with South Sudan FPM |

| No | Category | Days o/s | Status of outstanding actions | Completion status | Owner |
|----|---|----------|---|-------------------|-------------------------------|
| | | | Status of actions: PR has followed up with SRs. LFA verification is pending (KPMG is LFA and new contracts are being finalized with them to continue services). | | |
| 7 | Internal Financial Controls | 53 | <p>NAS, NMCP and NTLP should enhance financial controls by developing appropriate policies and procedures for cash and advance payments; centralize procurement and enter into contracts with fuel supply companies.</p> <p>Status of actions: Three of the 4 parts of the recommendations have been implemented. However, documentation to evidence the centralization of procurement by NMCP and NTLP is outstanding.</p> | Partially | Gambia PRs with Gambia FPM |
| 8 | Procurement and Supply Chain Management (PSM) | 53 | <p>(a) The HIV Center should establish a comprehensive electronic management information system for ARVs, other medicines as well as health and laboratory supplies. The Center should also improve its forecasting of drug requirement in order to avoid expiry of drugs in the future. (b) The Center should equip its warehouses with temperature control systems. The PR should distribute non-health products to the final users shortly after delivery and strengthen inventory control systems.</p> <p>Status of actions: The PR has changed (RAC to UNDP). These activities have been partially implemented but not validated.</p> | Partially | Kyrgyzstan FPM |
| 9 | Procurement and Supply Chain Management (PSM) | 84 | The Global Fund Secretariat should ensure that CNLS a) updates its current procurement planning tool b) provides an annual procurement plan to the PNA and c) develops a time-bound procurement schedule for drugs and reagents procured by the PNA, which should be included in the CNLS-PNA memorandum of understanding in order to allow both parties to plan and monitor procurement. | Partially | Senegal CNLS with Senegal FPM |

| No | Category | Days o/s | Status of outstanding actions | Completion status | Owner |
|--------------------|---|--------------------|--|-------------------|-----------------------------------|
| | | | Status of actions: In progress. | | |
| 10, 11, 12, 13, 14 | Procurement and Supply Chain Management (PSM) | 21, 21, 21, 21, 21 | <p>The PR should ensure transparent and competitive bidding and other sound practices such proper communication of evaluation criteria, proper bid evaluation, clarifying conditions such as penalties, advance payments and contract variations in procurement in line with Kazakhstan law.</p> <p>Status of actions: OIG reviewing Russian materials.</p> | Partially | Kazakhstan PR with Kazakhstan FPM |
| 15 | PSM - Quantification & Forecasting | 84 | <p>The Global Fund Secretariat should ensure that CNLS, in collaboration with the DLSI and the PNA, establishes quantification and distribution procedures based on the reported incidence of specific opportunistic infections (OIs) and the anticipated patient load in each region.</p> <p>Status of actions: In progress.</p> | Partially | Senegal CNLS with Senegal FPM |
| 16 | PSM - Quantification & Forecasting | 53 | <p>The Principal Recipients should work with the National Programs and WHO to establish a “Medicines Committee”. This committee should oversee the establishment of a national quantification and forecasting process and ensure coordination between the government, Global Fund-supported programs, implementing partners and the Central Medical Stores. The committee should facilitate the sharing of consumption, distribution and morbidity data, and support efforts to conduct joint forecasting and procurement planning. The terms of reference for the Committee should be shared with the Global Fund.</p> <p>Status of actions: The Secretariat has not yet received the TOR of the medicines committee or the meeting minutes of the latest committee meeting to evidence implementation of the recommendations.</p> | Not Implemented | Congo PRs with Congo FPM |
| | | | | | |

| No | Category | Days o/s | Status of outstanding actions | Completion status | Owner |
|----|------------------------|----------|---|-------------------|-----------------------------------|
| 17 | Program Data Quality | 84 | <p>CMAM should improve data collection by strengthening use of SIMAM in the Provinces and hospitals and through training and provision of additional qualified staff with the appropriate skills to enter data.</p> <p>Status of actions: The LFA has had difficulty identifying an available consultant for the verification and it will not be possible to conduct the field work until September with the report available at the end of October.</p> | Partially | Mozambique PR with Mozambique FPM |
| 18 | Program Implementation | 22 | <p>PSI should work with the CNLS to develop a strategy for the support to the PLWHA, i.e., income-generating activities, nutritional support, mutual aid and solidarity fund. PSI should draft, disseminate and formulate an operational plan for the implementation of the PLWHA activities. This plan should establish a participatory approach to include stakeholders, guide service providers, etc.</p> <p>Status of actions: There is a nutritional support and also a therapeutic observance club that is involved in BCC activities. A draft of the strategy is being developed with partners and the Secretariat is expecting to receive the final draft by the end of September 2013. The draft had not been received at the time of the review.</p> | Partially | Togo PSI with Togo FPM |

OIG Audit Work Plan for 2014

This Work Plan was reviewed and approved under reference GF/AEC6/6 during the 6th meeting of the Audit and Ethics Committee (15-16 October 2013).

1. Executive Summary

Planning Approach

- The 2014 Plan is aligned with the 2012-2016 Global Fund Strategy.
- Our risk assessment includes inherent risk, as well as control risk.
- Continued emphasis on combined assurance in order to leverage efficiencies across providers (e.g., the TERG).
- The 2014 plan is part of a three-year plan which aims to improve governance, risk management and control processes at the Global Fund.

Audit Response

- Risk-based audit plan to focus on key risk areas.
- Public health and procurement specialists recruited to enhance the skill set of the team.
- Given the scale of organizational change, resources will be set aside for advisory work to support the Secretariat (10%).
- The current plan comprises 28 audits responding to five key themes.
- 60% audit time at country level (40% in 2013).

2.1 Environmental context

1. Donor context

- Fourth Replenishment period will be critical for the future of the Global Fund and will set the level of resources available for the 2012-2016 strategy.

2. Organizational changes

- New Funding Model developed and implemented at pace during 2013-14.
- The Finance Step-Up will overhaul the Global Fund's financial systems and processes to improve financial and operational information.
- Procurement for Impact will fundamentally change the Global Fund's approach to procuring goods and services and deliver greater value for money.
- New Key Performance Indicators that focus on achieving impact in place for the Secretariat.
- The Risk Management framework is being refreshed and based on COSO.



2.2 Alignment with Global Fund Strategy

| Strategic Objectives | | | | | |
|---|---|---|--|--|--|
| 1. Invest more strategically | | 2. Evolve the funding model | | 3. Actively support grant implementation success | |
| Strategic Actions | 1.1 Focus on the highest-impact countries, interventions and populations while keeping the Global Fund global | 2.1 Replace the rounds system with a more flexible and effective model <ul style="list-style-type: none">• Iterative, dialogue-based application• Early preparation of implementation• More flexible, predictable funding opportunities 2.2 Facilitate the strategic refocusing of existing investments | | 3.1 Actively manage grants based on impact, value for money and risk | |
| | 1.2 Fund based on quality national strategies and through national systems | | | 3.2 Enhance the quality and efficiency of grant implementation | |
| | 1.3 Maximize the impact of Global Fund investments on strengthening health systems | | | 3.3 Make partnerships work to improve grant implementation | |
| | 1.4 Maximize the impact of Global Fund investments on improving the health of mothers and children | | | | |
| 4. Promote and protect human rights | | 5. Sustain the gains, mobilize resources | | 5.1 Increase the sustainability of Global Fund-supported programs | |
| 4.1 Ensure that the Global Fund does not support programs that infringe human rights | | | | 5.2 Attract additional funding from current and new sources | |
| 4.2 Increase investments in programs that address human rights-related barriers to access | | | | | |
| 4.3 Integrate human rights considerations throughout the grant cycle | | | | | |
| Strategic Enablers | Enhance partnerships to deliver results | | | | |
| | Transform to improve Global Fund governance, operations and fiduciary controls | | | | |

3.1 Top-Down Analysis: Audit Themes

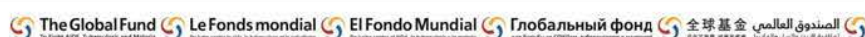
| | |
|--|---|
| Global Fund 2012-2016 Strategy | 2014 Audit Plan focus on five cross-cutting themes: |
| <ol style="list-style-type: none"> 1. Invest more strategically 2. Evolve the Funding Model 3. Actively support grant implementation success 4. Promote and protect Human Rights 5. Sustain the gains, mobilize resources | <ol style="list-style-type: none"> 1. Mechanisms and processes to achieve and measure impact (1,3,4,5) 2. Progress of the NFM in achieving intended objectives (1,2,3) 3. Organizational change management (2,3) 4. Management of financial and fiduciary risks in grants (2,3) 5. Value for money in and quality of pharmaceuticals and health products (2,3) |

3.2 Bottom-up analysis

- Plan crafted using high-level “Themes” from 3.1
- Then checked against detailed “bottom-up” analysis using datasets that included:
 - QUART risk profile for high-impact countries
 - Grant expenditure by category
 - Global Fund operating expenditure
 - Corporate Risk Register
 - Key Performance Indicator Framework 2014-16
 - Key risks from recent OIG work – refer to slide 3.3

3.3 Key risks from recent OIG work

| | |
|------------------|--|
| Internal reviews | <ul style="list-style-type: none"> Limited reliance can be placed on assurance providers in the first and second lines of defense Record keeping and institutional knowledge needs improvement Individual responsibilities are not always well-defined Management processes should be better integrated across divisions Non-compliance with existing procedures |
| Country reviews | <ul style="list-style-type: none"> Financial management requires strengthening Procurement, especially of pharmaceuticals, is poorly controlled Control of pharmaceuticals in the supply chain is weak Data quality not of the required standard CCM oversight and governance could be improved Sustainability of programs is not assured MARPS are not always prioritized Laboratory services and analysis should be improved |



4.1 Engagements 2014 (1/2)

| Theme 1 - Impact | |
|---|---|
| Achieving impact is a key component of the Global Fund's 2012-16 strategy. We propose the following specific audits: | |
| 1. Adequacy and effectiveness of the prioritization and planning processes to deliver impact | 4. Effectiveness and efficiency of governance at the Global Fund |
| 2. Status and effectiveness of the processes to implement the strategic plan | 5. Results-based funding pilot in Rwanda |
| 3. Embedding of the corporate Key Performance Indicator Framework 2014-2016 | 6. Quality and reliability of data in 12 high impact/risk countries |
| 7. Effectiveness of the processes in place to utilize and enhance cross-cutting partnerships for impact (global and regional/country) | |
| Theme 2 - New Funding Model | |
| The transition to the new funding model is underway. Audit work proposed for 2014 will build on advisory work performed in late 2013 and will include specific audits on the: | |
| 8. Effectiveness of the New Funding Model implementation in two early applicant countries | 9. Adequacy of controls in place to support the New Funding Model |
| Theme 3 - Change Management | |
| Given the scale and speed of change the Global Fund is going through in 2014, a number of engagements are proposed around this theme, including specific audits on the: | |
| 10. Effectiveness of organization-wide change management | 12. Effectiveness of change management in Finance (including Step-Up) |
| 11. Processes in place to minimize organizational duplication and inefficiency | 13. Effectiveness of change management in Human Resources (including the People Strategy) |
| 14. Effectiveness of change management in Grant Management (including Salesforce) | |

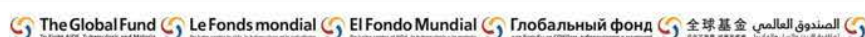


4.1 Engagements 2014 (2/2)

| Theme 4 – Internal Financial Controls | |
|--|--|
| Given the risks identified in past audits and investigations, it is fundamental that Global Fund investments are adequately protected. In this light, the engagements proposed for 2014 include financial audits on: | |
| 15. Effectiveness of grant budgeting processes with respect to value for money (carried over from 2013) | 16. Effectiveness of managing key financial and fiduciary risks at the Secretariat |
| 17. Adequacy and effectiveness of controls, interventions and assurance mechanisms over key financial and fiduciary risks in ten high-risk/impact countries | |

| Theme 5 – Procurement & Supply Chain Management | |
|---|--|
| Given that over half of grant costs represent procurement of pharmaceuticals and health products, a number of audits are proposed in the 2014 plan around procurement practices. These include: | |
| 18. Effectiveness of controls for procurement and supply chain management at country level | 20. Processes to quality assure pharmaceuticals and health products purchased with grant funds |
| 19. Achievement of best value in pooled procurement | 21. Effectiveness of controls in corporate procurement |
| 22. Effectiveness of the Sanctions Panel (once established) | |

| Other Assurance Work | |
|--|---|
| Based on the bottom-up analysis done, we also propose a number of cross-cutting audits for the 2014 plan on: | |
| 23. Appropriateness and effectiveness of structures, policies and procedures around IT security & operations | 26. Processes in place to properly manage and embed a robust Ethics Framework |
| 24. Policies and procedures in place for Business Continuity Management and Disaster Recovery | 27. Follow-up work on material audit recommendations at the Secretariat |
| 25. Progress made in implementing the COSO framework, including embedding of components of internal control | 28. Follow-up work on material audit recommendations at the country level |



4.2 Audit Coverage 2014

Audit Response

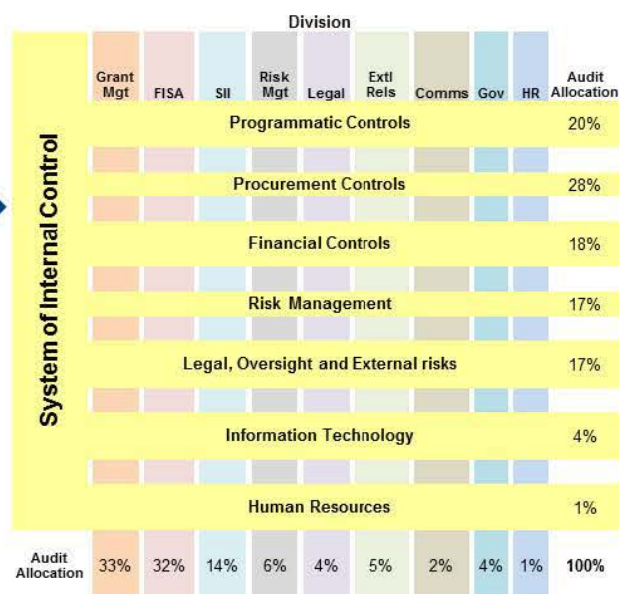
- Allocates resources where there are greatest risks

Environmental Factors considered

- Replenishment year
- Major organizational changes
- International Internal Audit Standards

Risk Assessment Factors considered

- Global Fund Strategic Plan
- Global Fund Operational Risk Heat Map
- GM's exit report comments
- Assessment of control environment
- Materiality of expenditure categories in grant portfolio
- Past audits

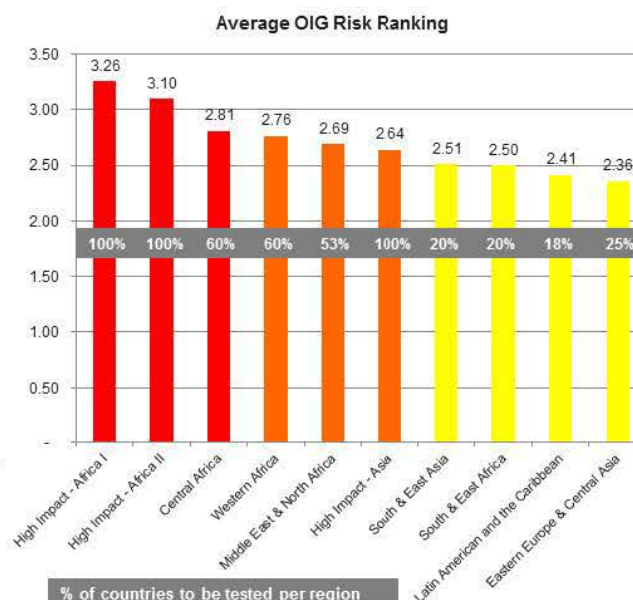


4.3 Plan by Region and Risk

For audit activity at the country level, the Audit Unit has conducted a thorough risk analysis of country portfolios, considering:

- Portfolio size
- Non-financial grant attributes
- Past audit / investigation data
- Independent assessments of corruption and security
- Secretariat senior management inputs

We have selected an indicative list of countries for 2014 engagements



4.4 Assurance Effort In-Country vs. Secretariat

2,915 person days (60%)

1,943 person days (40%)



4.5 Multi-Year Audit Plan 2013-15

The 2014 Audit Plan forms part of the OIG's 2013-2015 Multi-Year Audit Plan.

(2015 audit is indicative)

| Key |
|------|
| 2013 |
| 2014 |
| 2015 |
| n/a |

| | Division | | | | Region | | |
|----------------------------|-------------------------------------|-----|--------------------|------|-------------|-----------|-----------------|
| | Grant Mgt | SII | External Relations | FISA | High Impact | High Risk | Other countries |
| System of Internal Control | Financial Controls | | | | | | |
| | Programmatic Controls | | | | | | |
| | Procurement Controls | | | | | | |
| | Risk Management | | | | | | |
| | Legal, Oversight and External risks | | | | | | |
| | Human Resources | | | | | | |
| | Information Technology | | | | | | |

1. Georgia *(published 23 May)*

This case investigated allegations of misappropriation of Global Fund grant funds disbursed to the Global Projects Implementation Center (GPIC), the Principal Recipient in Georgia. Irregularities were found in GPIC's food voucher program for HIV and TB patients, as well as indications of improper procurement practices and bid rigging.

The investigation found evidence that two suppliers, contracted by GPIC to implement its food voucher program for HIV and TB patients, colluded to steer food voucher contracts to each other with the help of GPIC staff. The OIG found USD 853,804, paid to the suppliers in service fees, was improperly secured without a transparent or competitive process. The OIG also found that USD 24,143 was paid to a GPIC senior manager's domestic partner for work that was not performed.

- The Principal Recipient has been replaced and the matter has been referred to the Recoveries Committee
- Cost of the investigation: USD 307,843

2. Papua New Guinea *(published 31 August)*

This investigation focused on a malaria grant disbursed to a Principal Recipient, the Rotary Club of Port Moresby, to procure and distribute long-lasting insecticide treated nets to every household in Papua New Guinea and to train health staff in new diagnostic and treatment protocols. Substantive and credible evidence revealed that two senior executives of the Rotary Club steered a USD 1.4 million contract to provide human resources services to a company controlled by the family of one of the implementer's senior executives.

The Rotary Club's decision to appoint the contract to the service provider resulted in additional costs of USD 359,543 compared to the next rival bid that met the requirements and where there was no conflict of interest.

- The human resources contract has been retendered and the matter will be referred to the Recoveries Committee
- Cost of the investigation: USD 92,562

3. Kyrgyz Republic *(published 27 September)*

This case involved the misappropriation and gross mismanagement of USD 53,577 of grant funds as revealed during an investigation of the National Center of Phthisiology, the Principal Recipient of the Global Fund Tuberculosis Round 2 and Round 6 grants in Kyrgyzstan.

The findings revealed that between 2003 and 2009, senior officials and staff at the Principal Recipient colluded with favoured vendors to secure contracts awards.

- The Principal Recipient has been replaced and the matter will be referred to the Recoveries Committee
- Cost of the investigation: USD 81,932

Tracking of 2013 Key performance indicators (30 September 2013)

| KPI | Status update |
|--|---|
| 1. Conducting audit and investigation activities | |
| 1.1. Adherence to the audit and investigations plans | In broad terms this KPI is being met with the exception of the legacy investigation cases. For these a revised work plan has been developed such that 98% of these cases will be closed by 31 March 2014. |
| 1.1.1. 90% completion of annual work plan (internal process audits, thematic audits, country audits and consulting/advisory engagements) taking into account changes to the work plan as per guidance by the Inspector General | |
| 1.1.2. Substantial progress towards completion of the achievable annual work plan (taking into account factors that may be outside of OIG control – such as extensions of time to, and non-cooperation by, subjects, witnesses and relevant parties in investigations) | |
| 1.2. Number of reports and findings (audit and investigations) | |
| 1.3. Timeliness | |
| 1.3.1. First draft of an Audit report is shared with the Secretariat no more than ten working days after the debrief in-country or with the Secretariat | |
| 1.3.2. Final report released no later than eight weeks after exit meeting (barring circumstances outside Audit Function's control) | |
| 1.3.3. No more than 10% of investigation cases where investigation deadline was extended without justified external factors, and without compromising the quality of investigation | |
| 1.3.4. Investigations report draft completed within two months of the end of the last in country mission | |
| 1.3.5. Final draft report issued to the subjects for comments four months after the completion of the last in-country mission (barring circumstances outside Investigation Function's control) | |

| KPI | Status update |
|--|---|
| 2. Quality of findings | |
| 2.1. Meaningful findings and recommendations | <p>The formulation of recommendations in audit and investigations reports has improved and takes place through consultative process with the Secretariat.</p> <p>Auditors and investigators meet with Secretariat staff on a regular basis and share relevant information timely to allow the Secretariat to put in place remedial measures as necessary.</p> <p>The quantity of audit recommendations was significantly reduced from 1700 in early 2013 to prioritize the recommendations and allow for better tracking of implementation status.</p> <p>Investigations work plan and budget has been developed, including pro-active elements such as JIATF and Forex verification exercises.</p> |
| 2.1.1. Recommendations formulated in audit and investigation reports are relevant, strategic and reasonable and are aimed at addressing and mitigating key risks, and strengthening Global Fund grant management | |
| 2.2. The absence of surprises for management and Board | |
| 2.2.1. Heads-up communication shared with the Secretariat no more than ten working days after the end of the last in-country mission | |
| 3. Impact of findings | |
| 3.1. Financial benefits | <p>Advisory assignments make up 33% of all assignments in the 2013 work plan.</p> <p>A robust process to track and validate high priority recommendations generated through audits and investigations will be initiated. This will be reported monthly to the Secretariat and presented to the AEC and the Board at each meeting.</p> |
| <i>Objective TBD – note: the recoveries process lies with the Secretariat</i> | |
| 3.2. Non financial benefits | |
| 3.2.1. Audit advisory services as listed in annual audit plan make up at least 20% of engagements | |
| 3.3. Recommendations implemented and lessons learned integrated into new business processes | |
| 3.3.1. Audit: no less than 90% of accepted recommendations implemented in-country within 3 months of the due date in the management action plan* | |
| 3.3.2. Audit: no less than 90% of accepted recommendations implemented by the Secretariat within 3 months of the due date in the management action plan* | |
| 3.3.3. Investigations: no less than 80% of recommendations accepted by in-country | |

| KPI | Status update |
|--|--|
| stakeholders implemented fully, or partially in the case for long-term recommendations, within 12 months of release of report; | |
| 3.3.4. Investigations: no less than 90% of recommendations accepted by the Secretariat implemented fully, or partially in the case for long-term recommendations, within 12 months of the release of the report | |
| <i>* the management action plan (or MAP) is the plan at the back of each audit report detailing details the agreed actions, implementation dates and responsible persons.</i> | |
| 4. Feedback | |
| 4.1. Feedback from those involved in audit/investigation process on quality of experience and no substantiated complaints received against the behavior of OIG auditors and /or investigators (measurement: surveys, feedback) | The Audit Unit routinely collects satisfaction surveys from auditees following the audit and again following report publication. Data is used to improve the audit process. No complaints were received this year. |
| 4.2. Feedback from staff on office functioning (measurement: staff survey) | An internal staff engagement survey (all GF staff) is planned for March 2014. |
| 5. Cost effectiveness of office | |
| 5.1. Money saved versus cost of operating audit/investigation functions | <p>As of end of September, the OIG is significantly below its annual budget as a result of careful control of professional fees. A detailed review of costs will be undertaken by the new Inspector General over the next 3 to 6 months.</p> <p>The Senior Legal Advisor has routinely reviewed all contracts with consultants and suppliers. Daily rates and professional fees have been adjusted/reduced to achieve efficiency gains.</p> <p>Separate cost centers of Audit, Investigations Units and the OIG Front Office were established as of February 2013.</p> <p>Timesheets were introduced at the end of 2012 for the Audit Unit and in February 2013 for the Investigations Unit.</p> |
| 5.1.1. Resources utilized in a pro-active, reactive, effective and efficient manner, maximizing impact on key identified risks (measurement: substantial improvements in a targeted and prudent use of funds as compared to baseline situation as per self-assessment) | |
| 5.1.2. Recoverable funds and/or ineligible expenses identified in a clear and supported manner (measurement: submission of a table | |

| KPI | Status update |
|--|---|
| of recoverable amounts identified in the past investigations with clear categorization, and draft methodology of identification of recoverable amounts developed and submitted to the Secretariat) | Recoveries Committee on 20 June 2013. During this exercise, the OIG re-defined the categories of recoverable amounts. |
| 5.2. Number of auditors per dollar of assets or revenues | |
| 5.3. Percent of time spent auditing/investigating | |
| 5.4. Actual costs versus budgeted costs, adjusted for work volume | |
| 6. Peer review | |
| 6.1. Externally validated quality review of audit function | A follow-up to the 2012 externally validated review of the audit function took place in mid-September 2013, and the Audit Unit was assessed as conforming to standards during the debriefing session. |
| 6.2. Peer review of investigation function | Investigations Unit's self-assessment was conducted in April-May 2013 facilitated by an external consultant, Mr Ken Langford. Tracking of self-assessment recommendations in place, most recommendations implemented as of end September 2013. |
| 6.3. Audit committee review of quality of findings and recommendations (audit and investigation) | |
| 7. Communications | |
| 7.1. Communication strategy developed and approved, disclosure policy finalized | Communications strategy is in the process of being developed in conjunction with finalizing the disclosure policy. This together with revised report formats following best practice should be completed by the end of the year. |
| 7.2. Best practice formats and for audit and investigation reports | |
| 7.3. Communication optimization through upgraded whistle-blowing campaign | Whistle-blower brochure revised and currently in production. |