

37th Board Meeting

Office of the Inspector General 2016 Annual Report

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For Board Information
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Kigali, Rwanda

The purpose of this report is twofold: to provide the Board with a qualitative opinion on significant strategic themes related to the Global Fund's governance, risk management or internal controls; and to provide an operational summary on the Office of the Inspector General's activities in 2016.



Office of the Inspector General

What is the Office of the Inspector General?

The Office of the Inspector General (OIG) works to ensure that the Global Fund invests the world's money in the most effective way possible to accelerate the end of AIDS, tuberculosis and malaria. Through audits, investigations, oversight and advisory work, the OIG promotes good practice, reduces risk and reports on abuse. Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee.

Mission

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

Vision

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

Contact us

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

www.ispeakoutnow.org
Available in English, French, Russian and Spanish.

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I. Message from the Inspector General



Coming at the end of a strategy cycle and a replenishment milestone, 2016 was not only the year to take stock of the Global Fund's impact but also to test the confidence of stakeholders in its ability to take the fight against the three diseases across the finish line. On both scores, the evidence points to the rather remarkable results of this bold partnership. As it concluded its current strategy cycle, the organization reported a total of 20 million lives saved in return for US\$30 billion of cumulative investments in its 15-year history. And, as a testimony to strong donor confidence that it

20 million lives saved with US\$30 billion over 15 years

still remains one of the best bets ever made in global public health, the Global Fund successfully raised \$13 billion. An achievement made all the more remarkable in a highly challenging environment in which aid is financially constrained by fiscal pressures and politically under assault across much of the developed world. Yet, even in that unlikely context, seven of the top 10 donors increased their pledges by double-digits, whilst none cut their contribution. In a recent multilateral assessment by one of the world's largest bilateral donors, the Global Fund was one of only three institutions, out of 38, to achieve the highest possible rating.

Yet, to whom much is given, much is also required. Strong endorsement by the Global Fund's stakeholders signals two things: high satisfaction with what has been achieved to date, but also even higher expectations on what can still be done in the future. Meeting this increasingly higher bar will require sustaining the progress already made across many programmatic and operational areas of focus but also tackling the acute challenges that remain. In our opinion on governance, risk management and internal controls in Section IV, the main part of this annual report, we highlight both the successes and challenges for each.

Significant scale-up in coverage has put millions of people on treatment, often in the riskiest parts of the world; however, ensuring and measuring the quality of the related care remains a significant hurdle in the absence of a strong **program quality** framework. If quality of care is the end goal, the

Moving from a tactical to a strategic approach

starting point is the delivery of drugs and health services to patients. Work has begun in earnest to tackle the intricate complexities of **supply chains**. Whilst the historical approach focused on fire-fighting the tactical symptoms, the organization now seems poised to adopt a

more strategic approach. Our opinion highlights pervasive root causes and risks that any successful strategy will need to tackle: country leadership, human resources, data quality, and funding structure.

Whether it's supply chain or other key challenges, this increasing shift in organizational approach from a reactive response mode towards a more proactive identification of key vulnerabilities that threaten program implementation will be highly predicated on the effectiveness of our **risk management** processes. Tangible progress has been made on this front as well, especially in laying the foundational elements of a sound risk infrastructure, although risk management culture and discipline are still not fully embedded in business activities. Moving the maturity level of the Global Fund to this embedded stage requires a **culture of accountability and sound controls** in which compliance with key institutional policies and procedures is not perceived as an

Using accountability to enable excellence

impediment to, but rather an enabler of excellence, in day-to-day operational delivery. To support this upward shift on the overall maturity curve, ongoing reform of the Global Fund's **governance** will need to be pursued. Where many improvements have been made in the two years, significant challenges still remain in key aspects such as Board structure, continuity and institutional memory. Reform becomes even more pressing as the organization embarks on a period of double-transition at the both the Board and Executive Leadership levels, which offers new opportunities but also presents high risks.

All in all, the OIG opinion is that the overall maturity of the organization remains between the “initiated” and “embedded” levels, although significant improvements made over the course of this past year have positioned the Global Fund closer to the latter stage. Getting to that next stage is a collective responsibility in which all stakeholders have a key role to play, including the OIG itself. In 2016, we continued to refine the focus of our engagements on strategic priorities and key risks, to strengthen our delivery discipline with a 63% and 13% increase in published reports in 2016 compared with 2014 and 2015 respectively, and more importantly to enhance the quality and impact of our work. Whilst measuring such impact is complex, the 98% satisfaction rate from a recent Board and committee stakeholder survey is an important proxy to gauge the extent to which the OIG is successful in its commitment to continuously support the Board in discharging its ever important oversight mandate.

Mouhamadou Diagne

II. The year at a glance: The Global Fund

The organization is maturing and moving closer to the “embedded” stage

Summary

In the past three years, the Global Fund has moved steadily up the OIG maturity scale finishing 2016 closer to the “embedded” level than ever before. This means that internal controls, governance and risk management processes are being defined and progressively embedded in everyday management practice. Significant improvements over the year have helped push the organization up the scale. However, there are still gaps in the active management of these processes and they are not consistently performed and reliably monitored. As a result, the OIG opinion is that the Global Fund overall maturity level is still between “initiated” and “embedded” (Refer to Maturity Rating definitions in Annex 1).

Significant strategic themes

1. Service quality: success of scale-up dependent on leveraging partnerships
2. Supply chain and procurement: getting the right health products to patients
3. Risk management and assurance: challenges embedding risk mitigation into business processes
4. Controls and culture: gaps or non-compliance can weaken impact
5. Governance: important gaps remain despite recent progress

Figure 1 Global Fund moving up the Organizational Maturity Rating



III. The year at a glance: The OIG

Innovation and improvements lead to better productivity and more impact

The improvements that the OIG has put in place over the past two years are starting to show results with increased productivity, efficiency and impact:

- **Productivity:** the OIG published 26 reports in 2016 (summaries available in Annex 2), up 63% compared to 2014 (16 reports published).
- **Efficiency:** cycle time for audits has decreased from an average of 33 weeks in 2014 to 26 weeks in 2016, a decline of 22%, as the OIG tightens the stages where it has direct control. Likewise, the cycle for investigations has also gone down from 86 weeks in 2014 to 51 weeks in 2016, a decrease of 40%.
- **Performance and impact:** whilst there is no single measure of this, a key metric commonly used in industry is stakeholder satisfaction surveys. These surveys measure the extent to which stakeholders believe the function contributes to the achievement of organizational objectives through effective oversight and improvement in governance, risk management and controls. The most recent Board and audit committee satisfaction survey for the OIG in 2016 reflects an overall satisfaction rate of 98%.

In terms of Key Performance Indicators, the OIG finished the year on track with 82% of audits and 80% of investigations completed at the end of December 2016. The OIG managed its costs within the approved budget finishing the year with an underspend of 8%.

OIG operational highlights

1. Operational improvements
2. Increasing efficiencies
3. Developing outreach activities and developing partnerships

OIG Facts and Figures 2016 versus 2014

→ 26 reports published in 2016 vs 16 in 2014

→ 180 allegations in 2016 vs 157 in 2014

→ 95 Agreed Management Actions created in 2016 vs 82 in 2015*

→ 59 investigation cases closed in 2016 vs 53 in 2014

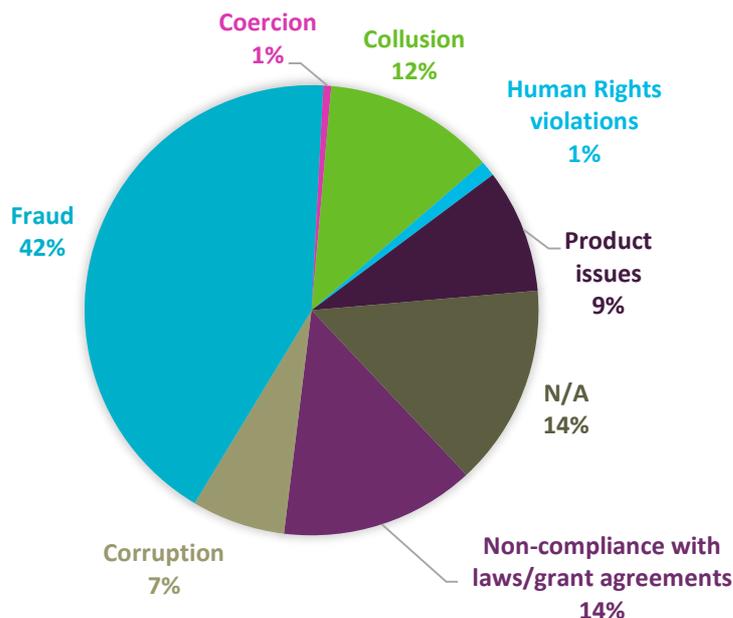
→ 19 audit engagements in 2016 vs 11 in 2014

→ 49 members of staff end of 2016 vs 41 end of 2014

→ 26 weeks for an average audit in 2016 vs 33 weeks in 2014

*Data unavailable for 2014

Figure 2 Breakdown of 180 allegations received in 2016 per category of wrongdoing



IV. Significant strategic themes

The opinion below sets out five main themes highlighted in OIG assurance work in 2016. Some themes are recurring and others are new. For each area, an introduction links the theme to the Global Fund's strategic mission to end AIDS, tuberculosis (TB) and malaria followed by sections on the successes and the challenges, backed up by examples from recent audits and investigations. Where OIG audits highlight gaps or weaknesses in systems and processes, investigations follow up on the manifestations of wrongdoing that are often a consequence of those gaps or weaknesses.

01 Service quality: success of scale-up dependent on leveraging partnerships

Introduction

The scale-up of treatment required to ensure that the Global Fund is able to end the three epidemics puts intense pressure on the quality of services given to patients. When countries scale up treatment, often in response to revised guidelines from the World Health Organization (WHO) or donor expectations, this puts significantly more patients on treatment, but unintended consequences also often include strain on health facilities, overloaded staff, and drug stock-outs. Thus, quality of care may decrease even as quantity of patients on treatment rises. Scale-ups need to be accompanied by commensurate improvements in the quality of services to patients. Proper diagnosis, treatment adherence, retention of patients and case management are not only critical for patient wellbeing, but also to ensure a lasting impact on the diseases. Effective coordination between in-country partners is essential to improve service quality when patient coverage is increased. With no presence in country, the Global Fund model is dependent on good coordination with governments, civil society, communities affected by the diseases, technical partners, the private sector, faith-based organizations, and other funders to implement programs on the ground.

Successes

Country audits completed in 2016 highlight that significant progress has been made by the Global Fund in achieving meaningful program impact in countries such as India, Malawi and even in a highly challenging operating environment such as the Democratic Republic of Congo (DRC). For example, Global Fund grants in DRC, have helped to increase the number of households with at least one mosquito net from just 9% in 2007 to 70% in 2014. In Malawi, with successful prevention of mother to child transmission, infection rates among infants have declined by over 70% in the past seven years whilst the TB treatment success rate now exceeds 80%. Likewise, in Mozambique, the number of people on antiretroviral treatment increased by over 40% between 2013 and 2016 and HIV incidence has declined by nearly 60% since 2000.

Progress is also apparent at the Secretariat with a number of initiatives, including the introduction of a Program and Data Quality Strategy and new principles-based operational policy guidance. This is expected to help Country Teams develop a more robust approach to assessing program and data quality risks. In 2016, the Secretariat also developed a framework related to "Data Use for Action and Improvement". The framework is designed to evaluate different sources of data to improve value for money and quality of service delivery. Finally, health facility assessments are currently being piloted in a number of countries to provide better quality assurance over program and data risks.

Relevant OIG Work

[GF-OIG-16-023 Audit of Grants in India](#)

[GF-OIG-16-024 Audit of Grants in Malawi](#)

[GF-OIG-16-019 Audit of Grants in Zimbabwe](#)

[GF-OIG-17-006 Audit of Grants in Mozambique](#)

[GF-OIG-16-022 Audit of Grants in DRC](#)

Better in-country coordination and accountability thanks to ITP

Increasing technical cooperation between partners to ensure better quality of services was one of the key objectives of the Secretariat's *Implementation Through Partnership* (ITP) project. The initiative has clearly been a catalytic forum that has moved engagement with partners from just a general dialogue on collaboration to a more focused discussion on specific implementation challenges at the country level. It has provided a forum for country partners

to have better visibility into each others' priorities and focus areas. ITP has also provided a mechanism for clearer articulation of mutual accountability, with specific responsibilities assigned to different partners for carrying out distinct action items.

Challenges

Initiatives to improve service quality will take time to yield measurable impact at the country level. In the meantime, as countries scale-up their coverage, the quality of services delivered is strained. Symptoms of this include decreased patient retention, non-compliance with Global Fund and national guidelines as well as gaps in diagnosis:

1. Decreased patient retention:

While the number of patients on treatment has increased, retaining them has become increasingly difficult, as noted in several country audits. For example, in Zimbabwe, India and Mozambique, significant percentages of patients who have started antiretroviral treatment for HIV drop out or are lost after 12 months. For all three diseases, low treatment adherence presents significant risks that massive investments in drugs and treatment may not eventually yield the expected results in terms of disease prevalence. Furthermore, it could also be a contributing factor to drug resistance for some of the diseases if a large number of patients fail to adhere to treatment regimen and protocols.

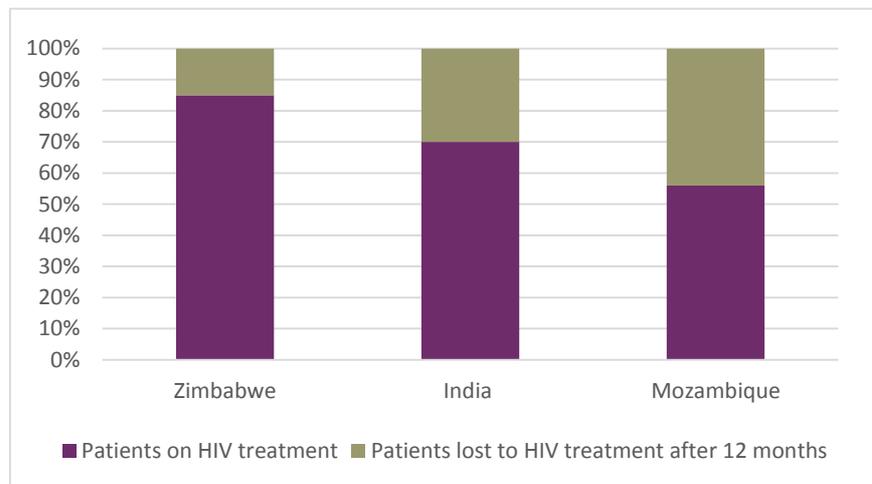


Figure 3: % of patients lost to HIV treatment after 12 months according to OIG audits

2. Non-compliance with national and Global Fund guidelines:

In Malawi, compliance issues with national HIV guidelines on testing and monitoring were noted by the auditors with a low proportion of HIV-exposed infants and children being tested in recommended timeframes. In India, there were multiple non-compliance problems in standards for tuberculosis care. The auditors also highlighted gaps in implementing a working pharmacovigilance system, testing delays and a lack of preventative treatment for patients living with HIV who test negative for TB. In DRC, contrary to both national and WHO guidelines, only 4% of patients received HIV testing and counselling in the two hospitals sampled by the OIG.

3. Gaps in diagnosis:

A number of issues related to the proper diagnosis of patients were noted in OIG audits this year: In Zimbabwe, the effectiveness of the country's diagnostic services has been affected by the limited availability of machines. For example, equipment for screening TB in children was not available in over 50% of facilities visited. In Mozambique, although the number of diagnoses for the three diseases increased during the audit period, 34% of providers using microscopes and 20% using rapid

diagnostic tests made inaccurate malaria diagnoses. In Malawi, 60% of patients treated for malaria at health facilities are not tested, and suspected malaria cases are reported and treated through the country's integrated community case management program without a confirmed diagnosis.

The root causes for these symptoms appear to stem from systemic challenges at the country level related to constraints in funding and in human resources. According to recent Global Fund data, the combined domestic and external funding needs to end the three epidemics in the Global Fund portfolio are estimated at US\$97 billion for 2017-19. However, there is a severe lack of funding which can seriously impede scale-up efforts. For example, in the DRC concept notes for new grants, the country has estimated that only 16% of the funds needed are available for HIV, 44% for TB, and 57% for malaria. In Zimbabwe, inadequate funding limits the scale-up to find active TB cases. In Mozambique, existing Global Fund grants do not include funding for the supervision of laboratories that diagnose the three diseases. Whilst the Global Fund's limited resources cannot be expected to fill these funding gaps, the organization will be under increasing pressure to work with its partners and in-country implementers and prioritize investments in the interventions that have the most sustainable impact.

In terms of human resources, the 2016 WHO World Health report estimates that there was a global deficit of approximately 17.4 million health workers in 2013, with the worst affected regions in countries where the majority of Global Fund investments are made. OIG work in 2016 confirmed that a lack of trained staff contributed to service quality issues. For example, in Mozambique as many as 65% of technical positions in the TB and HIV programs are vacant. In Zimbabwe only 56% of positions for primary counsellors for HIV had been filled at the time of the audit. The Zimbabwe audit also highlighted that only 16% of health workers had been trained on updated rapid HIV testing protocols.

WHO estimates a worldwide deficit of 17.4 million health workers

Service quality depends on sustainable health system solutions, rather than quick fixes. It will also require a significant shift in how the Global Fund measures program performance. In the current performance-based funding model, the evaluation of program performance is mostly focused on output and coverage indicators. There are notably less program quality indicators in the current performance frameworks. The reasons for this imbalance are varied. Coverage data is generally easier to define, collect and analyze than quality indicators which are typically far more complex. Time horizon is also a factor as, in many cases, quality improvements can be meaningfully and reliably evaluated only over a relatively longer performance period. In the case of the Global Fund, there is also an added complexity as the organization is generally seen as a funding institution whose mandate needs to be carefully managed so as to not overlap with technical agencies that have the remit to set normative guidance and establish quality standards. Whilst all these reasons are valid, a key fact remains that long term sustainability of the programs supported by the Global Fund is contingent on robust quality of care without which achievements to date can easily be reversed in the future. Given the nature of the issues and some of the challenges highlighted, leveraging partnerships is essential to ensure longer-term value for money from Global Fund investments.

Leveraging partnerships essential for long-term value for money

The ITP initiative has clearly moved the cursor although it is unclear the extent to which partners are accountable for the delivery of the assigned action items. The commitment to deliver is only as good as the extent to which the Global Fund can hold the committed party accountable. Furthermore, the initiative has perhaps overly focused on activities without a clear articulation of the desired impact. To the Secretariat's credit, the mid-course rebranding of the initiative from *Implementation Through Partnership* to **Impact Through Partnership** implicitly acknowledged this. The other positive developments identified above highlight that the Secretariat has plans to address many service quality issues. If implemented successfully, the plans will nevertheless take time to produce results at the portfolio level.

02 Supply chain and procurement: getting the right health products to patients

Introduction

The Global Fund invests approximately 40% of its annual disbursements in health products with investments in the 2014-2017 allocation period estimated to be more than US\$10 billion. Effective country supply chain systems are needed to deliver health products to beneficiaries and to supply critical data back for health planning. This brings supply chain management to the forefront in supporting the achievement of the organization's strategic objectives. Program results over the years indicate that the majority of health products do indeed successfully reach their intended beneficiaries. However, recurring stock-outs, expiries, unaccounted for stock, theft, diversion and quality issues can often lead to treatment disruption, identified as a key operational risk on the Global Fund's Corporate Risk Register.

Successes

The Secretariat has taken steps to address supply chain management issues across the portfolio by creating a specific Supply Chain Department and appointing a Head of Supply Chain in August 2016. A supply chain strategy and related assurance framework are under development, in collaboration with relevant partners. At the country level, a number of initiatives have been launched including a supply chain transformation project in Nigeria and an agreement with implementing partners to ensure quality assurance of drugs in Ghana.

Sustainable gains and progress in this area require a long term and cross-cutting view, beyond the horizon of a grant funding cycle. Nevertheless, an audit of supply chain mechanisms across 15 countries has shown that modest interventions can have a demonstrable positive impact on procurement and supply chain performance. Examples of this can be found in Rwanda where a health system-driven approach has enabled strong national ownership. The approach included a clear prioritization process resulting in evidence-based plans, to which all partners have subscribed.

An OIG audit of the Cameroon portfolio also noted that the Secretariat has significantly mitigated procurement risks through the use of centralized procurement agents and coordination of health product procurement plans with other partners. Similarly, in Côte d'Ivoire, procurement and supply chain systems, as well as the associated infrastructure, are comparatively well developed and effective.

Challenges

However, the impact of solutions put in place is often limited by a focus on tackling specific issues in the short term rather than addressing long term root causes in the underlying health systems. "Quick win" solutions often fail to address deeper underlying issues. For example, in Tanzania, Global Fund supply chain investments focused on the construction of additional warehouses to address immediate issues of stock overflow in existing facilities. Yet more in-depth analysis suggests that what the country needed was not more warehouses but better stock management capability and practices. The audit found that the root cause of the overflowing warehouses was the country's decision to hold large buffer stocks, (for example, 14 months of antiretroviral therapy buffer stock instead of the recommended 10 months) and failure to dispose of large expired stocks (estimated at US\$5.5m).

Relevant OIG Work

[GF-OIG-17-00X Audit of Supply Chain Processes](#)

[GF-OIG-16-002 Audit of Grants in Tanzania](#)

[GF-OIG-16-024 Audit of Grants in Côte d'Ivoire](#)

[GF-OIG-16-020 Audit of Grants in Cameroon](#)

[GF-OIG-16-013 Investigation of Grants in Côte d'Ivoire](#)

Investigation cases: DRC 417 +457, Uganda 455, Nigeria 474

Interventions so far tackle symptoms rather than root causes

OIG 2016 work on in-country supply chain processes found the following four systemic root causes behind the problems noted: leadership and governance structures, insufficient funding, limitations in data for decision-making and a lack of trained health staff.

1. Weak country ownership and leadership in prioritization, accountability and coordination:

The Global Fund's ability to successfully tackle supply chain issues in each country depends to a large extent on the political will and leadership within the country. Challenges with country ownership and governance structures have affected the ability to deliver products to patients efficiently and

Master plans for supply chain pending since 2012 in Ghana and DRC

economically. Seven countries audited in the supply chain audit have not implemented national supply chain strategies due to a lack of resources, insufficient stakeholder buy-in and limited government ownership. For example, in Ghana and DRC, supply chain master plans have been pending implementation since they were created in 2012. As a result, supply chain issues have not been adequately tackled nor has funding been prioritized.

In 14 of the countries audited, accountability for supply chain activities is fragmented, stakeholder roles often remain unclear and, as a result, accountability for supply chain performance is relatively weak. In some cases, these country weaknesses have exposed Global Fund financed products to vulnerabilities such as the theft of TB drugs as reported in an OIG investigation report in Côte d'Ivoire.

2. Lack of funding due to limited government commitments and other priorities in funding applications:

Funding for supply chain is constrained in terms of both domestic funding and Global Fund grant allocations. At the country level, although governments are primarily responsible for funding supply chain activities, these investments have been too limited to drive meaningful improvements. Based on the OIG audit of supply chain processes, more than a third of the 15 countries reviewed were unable to meet the operational costs to run their own supply chain. Likewise, in the case of the Global Fund, supply chain related funding requests have been mainly classified under the 'above allocation' requests for funding. As a result, actual funding has often fallen significantly short.

3. Lack of accurate and reliable data to support informed decision-making:

The availability of accurate and reliable data to support informed decision-making remains an issue. Most supply chain issues are complex to resolve as they are essentially tied to the overall quality of

Lack of patient consumption data means inaccurate forecasting

data. Quality data is needed to forecast effectively on the basis of reliable patient consumption rates. However, programs rarely have accurate data on patient consumption, as noted in the audits of Tanzania, DRC and Malawi concerning TB drugs. In the absence of reliable information for the demand of a particular drug, the central medical stores often have to 'push out' medicines without being able to predict what the local facilities actually need. In 11 out of the 15 countries reviewed, quantification and forecasting

was inaccurate, resulting in either too much or not enough stock.

Despite significant investments in electronic logistics systems in nine of the 15 countries, significant improvements in data quality are hampered by weak underlying manual processes, partial roll-out of the systems to the health facility level, and a lack of adequate skills to use and maintain the systems.

4. Human Resources for Health

Supply chains are also dependent on the availability of sufficient human resources in the right places. Where there are staff shortages, countries often resort to deploying poorly qualified workers with limited training. This, coupled with heavy workloads, means that staff are unable to perform critical tasks such as maintaining key stock records or testing patients before treating them. Aside from these systemic issues at the country level, there is also room for improvement in the Secretariat's assurance

mechanisms to identify and mitigate supply chain related risks. The majority of the OIG’s findings in its audit of supply chain processes relate to issues at the warehouses and onward distribution of commodities. Targeted technical assistance around quantification and stock management, as well as leadership development for key staff, will increasingly need to be part of the Secretariat’s response.

I Speak Out Now!



Figure 4: “Drugs from the street can kill you!” Poster from the campaign in Côte d’Ivoire

As noted above, vulnerabilities in supply chain systems have in some cases exposed Global Fund drugs to theft. In 2016, the OIG worked closely with Secretariat Country Teams to pilot the *I Speak Out Now!* anti-corruption communications campaign, targeted at the issue of drug theft or misuse. In Côte d’Ivoire, in collaboration with the Ministry of Health and the Country Coordinating Mechanism, the campaign specifically focused on the local population to raise awareness of the dangers of taking an unprescribed anti-tuberculosis drug, RHZE, bought from street markets. Targeted distribution of flyers in health centers, together with public service announcements on national radio, appear to have contributed to dwindling supply and demand for the illicit drug on the street, as indicated by a recent market survey.

In Malawi, the campaign was specifically tailored to encourage the local population to speak out about drug theft. Mass distribution of flyers directly through the supply chain, together with billboards and public service announcements on national radio, led to a hundred reports to a local hotline within a few months of the launch. As a result, an anti-malaria drug theft task force, made up of agents from the United States Agency for International Development (USAID), the OIG, and the Malawi Police Service, was able to act on intelligence from reports which identified 25 sites allegedly selling stolen anti-malarial drugs. The task force subsequently found evidence that resulted in a number of high profile arrests, fines and prosecutions. Going forward, the country is showing greater commitment through a Ministry of Health plan called the ‘Drug Availability and Security Action Plan’ and renewed funding and support for a drug theft investigation unit (including US\$206,000 of Global Fund grant funding).

100 tip-offs of stolen drugs lead to arrests and prosecutions



Figure 5: “Stealing free malaria drugs means people can die!” Poster from the campaign in Malawi.

As a result of the positive impact so far, the OIG is extending the Malawi *I Speak Out Now!* campaign in 2017.

In conclusion, ineffective supply chain systems remain a significant barrier to providing health products to beneficiaries in a cost effective manner. Treating procurement and supply chain issues separately from health systems capacity limits progress. Changing human behavior to the point of eliminating theft or misuse of health products is probably impossible; however, effective prioritization, resourcing and oversight of supply chain issues can certainly help to reduce losses and maximize impact.

03 Risk management and assurance: challenges embedding risk mitigation into business processes

Relevant OIG Work

[GF-OIG-17-002 Audit of Grant Management in High Risk Environments](#)

[GF-OIG-17-00X Audit of Risk Management Processes](#)

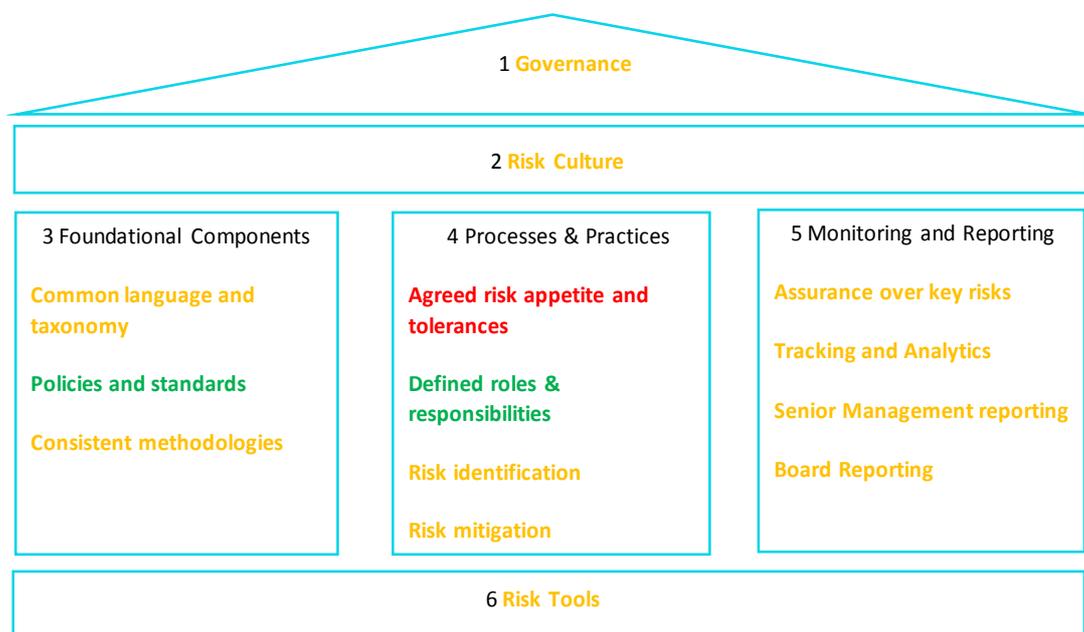
Introduction

Risk management at the Global Fund is complex due to the multiple challenges that are inherent to the nature of the environment in which grants are managed. For example: the Global Fund portfolio includes 84 of the world's 100 most corrupt countries,¹ receiving US\$9 billion of the US\$10.3 billion 2017-2019 portfolio allocation; weak country governance is compounded by high levels of poverty, as more than 50% of the population live in poverty² in the top 15 countries supported by the Global Fund; due in part to these high levels of poverty, there is lower than average capacity in human resources,

systems and tools, which affects the implementation of supported programs; political instability and institutional fragility are also constraining factors, with 47 countries rated as high or very high risk on the Global Fund's External Risk Index, an aggregate of ten indices that capture political, economic, governance and operational factors contributing to external risk.

The Global Fund's risk management landscape is improving considerably and, whilst significant gaps still remain to be filled, distinct progress is also being made across the key areas of the risk architecture, as shown below:

Figure 6 Key Components of Risk Management Architecture



Key: **Mostly in place**
Good progress but improvements required
Initial stages

¹ 2016 Transparency International's Corruption Perceptions Index
http://www.transparency.org/news/feature/corruption_perceptions_index_2016#table

² Multidimensional poverty index measures both poverty and human development factors
 Source: <http://www.ophi.org.uk/multidimensional-poverty-index/mpi-2015/mpi-data/>

1. Risk governance:

Risk governance is evolving in a positive trajectory at both the Board and Secretariat levels. The charters of the new standing committees adopted in 2016 explicitly articulate their specific areas of risk accountability and the scope of their mandate (oversight, decision-making, or advisory). The discussion of risk is now a standing agenda item at Board and committee meetings. The Chief Risk Officer regularly updates the Board and its committees on key risk areas and provides an annual risk assurance statement to the Board.

Whilst this progress is significant, two areas of risk governance still require significant improvement:

Accountability and processes for oversight of cross-cutting risk areas: Unlike organizations that have a dedicated risk committee within the Board structure, the Global Fund model allocates specific risk areas to different committees based on their mandate. This approach is appropriate in the context of the business model and the governance environment of the organization. However, it also presents a challenge in the sense that many significant risks faced by the organization straddle functional boundaries (e.g., procurement and supply chain, challenging operating environments, low absorption, reputational risks, etc.). Whilst the Coordinating Group of the Board (CG) is generally seen as the body responsible for “coordinating” these issues, the actual nature of the CG’s role and the scope of its mandate in this area remain ill-defined, which may dilute accountability. The actual processes for Board oversight of these cross-cutting issues also remain fluid. Various approaches have been tested over the past year, with mixed success. Joint sessions across the three standing committees have shown limited effectiveness in terms of both agenda prioritization, quality of discussions and decision-making process. Tailored briefings between the Secretariat and the CG have also taken place, allowing for potentially more focused discussion, but formal outcomes and escalation processes to the full Board are unclear.

Risk appetite and tolerances: whilst a broad risk differentiation framework has been adopted, the Board has generally shied away from risk appetite discussions. This is partly because of the lack of common understanding of the concept and partly because of a concern that articulating specific appetites for risks may send the wrong signal that the organization is willing to accept certain losses or failures. In the absence of formal Board guidance and relatively clear parameters, the organization operates largely under implicit assumptions of risk appetite which may differ significantly from one constituency to another at the Board level. At the operational level, this also often leads to inconsistent risk-taking as individual judgment or perceptions replace institutional norms and guidance.

No common understanding of risk appetite

2. Risk culture:

Both the Board and executive management are setting the right “tone at the top” by emphasizing, in explicit terms and through various channels, the crucial importance of effective risk management to the success of the organization. At the Secretariat level, in addition to clear endorsement by the Executive Director and the Management Executive Committee, tangible steps have been taken that send a strong signal about the role of risk management. These include a significant increase in resources allocated to the risk management function, in terms of both budget and staff, as well as meaningful changes in operational procedures to give presence and voice to the risk function in the operational decision-making process.

Notwithstanding this positive tone at the top, key elements of building of an effective risk culture are still at a nascent stage. Although the value of risk management is increasingly being acknowledged across the organization, there is still a widely perceived (albeit false) dichotomy between risk management and control compliance, on the one hand, and operational efficiency or speed of business on the other hand. To some degree, the evolution in the perception of risk management from an operational impediment to an actual strategic

Risk management needs to be seen as an enabler not an impediment

enabler still remains a journey in its early stages at many levels in the organization. In the past, this has been a significant contributing factor to the slow progress, or even the failure in some cases, of key risk management initiatives. Although this culture is evolving, a key to shifting it meaningfully will be through incentive mechanisms and performance management frameworks that reward good risk-taking, effective risk management and sound control compliance as much as it recognizes excellence in operational delivery.

3. Foundational components:

Over the past two years, the Global Fund has made several important improvements in its risk policy framework. The Board has approved a specific Risk Management Policy which, among other elements, defines responsibilities for risk oversight, as well as a high level framework for risk differentiation. At the Secretariat level, an Operational Policy Note was approved in 2016 which outlines the overall objectives of grants risk management, lays out driving principles to embed risk management in the grant lifecycle, and outlines accountability and key processes for risk identification, mitigation, assurance and reporting.

With the basic policies and standards now in place, remaining foundational elements relate to better articulation of a common language for risk and development of consistent methodologies. Part of the journey towards embedding risk management will involve building consistency across the organization as risk identification, mitigation and reporting processes start devolving to multiple business areas. The ability to classify, aggregate, analyse, and eventually communicate on risk in a meaningful way, at the organizational level, requires a common language of risk such that fundamental concepts such as risk categories, inherent and residual risks, risk tolerances, ratings scales, etc., have consistent meaning and are understood relatively clearly by all risk actors across the organization. Such a common understanding is still lacking in the Global Fund. As for methodologies, recently completed risk and assurance pilots have been useful in framing a structured dialogue around risk assessment using a common set of tools and approaches, through risk workshops. However, as the methodology and related practices are new, the Secretariat has not yet formally evaluated lessons learned from these pilots, refined the process and methodologies, and more importantly, embedded the approaches to risk identification and mitigation in a consistent manner.

Basic risk policies and standards now in place

4. Processes and practices:

The Operational Policy Note on risk management has clarified the roles and responsibilities for risk management in the grant lifecycle. Key roles have been defined within that cycle: Country Teams retain primary accountability for risk identification and management; global risk owners for key risk areas provide technical advice on risk identification and prioritization in their respective functional areas (for example, finance, monitoring and evaluation, etc.); and the Risk Department provides overall coordination and oversight.

With policies and standards now in place, methodologies are being instituted, roles and responsibilities are being clarified, and overall processes to identify and mitigate risks are increasingly being formalized. However, beyond formalization, several improvements are still needed. Risk identification still remains a relatively static process at specific milestones of the grant cycle, such as during grant-making or extension, rather than a dynamic ongoing process informed by real time performance feedback throughout the life of the grant. Likewise, whilst clear progress is being made on linking identified risks to mitigating activities, there is room to significantly improve mitigation measures, the ownership and accountability for their implementation and the monitoring of their progress. Whilst these gaps may be partly because of process design, a significant aspect also relates simply to the time necessary to mature and to embed any new processes in an organization.

Risks identified only at specific milestones of grant cycle

In addition, as noted in the Section 05 on governance below, the lack of clearly articulated risk appetite and tolerance is a limiting factor in the effectiveness of current risk management practices. The Secretariat has acknowledged this gap and work has recently been initiated by the Chief Risk Officer to begin articulating a risk appetite framework, starting with key risk areas such as supply chain, challenging operating environments or sustainability and transition. Whilst articulation of this framework is at an early stage, it is a significant step forward towards strengthening risk management practices.

5. *Monitoring and reporting:*

Since 2013, formal risk reporting tools have been developed, including a Corporate Risk Register and an Operational Risk Report. These are routinely discussed at Management Executive Committee, standing committee and Board levels. More recently, the Chief Risk Officer has also submitted an Annual Risk Management Report and an Assurance Statement to the Board, which provide a platform for discussing significant risk areas facing the Global Fund. Risk presentations are now made at every Board meeting and joint meetings are also held during committee sessions.

Risk reporting remains, however, relatively fragmented often without a clear articulation of the inter-linkages between several related sources such as the Corporate Risk Register, the operational risk reports, Prioritized Action Plans, OIG risk-related reports, and individual updates on various initiatives covering a range of risk areas. As the organization strengthens its risk management, increasing consideration should be given to designing an integrated risk reporting framework that

Integrated risk reporting would provide a holistic view for the Board

brings together these disparate elements and provides the Board with a holistic view of risk across the organization. This integrated risk reporting should also progressively shift the focus from activity or process reporting to risk analytics. This would allow the Board to better monitor changes in risk profiles, evaluate alternative risk scenarios and the related trade-offs, and eventually make fully informed risk-based and evidence-driven

decisions. Part of this analytic framework should also include the development of sensible risk metrics and key performance indicators. The Secretariat has acknowledged the limitations related to the current main metric, the Portfolio Risk Index, and work is underway to develop it. Likewise, whilst the previous Key Performance Indicator related to risk has now been discontinued due to its significant flaws and unreliability, an alternative has not yet been developed. Finally, assurance over key risks also remains an area that needs significant improvement. Global Fund assurance mechanisms are still largely concentrated on fiduciary risks, in large part as a reaction to low donor tolerance for financial misuse, whilst assurance over key programmatic risks remain weaker and insufficiently prioritized.

6. *Risk tools:*

Multiple operational risk tools have been developed over time to assess and track risks in the grants portfolio, for example, the Qualitative Risk Assessment, Action Planning and Tracking Tool (QUART), Capacity Assessment Tool, Risk Dashboards, etc. Although each of these tools serves a different and valid purpose, this proliferation has also led to analytical fragmentation, overlap, sometimes inconsistent assessments, and passive resistance on the part of front line teams frustrated by the significant administrative burden of what is often perceived as low value-add form filling. A key element to streamlining risk management processes, strengthening the goodwill and support of operational teams for the risk initiatives, and embedding them in the business, will hinge on the ability to integrate these various tools and processes into a seamless platform. The Secretariat is already working on addressing this issue and an integrated risk tool is being developed as part of the project Accelerated Integration Management (AIM), expected to be rolled out during 2017. In particular, the content of the risk tools has been rationalized and the Risk Department is working on finalizing them for implementation in 2017.

04 Controls and culture: policy gaps and non-compliance can weaken impact

Introduction

As the Global Fund does not implement programs directly in country, its operational effectiveness and efficiency are reliant on how well it oversees and monitors operations at a central level. As the organization aspires to significantly improve the maturity level of its internal controls and risk management processes, a key pre-requisite will be its ability to not only design and implement sound business policies, procedures and processes but also to instill a culture where they are executed in a consistent and sustainable manner. Without such operational discipline, there is a significant risk that the Global Fund's business processes may operate in an adhoc manner and fail to achieve their intended objectives.

Successes

Enhanced fiscal controls in Global Fund programs have contributed significantly to a decrease in large cases of fraud seen by the OIG. Additional controls, such as Fiscal Agents and strengthened Secretariat oversight of implementers, have had a positive effect in safeguarding the Global Fund resources in the short term. Measures such as the

OIG sees fewer cases of major fraud thanks to better fiscal controls in country

Additional Safeguard Policy and the introduction of Fiscal Agents in high risk environments have allowed the Secretariat to implement grants in a risk-measured way despite in-country challenges, with a view to providing longer term solutions.

Generally, OIG audits this year have identified effective financial controls in a number of countries including Malawi, DRC, Côte d'Ivoire and Zimbabwe, often thanks to the introduction of a Fiscal Agent. As a result, this has allowed OIG auditors to concentrate on other programmatic risks such as the quality of service delivered or supply chain management.

An initial risk assessment of a planned audit in the Philippines demonstrated that strong internal financial management controls were in place at all three Principal Recipients, leading to low residual risks of fraud, corruption, theft or diversion of non-financial assets. Programmatic and supply chain risks were also assessed as low. The only high risk identified by the OIG related to Human Rights, around data confidentiality for people who inject drugs. As a result, the OIG opted to cancel a full-scale country audit and to perform a targeted advisory assignment instead.

In Geneva, an audit of the treasury function also concluded that treasury governance, risk management practices and internal controls were effective. Before 2014, treasury activities at the Global Fund were mostly non-existent. Since Board approval of an amended Comprehensive Funding Policy in 2014, the Secretariat has made significant progress by setting up a fully operational treasury function. Starting from scratch, the function is now fully staffed with highly qualified professionals. The Secretariat has also significantly enhanced its ability to manage its own grant and operational expenditure payments, with the establishment of five commercial banking relationships.

Relevant OIG Work

[GF-OIG-17-002 Audit of Grant Management in High Risk Environments](#)

[GF-OIG-17-001 Audit of Treasury Management](#)

[GF-OIG-16-016 Audit of Implementation of Wambo.org](#)

[GF-OIG-16-006 Investigation of Grants in Angola](#)

[GF-OIG-16-026 Supplier Wrongdoing and Global Fund Non-Compliance with Procurement Regulations](#)

[GF-OIG-17-003 Advisory of Integrity Due Diligence](#)

Investigation cases: Pakistan 384, Tanzania 453, Pakistan 394

Challenges

Although much progress has been made since 2012, OIG 2016 work has also highlighted the need for compliance with processes and procedures to be formalized, at both the Secretariat and the country level. Weak processes that may have been acceptable culture 15 years ago when the focus was on a quick operational response to an emergency health situation, are no longer consistent with the

Global Fund needs to hold people accountable not only for *what* they deliver but *how* they deliver it.

level of maturity expected of a multi-billion dollar 21st century partnership organization. Stronger compliance mechanisms are necessary to ensure business activities are conducted consistently with approved organizational rules and procedures. The weaknesses in operational compliance were highlighted in 2016 in several OIG engagements, including a limited scope review of the

procurement practices for the development of the new *wambo.org* online platform and the investigation of contractual arrangements with politically exposed consultants in the case of the Mutambara Foundation. This latter case has also highlighted, from a governance perspective, the need for the organization to establish and monitor processes designed to manage sensitive activities such as political advocacy. Although these activities are conducted on a relatively limited basis and for legitimate business purposes, they may still present disproportionate reputational exposure if not carefully managed.

Systematic compliance monitoring and related mechanisms to hold staff accountable are key to embedding a learning culture which avoids recurrence of past mistakes. The need for an accountability framework has been outstanding since 2013.³ Such a framework is necessary to clarify who has the authority to make decisions, of what type, when to escalate or consult, and how to document and report on them. The Secretariat has developed a number of key underlying documents including a Country Team responsibilities matrix, a business process owner matrix to assign responsibility for various business processes, and a staff competency framework to mitigate many of these compliance issues; however, in the absence of a systematic process for embedding compliance in operational processes, individuals and teams can only determine how to apply process guidelines based on their own judgement. This contributes towards diverse reactions to risk across the Global Fund.

OIG country investigations in 2016 also found a strong correlation between the absence or non-compliance with policies and the opportunity for wrongdoing. Whether the main theme of the investigation was local procurement, financial management and accounting, product supply chain, bed net distribution, conflicts of interest, deliberate fraud, most of the wrongdoing could be attributed – at some stage – to policy failures or contraventions.

No rules or contravening the rules can facilitate wrongdoing

05 Governance: important gaps remain despite recent progress

Introduction

2017 is a pivotal year for Global Fund governance with significant changes to come in its leadership both at the Senior Management and at the Board levels. This year also marks the beginning of a new strategy and allocation period with a series of new grants.

Successes

Governance at the Global Fund is improving, with the creation, for the first time, of a standing committee specifically focused on governance-related matters (the Ethics and Governance Committee). An enhanced governance structure has been implemented with the overhaul of the three standing

Relevant OIG Work

GF-OIG-17-00X Follow-Up Review of Governance

GF-OIG-17-005 Fundraising Advisory

³ Agreed Management Action from GF-OIG-14-006 High Level Audit of the Global Fund Assurance Model.

committees whose respective mandates have been clarified. Steps have been taken to strengthen institutional memory and knowledge management with the introduction of induction programs for new members and significant improvements in the tracking of Board decisions. Accountability is also being strengthened through the implementation of a formal performance assessment framework to systematically evaluate both the efficiency and the effectiveness of the Board and the standing committees as well as their respective leadership. There has also been a marked increase in the interest shown by the Board in overseeing risk since 2012. For example, the Board approval of a Risk Management Policy defines its roles and responsibilities for risk oversight. There has also been concerted effort to align committee member skills sets with the applicable roles; duty of care has been clarified with the introduction of an Ethics and Integrity Framework and a Code of Conduct for Governance Officials.

Challenges

Board structural issues unchanged since 2002

In terms of structure, there has been little progress in revisiting the Global Fund's Board composition and structure, particularly in the context of a rapidly changing economic and development landscape. Issues that have persisted since 2002, and that continue to be raised in interviews with Board members, include: the continued relevance of having separate donor and implementer blocs; the advantages and disadvantages of a voting mechanism that requires a two-thirds majority from each bloc for decision approval; the appropriateness of Board size in finding the right balance between inclusivity and effectiveness; and the challenges of evaluating the extent to which the current Board structure and composition are optimal in light of the increasing pressure to expand the donor base. Under the current funding structure, the Global Fund is heavily dependent on a relatively limited group of donors (nearly 80% of pledges in most recent replenishment were from G-7 donors and less than 1% of public funding was from non-OECD countries). A key objective under the resource mobilization pillar of the new strategy is to increase funding from both current and new donors. With a significant change in the world's economic landscape and the growing weight of emerging economies, the Global Fund will need to carefully evaluate the trade-offs in terms of its governance structure and the right balance between inclusiveness and efficiency.

In terms of effectiveness, the loss of institutional memory due to a high turnover rate in Board delegations is of concern. In the 18-month period between the 33rd Board meeting in April 2015 and the 36th meeting in November 2016, two-thirds of Board members and alternates in attendance have changed. There is a similar trend at the committee level where there has been a turnover of nearly 75% (27 out of 36 members) from the old committees to the newly-created structures. While many of these changes are by design, the constituency management guidelines that are currently under revision need to build in an explicit strategy for maintaining institutional memory. This will require balancing a level of turnover to bring fresh perspectives to the Board whilst carefully staggering changes to ensure an appropriate level of continuity and institutional knowledge. Concerning the Management Executive Committee, in a recent survey, 77% of Board members, both past and present, expressed concern around the breadth and depth of succession cover for the top management team.

Two-thirds of the Board has changed in 2 years

From an efficiency perspective, whilst the committees are generally deemed effective in most aspects, there is significant concern about the growing risk of information overload. Over the course of the last four Board meetings, between April 2015 and November 2016, there has been a 70% increase in the volume of materials provided "for information" and a 90% increase in the volume of materials "for decision". Likewise, for the three recently established standing committees, the volume of materials submitted for review has more than doubled from slightly under 700 pages in the first meeting to nearly 1500 pages by their second meeting. In the context of a Board and committees comprised of part-time officials, with limited bandwidth and little support, failure to effectively manage this growing overload of information presents a risk of diluting efficiency and, even more importantly, significantly impairing the ability to effectively evaluate the relevant decision factors and to reach quality outcomes.

V. OIG operational highlights

In order to improve its overall effectiveness and ability to deliver the best value to the organization, the OIG focused on three main operational priorities in 2016: embedding operational improvements, increasing efficiencies and developing outreach activities and partnerships.

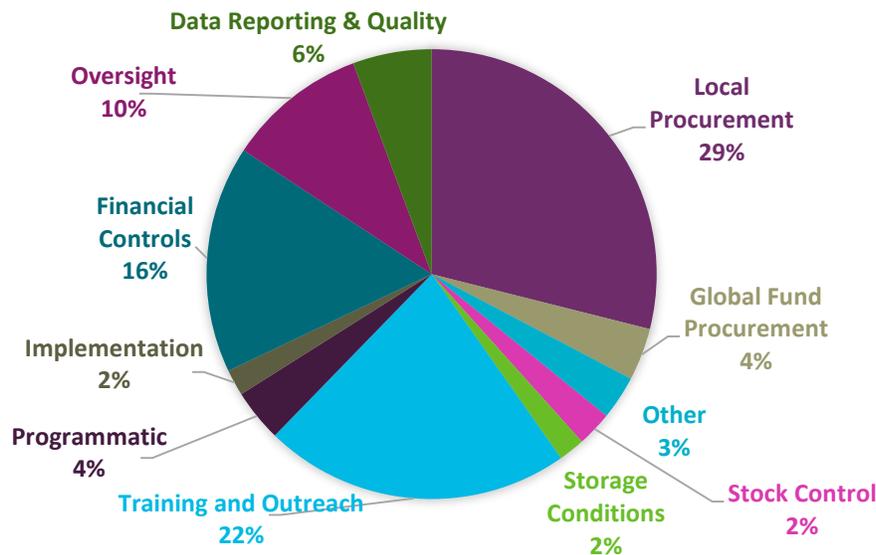
01 Operational improvements

Successes

During the year, the OIG continued to improve its internal operations. Audit and investigation methodologies were overhauled with a redesign of internal manuals. The redesign involved streamlining policy and procedures through clearer guidance to investigators and auditors on operational procedures, embedding quality checks and filters, and increasing standardization. To ensure compliance with the redesigned processes, the OIG has implemented a quality assurance structure, including formal peer reviews throughout the project lifecycle from internal quality champions, compliance checklists, increased accountability and improved internal record-keeping.

The OIG also continues to build its intelligence data base. The Investigations Unit now has a better overview of the activities financed by the Global Fund where there is the highest fiduciary risk thanks to an approach that analyzes and classifies investigation findings. Each finding has been linked with the relevant risk identified by the Secretariat in its QUART tool. This ensures that the OIG is more strategically aligned with the organization’s objectives. Out of 159 investigative findings in 2016, the main categories concerned local procurement, training and outreach and financial controls. In the short to medium term, this analytic approach should help the OIG to get a better understanding of the most significant areas of risk; to identify common red flags to inform proactive investigations designed to prevent or to disrupt fraud in the absence of whistle-blower allegations; and to strengthen its thematic reporting capabilities.

Figure 7 Breakdown of 2016 investigation findings show local procurements and training are top risks



Challenges

Despite improvement in the process, it has sometimes been challenging for the OIG and the Secretariat to come up with a realistic Agreed Management Action to address the root causes of issues found through OIG work. Similarly, agreeing on what evidence justifies the closure of the corrective action has led to bottlenecks. As a result, the OIG has put in place a specific stakeholder engagement model to ensure better follow-up. The new model builds on earlier engagement with the Secretariat to make the actions more targeted and specific. This includes earlier agreement on the types of evidence necessary to validate the implementation of the Agreed Management Action. This is expected to lead to a more consistent internal approach to drafting the actions, easier analysis of key themes and trends and upfront clarity in addressing root causes of issues. See paper GF/B37/13 for more information about Agreed Management Actions.

02 Increasing efficiencies

Successes

As a result of a number of efficiency improvements, the OIG has been able to increase its production with 19 audits and advisories along with 59 investigation cases in 2016 (of which 26 reports were published) compared with 11 audits and advisory engagements and 53 investigations in 2014 (of which 16 reports were published). Audit engagements in 2016 took 22% less time to complete in 2016 compared to 2014 and investigations 40% less time over the same two-year period. In 2017, the OIG will continue to increase its activities with 25 audits planned and 62 investigation engagements estimated without increasing its budget spend. This is thanks to two main efficiencies that were put in place in 2016:

Increase in OIG production and productivity

1. *Increased budgetary discipline:* More precise budgeting, using an activity-based approach, allows the OIG to monitor the number of people-hours and projected expenses per engagement. As a result, it can better predict the costs of each engagement based on scope, necessary travel, professional fees for extra resources, etc.
2. *Improved risk-focus in the scope of engagements:* Tailoring engagement scopes by taking into consideration other assurance providers and assessed level of risk also allows for more targeted missions. For example, in the Cameroon audit, assurance contributions from the Local Fund Agent and the Ministry of Health's internal and external auditors enabled the OIG to concentrate on procurement and supply chain issues rather than financial risks, which were deemed lower. Likewise, in the case of the Philippines, after preliminary work during planning mission indicated a lower level of risk across most of the programmatic and financial areas, a decision was made to transform the engagement from an initial full scope audit to a much more limited-scope advisory engagement focused on one residual area of risk.

Challenges

The OIG has identified the need to improve its internal data collection and management to meet audit and investigation operational needs. At present, OIG knowledge is not managed consistently within an overarching comprehensive structure. Laborious work practices such as using email to collaborate means that many hours are lost to non-value added work. Going forward, a project is in place to implement more formal information architecture to better collect, structure and store data and information, to enhance internal collaboration processes and to nurture a better culture of knowledge management and sharing. Developing outreach activities and building partnerships

03 Developing outreach activities and building partnerships

Successes

This year, the OIG Investigations Unit has developed stronger partnerships with four international Non-Governmental Organizations (NGOs), Save the Children; Catholic Relief Services; World Vision; and Population Services International, who are also major grant implementers. The above NGOs are responsible for over US\$1 billion of Global Fund grants covering 28 countries. The OIG evaluated what mechanisms the organizations have in place to identify and respond to wrongdoing. As part of this evaluation, the OIG looked at the interface between fraud reporting at a local level with the central headquarters of the NGO. The OIG found that all the organizations possess comprehensive whistle-blowing policies and procedures, supported by training, which require all their staff to report wrongdoing internally. The review found that the majority of the NGOs report any concerns to the Global Fund. All the NGOs possess investigation functions to respond to fraud allegations.

However, the review also identified instances where the NGOs could improve the implementation of their fraud reporting procedures at a country level. It found that one NGO had consistently failed to report instances of fraud to the Global Fund. As a result, the OIG will continue to build relationships with the four in order to ensure that all wrongdoing in Global Fund grants is reported in a timely manner.

Opportunities to collaborate with GAVI

In 2016, the OIG strengthened its partnership with GAVI, the global vaccine alliance. The teams identified 25 countries that were of mutual interest, representing 66% and 77% of the Global Fund allocation and GAVI's commitments respectively. In five of those countries, the two organizations use similar implementers in the areas of either supply chain, financial management or assurance. No overlaps were identified in the other 20 countries of interest, although the teams were still able to share information.

Collaboration with the UNDP's Office of Audit and Investigations has also been steadily improving since the revision of a memorandum of understanding in late 2015. In 2016, the OIG supported the Secretariat's efforts to revise the contractual framework through which UNDP acts as an implementer. The impetus for this revision was notably the satisfactory resolution of issues raised through past OIG audit and investigation reports. Through this revision, access rights for the Global Fund as a whole, including the OIG, have been clarified without compromising the UN's internal rules that require a single audit to assure all of the institution's activities. The revision establishes a constructive benchmark to develop accountable and transparent relationships with other UN-system bodies.

Other Memoranda of Understanding that have been signed recently include AFROSAI, the African branch of the International Organisation of Supreme Audit Institutions, and the Malawi Pharmacies, Medicines and Poisons Board, who manage the local hotline for the OIG's *I Speak Out Now!* campaign.

The OIG's Annual Stakeholder Satisfaction Survey

As part of its Key Performance Indicators, the OIG conducts an annual stakeholder satisfaction survey to evaluate its performance and receive feedback on how to improve. In February 2017, 43 Board and Audit and Finance Committee members were asked 10 questions around the quality, scope and impact of the OIG work. The total number of respondents was 24, covering two-thirds out of the 24 constituencies. The overall satisfaction score achieved was 98% as shown in the table below.

Figure 8 Breakdown of results of OIG annual survey

Question 1	Question 2	Question 3	Question 4	Question 5	Question 6	Question 7	Question 8	Question 9	Question 10	Total
OIG's audits and investigations focus on the key risks of the Global Fund and the priorities of the Board/AFC.	The OIG's work is of high quality and provides the Board/AFC with the appropriate level of assurance on the design and effectiveness of the Global Fund key internal controls, risk management and governance processes.	As a whole, the work of the OIG adds value and helps to improve and strengthen the Global Fund.	The outcome of the OIG's work demonstrates a sound understanding of the Global Fund's business.	The OIG communicates effectively its findings in person at Board/AFC meetings.	The OIG is responsive to the expectations and priorities of the Board/AFC.	The scope and quality of the OIG's engagement with the Board/AFC foster a strong relationship of mutual trust and confidence.	The OIG's communication with the Board/AFC provides the appropriate level of information and insights.	OIG maintains, to the best of your knowledge, an effective level of cooperation with the Secretariat of the Global Fund whilst preserving its independence and objectivity.	Overall, the OIG is providing effective support to the Board/AFC in the discharge of their organizational oversight mandate.	
9	10	19	11	14	10	14	9	7	12	
15	14	5	13	8	13	10	14	16	11	
0	0	0	0	2	1	0	1	1	1	
0	0	0	0	0	0	0	0	0	0	
100%	100%	100%	100%	92%	96%	100%	96%	96%	96%	98%

Challenges

Since the last OIG Progress Report to the Board, the OIG received 13 more allegations from the Secretariat in 2016, making a total of 43. Although this is down by 15% on last year, the OIG is working more collaboratively with the Secretariat to encourage more information exchange on any portfolio irregularities that can compromise grant impact. Based on the feedback and lessons learnt from phase I of the *I Speak Out Now!* campaign, the OIG is repositioning the campaign and emphasizing the role of the Secretariat as a key player and the OIG as an advisor, using the spin-off slogan *We Speak Together!* This repositioning, together with new materials for both the Secretariat and implementers, will form the basis for phase II of the initiative as the OIG moves from a campaign to a sustain mode. As a result, the OIG plans to reach out to a broader audience of implementers, rather than the pilot approach that focused on specific countries or communities in phase I.



Figure 9 Spin-off branding 'We Speak Together!' to encourage more Secretariat-OIG interaction for better grant impact

VI. The year ahead

Building on work from the past two years, the OIG work plan for 2017 focuses on the areas of greatest risk as well as extensive coverage of disease burden and allocation as shown in the two figures below. A full version of the work plan approved by the Audit and Finance Committee is available in the [OIG's Progress Report \(January- September 2016\) GF/B36/11](#).

In summary, the OIG's 2017 audit plan will cover 10 country audits (South Africa, Ethiopia, Zambia, Bangladesh, Cambodia, Ukraine, Haiti, Mali, Burkina Faso and Guinea); two joint in-country follow-up audits/investigations (Nigeria and Tanzania); seven cross-cutting internal reviews (data quality, grant monitoring, in-country assurance, wambo.org, contract management, use of consultants and IT); and two internal audit follow-up reviews (grant-making and sourcing processes). The OIG has also earmarked resources for four advisory engagements. The investigations work plan for 2017 projects a total of 54 proactive and eight proactive investigations.

Figure 10 Breakdown of 3 years of OIG audit work plans per disease burden

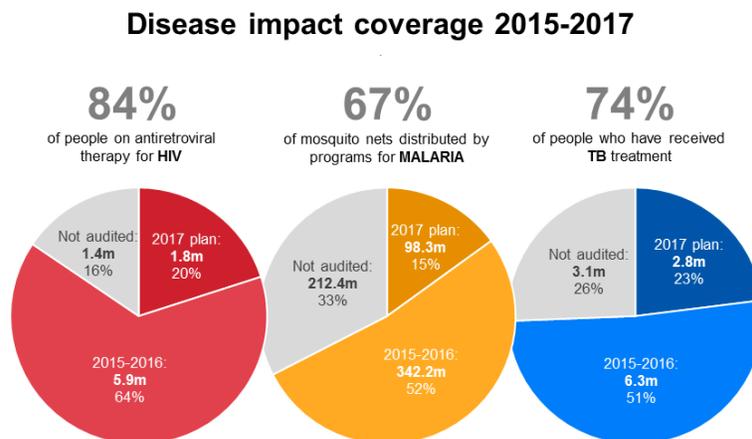
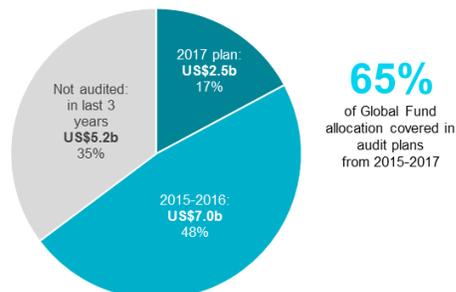


Figure 11 Breakdown of 3 years of OIG audit work plans per allocation

Allocation coverage from 2015-2017



VII. OIG risk coverage during the year

The OIG uses independent risk assessments to determine which countries and which areas to cover in its yearly work plans. These assessments also take into account the Global Fund Corporate Risk Register to align with the organization's strategic objectives as shown below.

Figure 12 How OIG activity over three years links to the Global Fund Corporate Risk Register

Risk Type	Risk per Corporate Risk Register	OIG activity in 2017	OIG activity in 2015 and 2016
Strategic Risks	Impact/Mission	10 country audits covering 17% of the 2014-16 allocation. In 2017, the audit plan includes South Africa which has the biggest HIV burden in the world (20%) and the 3rd highest TB burden (8%). The OIG has committed to at least eight proactive investigations that will complement audit coverage of the portfolio.	Audit of Strategy Planning, Implementation and Monitoring Processes in 2015. Mission risk was also considered in the 17 country audits (which covered 48% of allocation in 2015-16). Top three countries in terms of allocation (Nigeria, India, DRC) were audited in 2015-16, representing US\$2.7bn of the 2014-16 allocation; these countries alone account for 19% of the global HIV burden, 36% for malaria and 38% for TB.
	Sustainability and Transition	No specific audit for this risk as process remain nascent. However, it is incorporated in OIG country audits where applicable.	Covered in the Grant Making and CCM audits in 2015, as well as relevant country audits in 2015 and 2016 e.g. India, Indonesia and Uzbekistan.
	Resilient and Sustainable Systems for Health (RSSH)	No specific audit for this risk as processes still being developed. However, it is covered in country audits when considering the levels of integration of data, supply chain and financial systems in mainstream national systems.	Covered by country audits where RHSS grants are in place. An investigation in Nigeria and audits of grants in South Sudan and Tanzania uncovered examples where investments in construction projects involved significant deficiencies, irregularities and mismanagement.
	Human Rights and Gender Inequality	No specific audit for this risk, however, it will be incorporated in country audits where applicable e.g. Ukraine. No specific investigations relating to human rights are planned in 2017. However, all allegations will be monitored for potential issues and this topic may be considered for proactive investigation if intelligence suggests this is an appropriate course of action.	No specific audit for this risk; however Human Rights-related risks were considered in relevant 2015-16 country audits, e.g. Uzbekistan and Philippines.
	Challenging Operating Environments (COEs)	4 countries classified are included as COEs in the 2017 audit plan: Guinea, Mali, Haiti and Ukraine.	2016 internal audit of Grants in High Risk Environments and country audits of DRC (2016) Nigeria, Pakistan and South Sudan (2015) covered this risk.
	Drug and Insecticide Resistance (TB, Malaria, HIV)	No specific audit for this risk; however, it is incorporated in country audits where applicable.	No specific audit for this risk; however, it is a consideration in country audits and the risk is highlighted where the OIG observed issues around drug quality, e.g. India, or treatment without diagnosis e.g. DRC, Malawi, South Sudan, Tanzania.
	Strategic Data Quality and Availability	In 2017, the plan includes an audit of the effectiveness of the structures, systems, tools at the Secretariat to ensure availability of timely quality data for decision-making, and related assurance models; this is complemented by 10 country audits which are likely to have significant data quality components.	Country audits usually included significant objectives on data quality (unless specifically scoped out). Issues on data quality were raised in the 2015-16 audits of Ghana, DRC, Nigeria and Tanzania.

	Partnerships	In-country partnerships are always considered during country audits. Partnership engagement will be assessed as part of 2017 audits of Data Quality, In-country Assurance and Contract Management.	Partnership engagement was not audited as a thematic area, however the effectiveness of partnerships is always considered in country audits (issued noted in the audits of Pakistan, Tanzania and Nigeria.) This risk was also considered in audits of In-country Supply Chain, Grants in Risky Environments (both 2016), Grant Making and CCMs (2015).
	Value for Money/Cost-Effectiveness	No specific audit in 2017, however efficiency (including value for money) is carefully considered in all audits.	Efficiency (including value for money) is considered in all audits and we specifically raised questionable value for money in country audits of DRC and Tanzania, and internal Audits of Grants in Risky Environments and Wambo procurement processes.
	New Strategy Implementation and Allocation Model	Not included in the 2017 audit plan because allocation model is yet to be finalized. AMAs under the strategy audit are not yet due and will be validated in 2017 when implemented.	Audit of the previous allocation model, KPIs and the Strategy Planning, Implementation and Monitoring Processes in 2015.
Financial Risks	Future Funding/Replenishment	Not covered in 2017. AMAs from the 2016 advisory assignment will be monitored and validated when implemented.	In 2016, the OIG completed an advisory engagement on fundraising.
	Foreign Exchange Risk	Not specifically covered in 2017; however the OIG will monitor AMAs from the 2016 Treasury Audit.	This area was covered in the Treasury Audit in Q4 2016 and Key Internal controls were audited in 2015.
Operational risks Secretariat	Risk Management Framework not fully adopted and operationalized	Not specifically covered in 2017; however, AMAs from the 2016 Risk Management audit will be monitored. In addition, grant level risks will be included in the scope of 10 country audits. The OIG also attends Enterprise Risk Committee and monitors this area on an ongoing basis.	Risk Management was audited in 2016 and Key Internal controls (which included risk processes) were audited in 2015. Grant level risks were included in the 17 country audits in 2015-16. Audit work has continued to find weaknesses in risk and assurance, as demonstrated by audits in Ghana, South Sudan, Indonesia, Nigeria, Tanzania and Pakistan.
	Lack of Integrated Processes, Systems and Tools	IT audit planned in 2017.	Underlying systems and tools for key processes such as Grant making and KPI reporting were audited in 2015. IT controls were also audited in 2014 & 2015.
	New Projects/Initiatives	Audit of Data Quality will review work underway to improve program quality assurance in the form of the Health Facility Assessments. Audit of In-Country Assurances will also evaluate the broader efforts underway at Secretariat on Risk and Assurance. The Wambo platform will also be audited in 2017. As well as regular audit work, OIG is also represented on Project Review Board, and AIM.	New projects and initiatives were considered in a number of 2015-16 audits: <ul style="list-style-type: none"> • Risk and Assurance project was covered as part of Risk Management audit. • Audit of Grants in Risky Environments also considered the work underway at Secretariat on COEs. • Audit of In-Country Supply Chains considered the recently launched Supply Chain project. • OIG completed an advisory review of project 'AIM' in Q4 2016. The OIG was also represented on the Project Review Board, and the AIM, Differentiation for Impact, and Implementation through Partnership Steering Committees.
	Staff Health	Not covered due to a "medium" risk rating; future risk level will be monitored carefully.	Not specifically covered.
	Organizational Culture	Culture is covered in thematic audits where necessary. In 2017, culture will be covered in the selected internal audits such as Grant Monitoring and Contract Management.	Culture is covered in thematic audits where necessary. For instance, organizational culture was covered in risk management audit in 2016 and Audit of Strategy Planning, Implementation and Monitoring Processes in 2015.

	IT risk	IT audit focusing on operational controls and cloud computing is proposed in 2017.	Following full audit in 2014, a follow up audit of IT controls was performed in 2015.
Operational Risks - Grants -	Various risks including treatment disruptions, substandard health products, poor program quality, poor financial reporting and other financial risks, poor grant oversight.	Operational grant level risks will be covered in 10 country audits for 2017 which covers 17% of allocation. Internal audits of grant monitoring and in country assurance (focusing on the LFA model) will also address these risks.	Operational grant level risks were covered in 17 country audits in 2015-16, covering 48% of allocation. Cross-cutting audits of In-Country Supply Chains and Risk Management (performed in 2016) and Grant Making (2015) added to assurance provided. The majority of investigations cases demonstrated the materialization of operational risks. In 2016, 27 cases covering 20 countries (plus one internal) evidenced 159 findings of vulnerabilities or deliberate wrongdoing in this risk category.
Governance Risks	Weak Governance and Oversight	Given audits of Risk Management and follow up of the Governance Review in Q4 2016, no specific audit is proposed.	In 2016, the OIG conducted an audit of Risk Management and also a follow up of the 2014 Governance review.
Ethics Risks	Ethical Misconduct	Ethical misconduct is inherently covered in all audits; however, risk covered in a number of specific reviews/initiatives: <ul style="list-style-type: none"> An advisory review of Integrity Due Diligence in Q3 2016; Continuation of the OIG 'I Speak Out Now!' campaign in 2017. 	Ethical misconduct is inherently covered in all audits and investigations
Reputational Risk	Reputation	The OIG does not audit reputational risk on a standalone basis because it views it as just the impact of other risks materializing. Those other risks are covered throughout the OIG work plans.	
Other	Privileges and Immunities	No audit is proposed because the risk is rated medium by the Secretariat, who have already developed a strategy on Privileges and Immunities.	No coverage.

VIII. Budget and headcount

At the end of December 2016, the OIG had 49 employees out of a budgeted headcount of 52. All vacant positions in the Audit Unit had been filled by the end of June. One auditor resigned in September. This position is currently covered temporarily and will be filled permanently in the year. There were two vacancies in the Investigations Unit at the end of 2016. Both positions have since been filled with new staff members joining in early 2017.

Figure 13 Headcount and vacancies as of 31 December 2016

Unit	Headcount 1 Jan 2016	Hires	Departures	Headcount 31 December	Budget	Vacancies
Front Office	8	N/A	0	8	8	0
Audit	16	5	1	20	21	1
Inv	21	1	1	21	23	2
Total	45	6	2	49	52	3

At the end of December 2016, the OIG had a budget underspend of US\$1,315K (-8.06%) against the 2016 Operating Expenses Budget.

Figure 14 OIG Operational Budget in thousands of US\$

Budget Line	2016 Budget	Dec Actuals	Variance Budget vs Actuals	
Salaries	10,074	9,965	-109	-1.08%
Professional fees	2,144	1,915	-229	-10.68%
Travel	1,912	1,745	-167	-8.73%
Meetings	76	21	-55	-72.37%
Communications	389	322	-67	-17.22%
Office Infrastructure	1,722	1,033	-689	-40.01%
Total	16,316	15,001	-1,315	-8.06%

Despite the vacancies, the *Salaries* variance is minimal as the Finance Department underestimated staff costs when preparing the 2016 budget. *Professional fees*: savings of US\$66,000 were made due to the reduction in scope of the Philippines audit. An additional US\$100,000 in Quality Assurance fees was not used as the external quality review will take place in 2017. Other savings include cost savings in some audits, notably India due to lower than expected local consultant rates. *Travel*: again due to the reduced scope of the Philippines audit, savings of US\$83,000 were made. Other savings include the Inspector General's travel budget and travel costs linked to training that were not used in full. *Communications*: careful cost management during the *I Speak Out Now!* campaign resulted in saving on this line. *Office Infrastructure*: the variance of US\$689,000 is largely due to office infrastructure contracts (US\$395,000) which only partially affected the 2016 budget as they were signed late in the year and the amounts will be depreciated over 36 months. Other savings include software that is no longer needed (US\$75,000), and two projects which have been postponed (needs assessment US\$44,000) and case management development (US\$144,000).

In conclusion, the Global Fund maintains an independent, well-staffed OIG that reports directly to the Board of the Global Fund and compiles regular, publicly published audits of financial, programmatic, and reporting aspects of the Global Fund, its grantees, and Local Fund Agents.

IX. Key Performance Indicators

Key Performance Indicators (KPIs) for the Office of the Inspector General (OIG) are approved by, and reported to, the AFC pursuant to its general oversight mandate over the OIG.⁴ The current set of KPIs was approved by the previous Audit and Ethics Committee (AEC) in March 2016.

At its third meeting, in March 2017, the AFC decided to postpone its review of the OIGs KPI framework and will review this in conjunction with the OIGs 2018 workplan.

The purpose of this section is to report on the OIG’s actual performance against its existing KPIs for 2016:

Theme	Performance Objective	Progress end of 2016
A. To deliver an efficient and effective service	A.1 80% of reports as per the work plans issued in draft by year end (stage 4 of the Stakeholder Engagement Model for audits, stage 4a or 6 of the Stakeholder Engagement Model for investigations)	<p>Audit: As of 31 December 2016, the Audit KPI was at 82% on the basis of 9 audits out of 11 from the 2016 work plan that reached stage 4 of the Stakeholder Engagement Model by year-end.</p> <p><i>This calculation does not include 6 additional advisory reports completed in 2016, which are client-driven and not defined in advance of work plan approval. In 2016, the KPI also did not include 2 follow-up audits, a new engagement type piloted this year. Follow-up audits are now detailed in our 2017 work plan and will be included in the KPI metric for 2017.</i></p> <p>Investigations: 59 investigations out of 74 completed Stage 6 or were closed through Stage 4a Case Closure Memorandum at the end of December 2016 (80%).</p> <p><i>8 investigations reports were published in 2016 and 54 Case Closure memos were issued.</i></p>
	A.2 Costs managed within approved budget	At the end of December 2016, the OIG had a budget underspend of US\$1315K (-8.06%) against the 2016 Operating Expenses Budget. For a more detailed analysis please refer to Section VIII above.
B. To foster confidence by being accountable and transparent	B.1 Annual quality self-assessments completed to confirm ongoing conformance with requirements of Quality Assurance and Improvement Program (QAIP), including general conformance with the Stakeholder Engagements Models timelines	Self Assessments were completed. Reported to the AFC under GF/AFC03/18.
	B.2 Triennial external quality assurance review to confirm, once every 3 years, that the quality of assessment processes, work papers, reports, and interaction with key stakeholders adheres to professional standards and guidelines	The next assessment is due at the end of 2017 following the last one in 2014.
	B.3 Annual assurance statement on governance, risk management and controls at the Global Fund	See Section IV above.
C. To ensure impact in our work	C.1 Agreed Management Actions (AMAs) tracked, reported on monthly and validated within 30 days of Secretariat reported “Completed” date. Reports of slippage on agreed actions are escalated.	91% of AMAs were approved by the OIG within 30 days of implementation date by the Secretariat. Reports were shared with the Management Executive Committee on a monthly basis in 2016.
	C.2 Client engagement surveys are conducted for at least 90% of audit engagements completed during the year	Exit surveys were conducted for all the audits in the 2016 work plan published this year.

⁴ Charter of the Audit and Finance Committee (28 January 2016), section B. 2.3 c.

	C.3 Conduct annual stakeholder satisfaction survey, including all Audit Committee members and all Board members (or alternates), and achieve an overall satisfaction score of 80% or better	The OIG received a 98% satisfaction rate following a survey of 43 Board, Audit and Finance Committee members in February 2016. See page 23 above.
D. To recruit and retain the best people and foster a culture of trust and teamwork	D.1. All employees have a development plan approved by their managers by end of Q1. At least 90% of staff will complete by year end a minimum of 20 hours of formal training	Two employee plans out of 47 were pending approval as of the end of Q1. 89% of staff have completed a minimum of 20 hours of formal training.
	D.2 Staff Turnover does not exceed 10%	Staff turnover was 4% as of 31 December 2016. 2 employees left out of an average number of employees for the year of 47.

Annex 1: Organizational Maturity Scale

Rating	Definition
Optimized	Internal controls, governance and risk management processes are optimized to ensure that the organization's operational and strategic objectives are met.
Actively managed and formalized	Internal controls, governance and risk management processes are actively managed and overseen with clear lines of accountability. Decision making is based on reliable data sets with sufficient due diligence, leading to assurance mechanisms that are robust and fit for purpose to enable the organization's operational and strategic objectives to be met.
Embedded	Internal controls, governance and risk management processes have been defined and are embedded in everyday management practice. However, there is insufficient close supervision or active management of these processes and/or they are not consistently measurable. It is likely but uncertain that they will allow the organization's operational and strategic objectives will be fully met.
Initiated	Internal controls, governance and risk management processes have been defined through institutional policies approved by executive management and/or the Board. However, they are not applied consistently and are not fully embedded in everyday management practice. They are unlikely to ensure that the organization's operational and strategic objectives will be fully met.
Ad hoc	Internal controls, governance and risk management processes are inchoate or ad hoc. They have not been fully defined and/or not approved by executive management or the Board. Processes are insufficient to ensure that the organization's operational or strategic objectives will be met.
Nonexistent	Internal controls, governance and risk management processes are absent.

Annex 2: Summaries of OIG Reports Published in 2016

16-001 Audit in Uzbekistan

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

16-002 Audit in Tanzania

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

The follow-up investigation concluded there was no evidence that the process failures identified by the audit had been exploited for fraudulent gain by the Medical Stores Department (MSD). The investigation, however, confirmed that MSD did not adequately oversee its financial operations, allowing the misappropriation of US\$215,757 of funds in January 2015, which has subsequently been repaid. It also confirmed an audit finding that US\$490,776 worth of antiretroviral medicine could not be accounted for. The Global Fund is seeking to

recover the sum and is putting in place actions to strengthen controls and oversight at MSD.

16-003 Audit of Grant-Making

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

16-004 Audit of the Country Coordinating Mechanism

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

16-005 Audit in Uganda

In this audit the OIG found the following problems: pervasive stock-outs of key medicines, an unexplained variance of US\$21.4 million between the expected and actual stocks at the Uganda National Medical Stores (NMS), lapses in services provided to patients and poor grant oversight by the Ministry of Health. The case was referred to the OIG's Investigations Unit.

The follow-up investigation found no evidence that the internal control failures identified by the audit had been exploited for fraudulent gain by NMS. The investigation established that US\$17.4 million of the variance was attributed to the omission of data from the warehouse management system. However, a remaining variance of US\$4.0 million between the actual and expected stock amounts could still not be accounted for. Subsequently, the Global Fund has asked NMS to fully justify the dispatch to facility level of Global Fund deliveries into the warehouse in 2014. If NMS is unable to trace the deliveries, the Global Fund will seek to recover the funds.

16-006 Investigation in Angola

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

16-007 Audit of Internal Controls

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

16-008 Audit of Strategy Processes

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

16-009 Audit of the Key Performance Indicator Framework

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

16-010 Investigation in Bangladesh

An OIG investigation found that a 2011 tender for medical equipment worth US\$311,637 involved collusion, falsified bid documents, shell companies, and price manipulation. The equipment was supplied by Bengal Scientific & Surgical to Bhuiyan International Corporation, a procurement agent that managed the tender on behalf of Program, a Global Fund recipient of funds. The Global Fund has since reinforced significantly procurement practices and the agent is no longer in operation.

16-011 Investigation in India

OIG investigators found evidence of non-competitive tenders and improper procurement practices by a sub-recipient of Global Fund grants, Catholic Bishops' Conference of India, totaling US\$97,149.

This included payments for information materials that were not printed, office equipment and computers. The Global Fund is putting in place actions to tighten procurement procedures and oversight at the recipient level in India.

16-012 Investigation in Guyana

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

16-013 Investigation in Côte d'Ivoire

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

16-014 Audit in Nigeria

An audit of Global Fund grants in Nigeria identified significant problems in procurement, supply chain, financial and program management. The auditors found discrepancies of over US\$4 million between drugs ordered and delivered; US\$20 million

paid to suppliers without confirmation of delivery; stock-outs of eight months for critical medicines; and a total of US\$7.65 million in unsupported expenditures. The Global Fund is reviewing corrective measures, particularly with regard to risk management, identified by the OIG as the root cause of many of the issues.

16-015 Investigation in Nigeria

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

16-016 Review of Processes to Implement wambo.org

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

16-017 Follow up Audit of Grant Closure Processes

In this follow-up review of a 2013 audit, the OIG noted significant improvements in the overall design of Global Fund grant closure policies and processes as well as simplified grant closure procedures. However, the auditors identified various gaps in compliance. For example, 65% of grants due

for closure between 2013-2015 had still not been closed at the time of the audit.

16-018 Investigation in South Sudan

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

16-019 Audit in Zimbabwe

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

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

16-020 Audit in Cameroon

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

16-021 Audit Report on Recoveries

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

16-022 Audit in the Democratic Republic of Congo

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

Supply chain controls were found to be ineffective. The OIG can provide reasonable assurance on drug accountability up to the health zone level with 97% of drugs sampled

traced from regional warehouses to health zones. However, 31% of drugs sampled could not be traced from health zone to local health facility level.

16-023 Audit in India

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

16-024 Audit in Malawi

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

16-025 Audit in Côte d'Ivoire

An audit of grants in Côte d'Ivoire found that current implementation arrangements have led to good program results overall. However, the three disease programs that manage grants under the aegis of the

Ministry of Public Health and Hygiene, have difficulties in implementing cross-cutting activities. As a result, not all funds can be absorbed. The auditors also noted that supply chain controls and assurance mechanisms need significant improvement with the disease programs only playing a limited role in supply chain monitoring. The Global Fund, with its country partners, is putting in place corrective measures including the establishment of a cross-cutting Project Management Unit at the Ministry to ensure better coordination between all actors.

16-026 Investigation of Supplier Wrongdoing and Global Fund Non-Compliance with Procurement Regulations

An OIG investigation found that a Zimbabwean consulting firm charged the Global Fund for work in 2013 and 2015 that was plagiarized. The firm, called the Mutambara Foundation, and its director, fraudulently obtained payment of consultancy fees as well as non-compliant travel costs totaling US\$191,000. The OIG also found that the Global Fund's Sourcing Department did not comply with the organization's procurement regulations by improperly awarding two contracts through non-competitive processes. As a result, the Global Fund is taking corrective actions including pursuing an appropriate recoverable amount, clarifying its procurement framework and taking disciplinary action where necessary.

All reports available in full, in English and in French, on the OIG website at this address:

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