

VII. Budget and headcount year to date

01 Headcount

At the end of July 2017, the OIG had 51 employees out of a budgeted headcount of 52. All vacancies in investigations have been filled with two investigators joining in March. Two auditor positions were filled in April with one remaining vacancy yet to be filled. By the end of September, there will be three additional departures: two from the Audit Unit and one from the Investigations Unit.

Figure 6. Headcount and vacancies as of 31 July 2017

Unit	Headcount 1 Jan 2017	Hires	Departures	Headcount 31 July 2017	Budget	Vacancies
Front Office	8	N/A	0	8	8	0
Audit	20	2	2	20	21	1
Investigations	21	2	0	23	23	0
Total	49	4	2	51	52	1

02 Budget

At the end of July 2017, the OIG had a budget underspend of US\$665K (-7%) against the 2017 Operating Expenses Budget.

Figure 7. OIG Operating Expenses Budget in thousands of US\$.

Budget line	2017 Budget	YTD Budget	YTD Actuals	YTD Variance Actuals vs Budget	
Salaries	10,951	6,388	6,214	-174	-2.72%
Professional Fees	2,187	1,104	991	-113	-10.24%
Travel	1,992	1,095	902	-193	-17.63%
Meetings	76	44	8	-36	-81.82%
Communications	267	38	85	47	123.68%
Office Infrastructure	1,557	830	634	-196	-23.61%
Total	17,030	9,499	8,834	-665	-7%

- The salaries variance can be attributed to vacancies. At the beginning of January, the OIG had three vacancies which were only filled in March and April.
- Professional Fees and Travel: the underspend is mainly due to savings achieved on the country audits which required fewer resources than initially thought following risk assessment phases.
- Communications: most of the “I Speak Out Now!” project costs will affect this line later in the year.
- Office Infrastructure: some IT consultant costs budgeted under this line will affect the Professional Fees line. Other IT costs, including software and case management development, will not be required this year.

VIII. Looking ahead:

01 Work Plan for 2018 at a glance

The AFC, at its 5th meeting in October, approved the following work plan for the OIG in 2018.

	Advisory engagements	Follow-up audits	Internal audits	Country audits	Reactive investigations	Proactive investigations	Investigations carried over from 2017
Totals	4	4	5	11	36	4	15

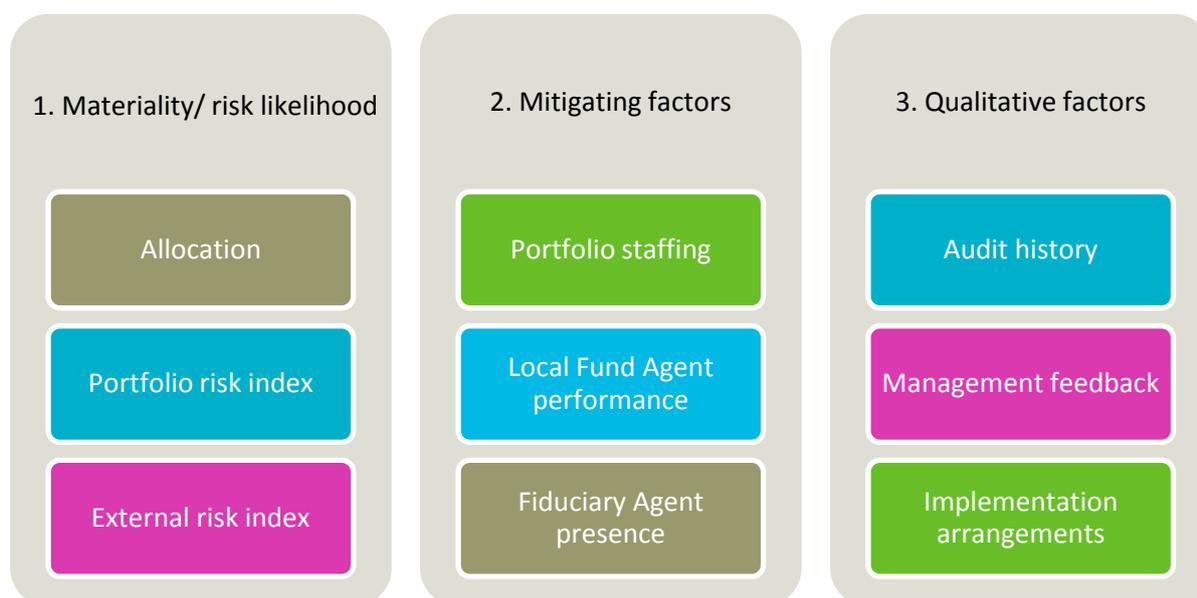
02 Country audits

The plan for 2018 takes into account a number of factors, with a particular focus on the riskiest areas of the Global Fund portfolio, as in previous years.

These factors include:

1. Materiality and risk likelihood: How much money is allocated to each country? What are the risks that might compromise grant objectives and how likely are they?
2. Mitigating factors: What might reduce the risks in the countries? For example, is there a Fiscal Agent in place?
3. Qualitative factors: When was the last time the country was audited? What does Global Fund management think?

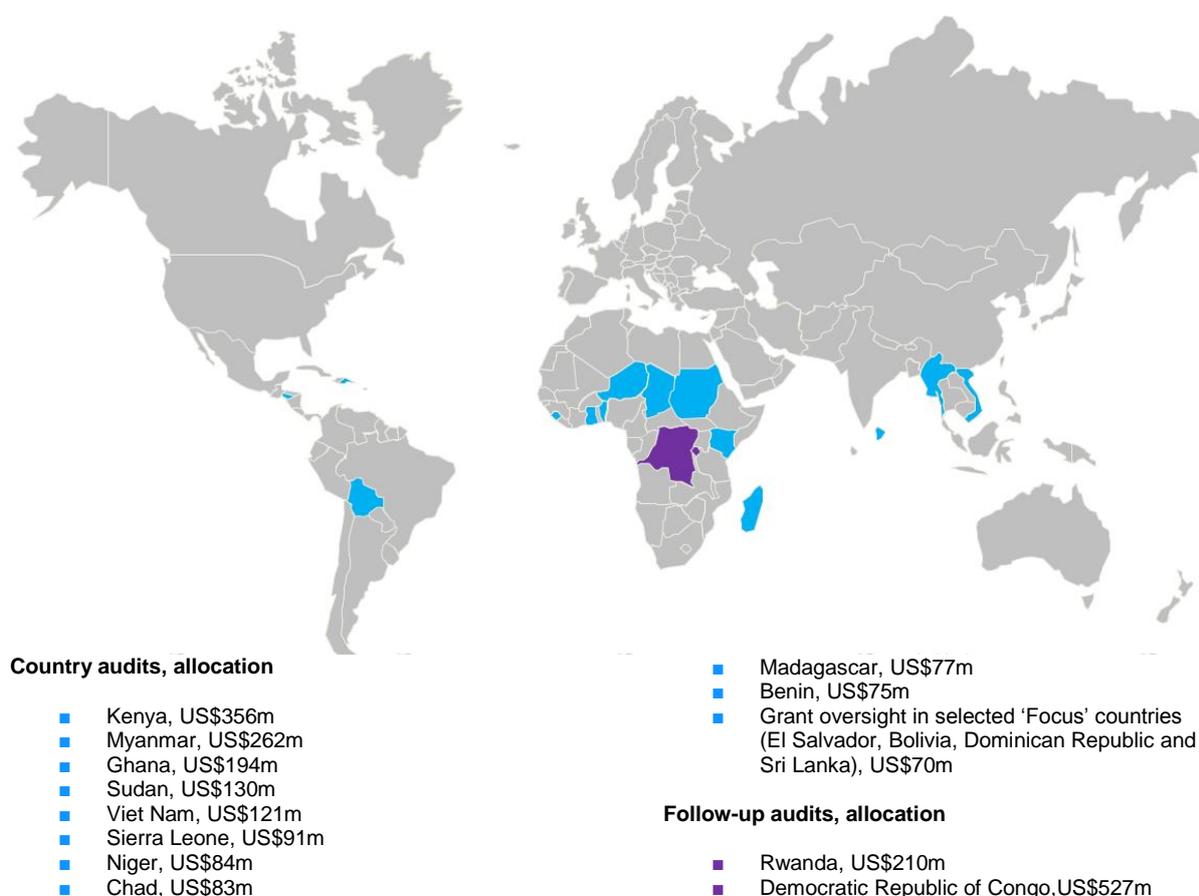
Figure 8 Risk-based methodology for choosing which countries to audit



The OIG also considered the following in its choice of country coverage:

- at least one country from each portfolio category (High Impact, Core, Focused) to provide assurance on the effectiveness of differentiation;
- at least one country with an extreme disease burden in each of the three diseases; and
- at least one country with a majority of financing from the Global Fund for each of the three diseases.

Figure 9 OIG Audit Plan covers 13 countries and 17% of 2016-2018 allocations



03 Other audit engagements

The OIG also plans five internal audits, four follow-up audits, and four advisory engagements for 2018.

Cross-cutting reviews (3)

- **RSSH:** assessing if and how RSSH activities are being designed, monitored and evaluated effectively.
- **Project Management:** assessing the effectiveness of the Secretariat's project management framework including project selection, structures for decision-making, implementation and monitoring during the life cycle.
- **Transition:** assessing the design and effectiveness of transition planning and monitoring processes. The audit will leverage on findings from previous country audits and the selected focus countries in the 2018 audit plan.

Focused reviews (2)

- **Regional Grants:** assessing the design, management and monitoring of regional grants including country visits of three regional grants.
- **Human Resources (HR) Strategy Implementation and Monitoring:** how the Secretariat's HR strategy is aligned to and supports achievement of the strategic objectives of the organization.

Follow-up reviews (4)

- Two in-country follow-up reviews including an update to a 2014 pre-implementation review of Resource-Based Financing in Rwanda and Democratic Republic of Congo.
- Two internal audit follow-up reviews to update 2015 and 2014 audits of KPI reporting and sourcing processes.

Advisory engagements (4)

Based on business needs and requests during the year, the OIG has set aside time in the audit plan to perform four advisory engagements. The specific areas will be confirmed with the relevant business sponsors and potential areas under consideration are:

- Long-lasting insecticidal net mass campaigns
- Human Rights
- Catalytic investments
- Operationalization of Gen-Ex machines

04 Investigations

Historically, the Global Fund had a more reactive approach when it came to managing fraud and corruption. Today, however, there is a desire to manage more proactively the risk of fraud and corruption in Global Fund grants. For example, in the past year, the Secretariat has bolstered its second line functions. Initiatives have been launched such as the drafting of a Policy to Combat Fraud and Corruption and the introduction of fraud risk assessments. In the last few years, the OIG investigations strategy has also evolved from a purely reactive mode to one of disruption and prevention as reflected in its investigations work plan for 2018.

Figure 10 The four pillars of the OIG investigations framework



Detect: In 2018, the OIG Investigations Unit expects to screen 180 allegations, consistent with numbers from the last three years 2015 (178), 2016 (180), 2017 (TBC). The unit will spend 17% of its operational time on screening allegations and proactively identifying potential fraud in Global Fund grants. The conversion rate of allegations to new investigations is estimated at 22%, which is also comparable with the past two years 2015 (26%), 2016 (19%). The team will continue to analyse trends and findings to identify the grant implementation areas that have the highest risk of fraud. Based on this analysis, the OIG will launch four intelligence-led proactive investigations.

Respond: The unit continues to respond to allegations reported to the OIG through its whistle-blowing hub. Where there is credible, verifiable information of abuse or misappropriation in a Global Fund grant, a case is opened. The OIG will respond proportionately to allegations of fraud. Investigative resources will be dedicated most to issues that are likely to impact the delivery of health services. In 2018, the OIG predicts seven such allegations will result in published reports. Low-level fraud identified through reactive investigations will be closed in the form of closure memos, estimated to be 13 in 2018. All investigations opened in 2017 (estimated at 15) and carried forward into 2018 will be closed as the OIG improves its investigation turnaround time.

Deter: When criminal behavior is identified in investigations, the OIG refers it to law enforcements agencies to pursue in a criminal court. If the investigation confirms that the Global Fund has lost funds or assets, the OIG proposes a recoverable sum, which is actioned by the Secretariat.

Prevent: Using the I Speak Out Now! anti-corruption materials, the OIG will participate in eight Secretariat induction training sessions throughout the year and conduct 12 fraud awareness sessions with implementers.

05 Operating budget for 2018

To support the execution of the 2018 Work Plan, the AFC approved the inclusion of the following budget in the overall 2018 OPEX Budget to be recommended to the Board for approval.

At US\$15.92 million, the 2018 OIG budget represents a 7% reduction compared to the 2017 budget of US\$17.03 million. The OIG initially proposed a 5% reduction in budget, as per GF/AFC05/03 – Revision 1. The AFC required an additional 1.8% downward revision during its meeting, leading to the 2018 budget presented below.

Figure 11. Proposed 2018 budget versus 2017 budget and 2017 full-year forecast. All amounts in US\$ thousands.

	2017 Budget	2017 FY Forecast	2018 Budget	2017-2018 Variance	2018 Management	2018 Audit	2018 Investigation
Professional Fees	\$2,187	\$1,975	\$2,199	1%	\$337	\$1,481	\$381
Travel	\$1,992	\$1,777	\$1,808	-9%	\$111	\$1,342	\$354
Meetings	\$76	\$76	\$76	0%	\$20	\$29	\$28
Communications	\$267	\$267	\$107	-60%	\$107		
Office Infrastructure	\$1,557	\$1,138	\$662	-57%	\$662		
Sub-Total	\$6,079	\$5,233	\$4,852	-20%	\$1,237	\$2,852	\$763
Staff Costs	\$10,951	\$10,734	\$11,071	1%	\$2,339	\$4,375	\$4,357
Total Operating expenditure	\$17,030	\$15,967	\$15,923	-7%	\$3,576	\$7,227	\$5,120

Staff costs and professional fees up; travel and infrastructure down

- Professional Fees (+1%)

There is a small increase in 2018 due to IT consulting fees for the office infrastructure managed services affecting this line, previously budgeted under Office Infrastructure in 2017

- Travel (-9%)

The number of investigation missions requiring travel has been revised down for 2018

- Office Infrastructure (-57%)

This is down thanks to the move to the new Health Campus where all rental/building charges will be centrally managed. Some IT items budgeted in 2017 will not be required in 2018.

- Staff Costs (+1%)

The OIG staff headcount remains stable at 52, but costs are higher, mainly due to increased insurance premiums which impacts all Global Fund divisions.

06 Key Performance Indicators for 2018

The AFC, at its 5th meeting in October, approved the 2018 OIG KPIs. They will be composed of a) the existing 2017 KPIs as presented in Section VI and b) three Impact KPIs to be selected by the Inspector General from the list below.

	Impact KPI	Measure	Indicative Target	Pros	Cons	
A) RISK COVERAGE AND STRATEGIC ALIGNMENT	1	Grant portfolio coverage based on materiality and risk: Audit coverage of Global Fund portfolio measured in terms of allocation size, disease burden and risk classification.	Over a three-year audit cycle, measure of percentage of Global Fund portfolio covered by OIG audits in terms of proportion of the total disease burden, proportion of the total allocation amounts during that cycle, and percentage of countries classified by the Secretariat as High Risk.	Over a 3-year cycle, target coverage of: <ul style="list-style-type: none"> - *75% of the disease burdens (for each of the three diseases) - *75% of the country allocation amounts - 35% of the countries classified as High Risk. 	Measures the extent to which OIG's work focuses on the highest areas of impact both in financial and programmatic terms.	A limited number of countries account for the majority of the allocation and disease burden. Heavy focus on that select group may limit attention devoted to remainder of portfolio. On the other hand, many countries are classified as High Risk based primarily on the challenging operating environment of those countries even though materiality may be extremely low both in terms of disease burden and dollar allocation.
	2	Rate of improvement in control effectiveness	For all "follow-up audits" published in a calendar year, proportion of control objectives for which the audit rating has improved in comparison to the rating for the same control objective in the original audit.	Percent of the same control objectives in "follow-up audits" for which the rating has improved in comparison to the previous rating in the initial audit: 75%	Objective measure of extent to which the Global Fund is remediating issues impacting success of TGF. This measure tracks the extent to which internal controls, governance or risk management has meaningful improved between two audit cycles, in specified areas.	<ul style="list-style-type: none"> - Follow-up audits represent a small portion of overall work program (less than 10% of audit plan) - There is a potential for perverse incentives which will have to be carefully monitored
B) CONTROL/PROCESS IMPROVEMENTS	3	Rate of conclusive investigations	Published investigation cases related to either proactive investigations of potential fraud, or substantiated Prohibited Practices in current grants or by current implementers/suppliers, as a proportion of all finalized investigation cases in a calendar year.	25%	<ul style="list-style-type: none"> - Measures extent to which OIG is helping the GF either prevent or disrupt fraud in its programs. - Encourages both improvement to intake quality and investigation performance 	<ul style="list-style-type: none"> - Ability to prevent or detect ongoing fraud heavily contingent on real-time intelligence over which OIG has limited control and access.
	4	Timely remediation of issues	Percent of Agreed-Management Actions remediated by the Secretariat, by their due date, over a rolling period of eight (8) quarters.	60%	<ul style="list-style-type: none"> - Objective measure of extent to which the Global Fund is remediating issues impacting success of TGF. - A KPI on timely AMA implementation was part of the 	<ul style="list-style-type: none"> - Asymmetry between accountability and control as OIG has limited control over AMA implementation - Current experience indicates a relatively low rate of timely implementation. The Secretariat KPI had a target of 60% timely completion for each quarterly reporting period and

					Secretariat's operational KPIs. The Secretariat decided to remove this metric from the KPI framework as of 2017.	this KPI has been consistently off target since its adoption. As of the last reporting period, the fourth Quarter of 2016, actual performance was at 44%. Thus, the 60% target may be a stretch.
	5	Timely validation of implemented AMAs	Agreed actions tracked, reported on monthly and validated within 30 days of Secretariat reported "Completed" date. Reports of slippage on agreed actions are escalated.	90%	- Existing indicator, measuring OIG's responsiveness in validating the control improvements reported by management and is complementary to the timely implementation of AMAs	- Not applicable as this KPI is within the span of control of the OIG.
C) STAKEHOLDER SATISFACTION/VALUE	6	Board/AFC satisfaction surveys	Overall satisfaction of Board members, alternates and Audit Committee members with respect to the quality of OIG's work and its positive impact on the achievement of the Global Fund's business objectives.	Target satisfaction rate: 80%	- Evolution of existing indicator. - Standard industry measure of Audit performance. - Incentivizes alignment with Board priorities.	- N/A
	7	Audit Client satisfaction survey	Client engagement surveys are conducted for all audit engagements completed during the year.	Target satisfaction rate from surveys: average of 70% across all audits.	- Measures overall satisfaction of Global Fund senior management on two key dimensions: a) extent to which engagements are perceived to contribute to improved management of key risks, and b) extent to which issues are presented in a fair and objective manner.	- Due to nature of the audit process, there is a high potential for biased feedback in the event of adversarial findings. There is also significant risk of perverse incentives on the part of auditors.
	8	Number of Management requested Advisory engagements	Number of advisory or consulting engagements requested by management and governance bodies and concluded with a formal report provided to the advisor engagement requestor.	Target: 3-5 advisory engagements per calendar year	- Management's voluntary requests for OIG's formal advice is an implicit but strong and objective acknowledgment of perceived value.	- Current maturity level of organization and historical perceptions of the audit/investigation functions may limit management's appetite for additional OIG work even on advisory terms.