



Board Report

Office of the Inspector General Progress Report *Year to Date (January to September 2017)*

GF/B38/09
14-15 November 2017
Geneva, Switzerland

Board information

The purpose of this report is to provide the Board with assurance over the design and effectiveness of controls or processes to manage the key risks affecting the Global Fund's programs. The report follows up on the strategic issues identified in the 2016 Annual Report and introduces emerging themes based on work year to date. It also includes an operational update on the Office of the Inspector General's activities from January to September 2017 as well as the main highlights of next year's work plan, the corresponding budget and revised Key Performance Indicators which were discussed by the Audit and Finance Committee at their fifth meeting in October.

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 consultancy 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 that 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, fabricated 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...

You can report through the following channels:

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

Letter:
Office of the Inspector General
Global Fund
Chemin de Blandonnet 8, CH-1214
Geneva, Switzerland

Email:
ispeakoutnow@theglobalfund.org

Free Telephone Reporting Service:
+1 704 541 6918
Service available in English, French, Spanish, Russian, Chinese and Arabic

Telephone Message: 24-hour voicemail:
+41 22 341 5258

Fax - Dedicated fax line:
+41 22 341 525

More information about the OIG:
www.theglobalfund.org/oig

I. Executive summary

OIG's audits in 2017 to date confirm steady improvements in the Global Fund, both at the Secretariat and country levels, and also continuing challenges in some areas. Internally, major initiatives to improve grant management processes or supply chain management are underway and progress is being made in implementation. At the country level, significant improvements are noted in areas that have presented high risks to the organization in the past, such as the mitigation of financial and fiduciary risks. Likewise, the OIG saw commendable programmatic achievements in most of the countries reviewed. While substantial progress is made on these fronts, the Global Fund is also facing ongoing problems in the effective implementation of critical interventions, such as investments in resilient and sustainable systems for health (RSSH); strengthening programmatic assurance as the risk profile shifts increasingly from fiduciary exposures to program delivery; monitoring the performance of the grant portfolio; and tackling persistent supply chain challenges. Section II of this report provides early indications and a brief overview of emerging themes in those areas, which will be fully developed in the OIG Annual Report in early 2018.

At the operational level, the OIG has completed 50% of its audit work plan and 33% of its investigations work plan as of 31 August 2017 as per its A1 Key Performance Indicator (KPI) in Section VI. This progress report provides a detailed update on the status of the work plan delivery in Section IV.

This report also presents, in Section VIII, highlights from the OIG work plan for 2018 comprising 24 audits and 55 investigations, as well as the corresponding budget and KPIs.

At its 5th meeting in October, the AFC approved the OIG's 2018 work plan and KPIs. The committee also decided to recommend the OIG's 2018 OPEX budget 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.

II. Significant strategic themes

01 Implementing RSSH grants effectively

The Global Fund has increasingly invested in health systems in order to address systemic challenges affecting service delivery and to improve long-term sustainability. Several of the countries reviewed this year (**Ethiopia, Burkina, Cambodia**) had grants dedicated to

Significant RSSH grants aligned with Global Fund strategy

strengthening their health systems. In all three countries, the investments focus on cross-cutting areas that have the potential to contribute to the long term improvement of health systems including, for example, health information management systems; quality assurance of health products and laboratory testing;

systems for procurement, distribution and management of health products; community-based service delivery or renovation of laboratories to improve quality of diagnosis.

Whilst these grants generally target the right areas, implementation remains challenging. The OIG noted recurring implementation delays in all three countries reviewed. In **Cambodia**, there have been significant delays in the delivery of key interventions and, halfway into the grant cycle, only 25% have been implemented. In **Burkina Faso**, critical RSSH activities such as the recruitment of community-based organizations or equipping community health workers with health kits have been delayed. Furthermore, the grant received a “C” rating (“unacceptable”). Likewise, in **Ethiopia**, grant activities had to be significantly revised midway through implementation; 60% of the new activities cannot be completed within the grant period, which ends in December 2017.

Significant factors contributing to the challenging implementation of the grants include the limited capacity of implementers to oversee sometimes complex RSSH arrangements; fragmented execution across multiple implementers without effective coordination mechanisms; insufficient definition of key budgeted activities; and sometimes a lack of clear performance metrics and indicators of success.

Lack of capacity to implement complex RSSH grants leads to implementation delays

02 Striking the balance between financial and programmatic assurance

OIG audits so far this year indicate noticeable improvements in the Global Fund’s processes and controls to mitigate financial and fiduciary risks. Several of the countries reviewed (**Cambodia, Guinea, Mali, Burkina Faso**) have had high fiduciary risks and financial irregularities identified in the past. However, the current audits indicate that the additional

Financial risk properly mitigated but limited programmatic assurance

safeguard measures put in place by the Secretariat have significantly mitigated those financial risks. These audits identified no significant issues related to the use of funds, irregularities or financial mismanagement. The Secretariat has rightfully focused, so far, on fiduciary risk mitigation as persistent issues in this area had the potential to erode donor confidence in

the Global Fund. Nevertheless, as strong control measures increasingly mitigate these fiduciary risks, an emerging challenge is how to strike the right balance between safeguarding funds and reducing bottlenecks in program implementation. In **Cambodia**, for example, the additional safeguards have significantly mitigated the fraud risks but, at the same time, challenges in operationalizing these controls have resulted in significant delays in the implementation of critical malaria community activities to support a malaria elimination strategy.

In most of the countries audited this year, the assurance framework has proved effective in safeguarding grant funds, but it is not yet sufficiently balanced between financial and programmatic assurance. There is still limited assurance over programmatic data and quality of services. There are multiple challenges in strengthening programmatic assurance, including gaps in systems to collect quality data (**South Africa, Cambodia and Zambia**); weak monitoring and evaluation frameworks in many countries (**Zambia, South Africa and Guinea**); and insufficient program oversight on the part of implementers (**Cambodia and Guinea**).

An audit of the adequacy and effectiveness of the **In-country assurance** model and related frameworks is currently underway; drawing on its findings, the OIG will provide more detailed analysis on the country assurance framework in its Annual Report next year.

03 Improving quality of services to achieve impact

The audits year to date have found Global Fund programs to be generally well aligned with national strategies and focused on critical interventions. As is the case in **South Africa**, the Global Fund is also exploring innovative approaches which, if successfully implemented, can contribute significantly to the reduction of infection and mortality rates and provide a

Good programmatic results despite significant operational gaps

blueprint for potential replication in other countries. There have also been generally good programmatic results in most of the countries reviewed so far this year. Antiretroviral treatment coverage has significantly increased in **Cambodia, Ethiopia, and Guinea**. Both Cambodia and Ethiopia have met the Millennium Development Goals concerning TB, with a significant decline in prevalence rates. They are also making good progress towards

malaria elimination. Likewise, **Zambia** has also made significant progress with malaria deaths decreasing by 70% over the last five years.

Whilst these programmatic achievements are significant, improvements are still needed in some key areas, such as HIV early infant diagnosis and monitoring of HIV patients on treatment. In **Ethiopia**, paediatric antiretroviral treatment remains low, with only 22% of the annual target achieved as of 2016. Similar trends were observed in **Burkina Faso** where, in the second half of 2016, 35% of infants born of HIV-positive mothers received an HIV test to verify their status, compared to a target of 70%. In **Zambia**, test results were significantly delayed for 70% of HIV-exposed infants in the health facilities reviewed. In **Guinea** 44% of infants under 12 months exposed to HIV were not screened as required by the national guidelines. These gaps arise from challenges related to the collection, processing, and transportation of blood samples as well as significant limitations in the infrastructure of laboratories.

The OIG also found gaps in patient monitoring in **Ethiopia, Zambia and Burkina Faso**. In **Ethiopia and Zambia**, tests required before starting treatment and subsequent routine monitoring have not been consistently carried out. This is due to gaps in collecting, processing, transporting samples and communicating results as well as the sub-optimal use of available viral load equipment. The 12 months lost-to-follow-up rates for **Zambia and Burkina Faso** are between 20% and 30%. The above-mentioned gaps need to be addressed to improve HIV treatment retention.

04 Monitoring grant performance

The Global Fund has continuously refined how its grants are managed and monitored. In 2015, the organization initiated *Project AIM (Accelerated Integrated Management)* to integrate several grant management-related systems into one grant management operating system. Once completed, by the end of 2017, the project is expected to enable portfolio management

by providing visibility over the full grant lifecycle; drive organizational alignment and collaboration through simplified and integrated data-related processes. The Secretariat has also revised a number of operational policies by adding additional process and control requirements. It has developed comprehensive guidelines for the grant Performance Framework to ensure alignment with program objectives and performance measurement. The Grant Revisions Policy was also updated with a number of processes clarified and additional controls and approval levels required to support the grant revision.

Control gaps in grant monitoring processes

However, a forthcoming audit of **Grant Monitoring** also highlighted several gaps in the current performance review process including a lack of clarity in policies and procedures, missing process controls around the Annual Funding Decision,

and insufficient delineation of roles and responsibility in the internal review and oversight process. Stronger oversight is also needed on grant revisions made by country teams to ensure their validity, accuracy, completeness and the right level of approval.

05 Improving procurement and supply chain management

The Global Fund has taken many steps to address supply chain management issues across the portfolio. A supply chain implementation plan has been developed. In three countries – **Nigeria, Ghana and Malawi**, a supply chain transformation project is in progress and 12 more countries have been selected for 2017. In addition, supply chain catalytic funding has been allocated to 19 other countries to improve their capacity in managing supply chain processes.

Sustainable progress in this area require long term planning, beyond the horizon of a grant funding lifecycle. It also requires strong involvement from both countries and partners. The Global Fund is moving in the right direction, but it will take time for the initiatives underway to be implemented and for the benefits to fully materialize. In the meantime, 2017 OIG audits continue to highlight significant weaknesses in supply chains.

In **Zambia**, the OIG noted gaps in quantification and forecasting processes affecting the availability of medicines. The OIG review in **Guinea** also noted similar issues where limited reliable data affects the quantification of medicines.




Strategic initiatives underway to improve supply chains, but challenges around logistics systems and traceability of drugs.

In **Cambodia and Zambia**, fragmented and outdated logistic management information system in stores and hospitals limit assurance on the management of medicines and commodities. Similar challenges in Inventory and Logistics Management Information Systems to enable effective supply planning were also noted in Guinea.

In **Ethiopia**, the OIG identified difficulties in tracing medicines due to gaps in record-keeping, the multiplicity of systems and weak inventory management practices. At the central level, 15% and 21% of sampled anti-malarial and TB medicines could not be traced. Unexplained stock differences throughout the supply chain were also revealed by the OIG audit in **Zambia**. For example, 77% of the health facilities visited had discrepancies between commodities recorded as issued by the central level and the quantities received at health facilities and lower levels.

III. High-level summary of OIG reports released or published in January-September 2017

The colored boxes show the number of objectives covered and how they were rated (cf. ratings chart at the bottom of this table). Thematic reviews, investigations, and most advisory engagements do not have ratings. Investigations closed by case closure memos are not included.

 Audit of Treasury	GF-OIG-17-001
The Global Fund has established, in a relatively short time, a well-functioning treasury function. Governance, risk management practices and internal controls are adequately designed and well implemented. However, there are moderate risks related to independent oversight over trading activities for foreign exchange management, documentation of key controls, and formalization of processes that need management attention.	
 Audit of Grant Management in High-Risk Environments	GF-OIG-17-002
The Global Fund has achieved considerable success in reducing the disease burden in some of the world's most challenging environments. However, significant improvements are needed in the design, implementation and monitoring of processes to ensure that grants achieve impact in high risk countries. The lack of an overall framework for managing grants in risky environments reduces the Global Fund's ability to prepare for emerging threats.	
Advisory of Integrity Due Diligence (IDD)	GF-OIG-17-003
This advisory review was designed to support a Secretariat project to put in place stronger IDD processes at the Global Fund. Whilst the organization has implemented many anti-corruption controls, it is still in the process of integrating these into an overall framework. IDD is fragmented with limited mechanisms to assess whether processes are consistent across the organization and that there are no duplications and/or gaps among them.	
Investigation of Grants in Cambodia	GF-OIG-17-004
Whilst actual fraudulent payments found were less than \$4,000, the investigation identified systemic donor double-billing, instances of nepotism, conflicts of interests, and inefficient controls to safeguard grant funds, at the National Center for Parasitology, Entomology and Malaria Control.	
Advisory of Fundraising	GF-OIG-17-005
The review confirmed the Global Fund's strong fundraising performance in terms of sustained pledges, growth in donor base, and level of resource mobilization in relation to resources used in fundraising. The review also identified four opportunities to strengthen fundraising capacity: adapting to a changing aid landscape with increased competition for aid; investing in people, processes and systems; harnessing strategic information to demonstrate delivery on donor expectations; and sustaining advocacy operations to be less dependent on current partners.	
 Audit of Grants in Mozambique	GF-OIG-17-006
Mozambique has made major progress in its fight against AIDS, TB and malaria. However, significant grant implementation weaknesses prevent programs from having more impact. Furthermore, controls and assurance mechanisms within the supply chain need major improvements. Increases in patient coverage are not always followed by consistent quality of service; Mozambique continues to have low retention rates of patients on treatment for HIV and multi-drug resistant TB.	

Advisory of AIM Data Migration

GF-OIG-17-007

The Secretariat's Accelerated Integration Management Project (AIM), set up in 2015, is successfully migrating Grant management data to a new and better structured platform. Business needs have been duly considered and the business users are being trained on the use of the new system. However, there is room for improvement in the migration of grant summary and performance framework data as several material errors and gaps were identified in six country portfolios.

Audit of Supply Chain Processes

GF-OIG-17-008

Despite multiple hurdles, health products financed by the Global Fund are getting through to their intended beneficiaries. The OIG highlighted four main systemic barriers to better supply chain management: ineffective country ownership and governance structures; inaccurate and unreliable data; a serious shortage of health workers; and inadequate funding.

Follow-Up Advisory on Governance

GF-OIG-17-009

Three out of the six main Board functions are considered generally effective. The 2017-22 strategy was informed by extensive consultations; the Board provides adequate financial oversight; and it oversaw a successful fifth replenishment. However, the three other functions need improvement. Clearer links between strategy implementation and a KPI framework should help the Board to assess Global Fund progress; the ability to provide effective oversight is still affected by inherent conflicts in the Board; and challenges remain in defining risk appetite and tolerance.

Audit of Risk Management Processes

GF-OIG-17-010

Risk management has improved considerably over the past decade but it still needs significant improvements. A risk management policy and framework were approved by the Board, roles and responsibilities have been clarified, the Risk Management Department is growing, and committees have been set up to oversee both enterprise and operational risks. However, current gaps include the lack of clearly articulated and operationalized risk appetite, weak accountability for risk-related decisions and compliance, a need for more structured risk analysis and for incentives to develop a strong risk culture.

Follow-up Audit of Grant-Making Processes

GF-OIG-17-011

The Secretariat has addressed many of the issues identified in a 2015 OIG audit of grant-making. Processes have been simplified and differentiated according to the country context, policies have been updated, paperwork reduced. Also, the Risk Management Department has clearly defined and formalized risk management in grant-making processes. However, despite better processes and tools, there are still challenges with the underlying systems that may negatively affect grant-making in the 2017-2019 funding cycle.

Audit of Grants in Haiti

GF-OIG-17-012








There has been significant progress in the fight against the three diseases in Haiti despite a challenging country context and limited infrastructure. The Secretariat and the Primary Recipient have designed financial assurance and implementation arrangements to ensure efficient and effective use of grant funds. There is, however, room for improvement in the way programs are assessed, in the assurance framework and in building capacity to increase grant impact.

Audit of Cloud Computing





GF-OIG-17-013

The Secretariat has generally improved IT controls since the last OIG IT audit in 2015. No significant data loss or service interruption has occurred since then. However, the lack of an overarching strategy and limited management of risks have affected the effective roll-out of cloud computing. In addition, cloud computing-related data access and accuracy need improving.

New since AFCo4

	Audit of Grants in South Africa	GF-OIG-17-014
The OIG found that Global Fund programs are well aligned to South Africa's needs and target the right areas, in innovative ways. At the same time, there a need for significant improvement in implementation, particularly in the TB programs. For example, although TB program activities began in July 2016, some grant indicators were still at a 0% achievement rate six months later. The audit also identified several changes in coverage, scope and content to programs that had neither been reviewed by the Country Coordinating Mechanism nor the Secretariat to evaluate the impact on overall program objectives.		
	Thematic Review of Fraud Reporting	GF-OIG-17-015
This review examined the way four international non-governmental organizations, (Catholic Relief Services, Population Services International, Save the Children Federation Inc. /Save the Children International, and World Vision International), report and respond to fraud. The review also makes generic recommendations to encourage a 'speak out' culture among Global Fund grant implementers to prevent and disrupt fraud.		
	Planning and Management of Consultants	GF-OIG-17-016
The Secretariat has strengthened consultant management processes at the Global Fund, particularly over the past 18 months. Consultant numbers and costs have almost halved; processes and compliance have improved. However, the OIG audit also highlighted a few areas that need attention including planning processes, analysis of resourcing options, and clearer definitions of roles and responsibilities.		
	Proactive Investigation in Malawi	GF-OIG-17-017
This OIG investigation documents work to disrupt the theft of donor-funded anti-malaria drugs from public health facilities in Malawi. The Global Fund OIG worked closely with Malawian authorities and other donor organizations, particularly USAID OIG, to investigate those responsible for the theft, to encourage the public to report wrongdoing and to support national capacity building to prevent further leakage.		
	Audit of Grants in Guinea	GF-OIG-17-018
There has been significant progress in the fight against the three diseases in Guinea despite a challenging operating environment. Nevertheless, significant improvement is still needed to address inefficiencies in supply planning and related assurance mechanisms. The Global Fund has significantly enhanced financial controls to mitigate fiduciary risks and additional measures have also been put in place to address capacity constraints.		
	Investigation in Burkina Faso	GF-OIG-17-019
An OIG investigation concluded that a local supplier deceived a Principal Recipient when it delivered 35 counterfeit and low quality motorbikes in June 2014. The bikes, valued at EUR73,366, were needed to provide community services to people with TB. The supplier, Sogedim-BTP Sarl, profited from the difference in value between the brand model it had promised in its bid proposal and those it actually delivered.		
	Audit of Grants in Cambodia	GF-OIG-17-020
The Global Fund has significantly strengthened the financial management of Global Fund grants in Cambodia since a 2013 OIG investigation found misappropriation of funds. The subsequent safeguards put in place have greatly mitigated the risk of fraud. On the other hand, slow implementation of the safeguards has delayed critical malaria activities that could affect grant objectives. The auditors also noted opportunities to improve grant implementation arrangements by, for example, reducing duplicate support and supervision functions.		

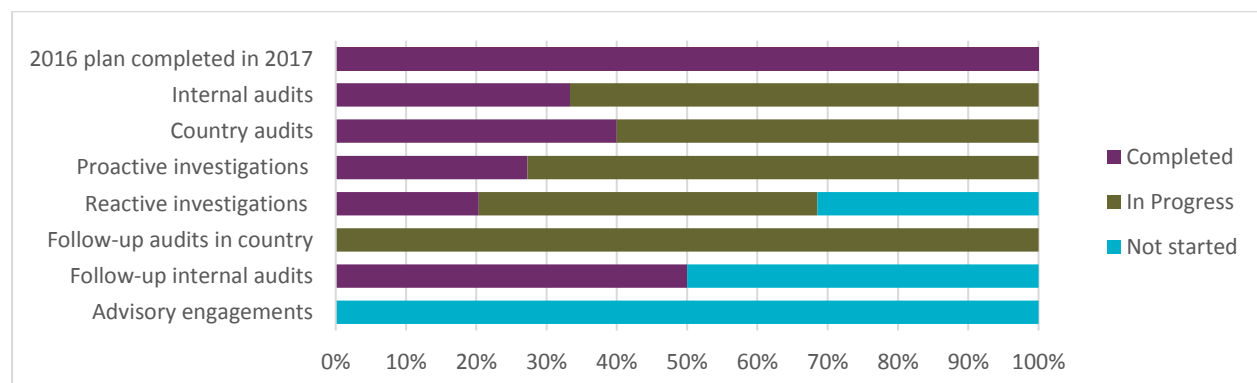
Key: OIG Ratings

	Effective: no issues or few minor issues noted
	Partially effective: moderate issues noted
	Needs significant improvement: one or some significant issues noted
	Ineffective: multiple significant and/or (a) material issue(s) noted

IV. Progress on OIG 2017 work plan

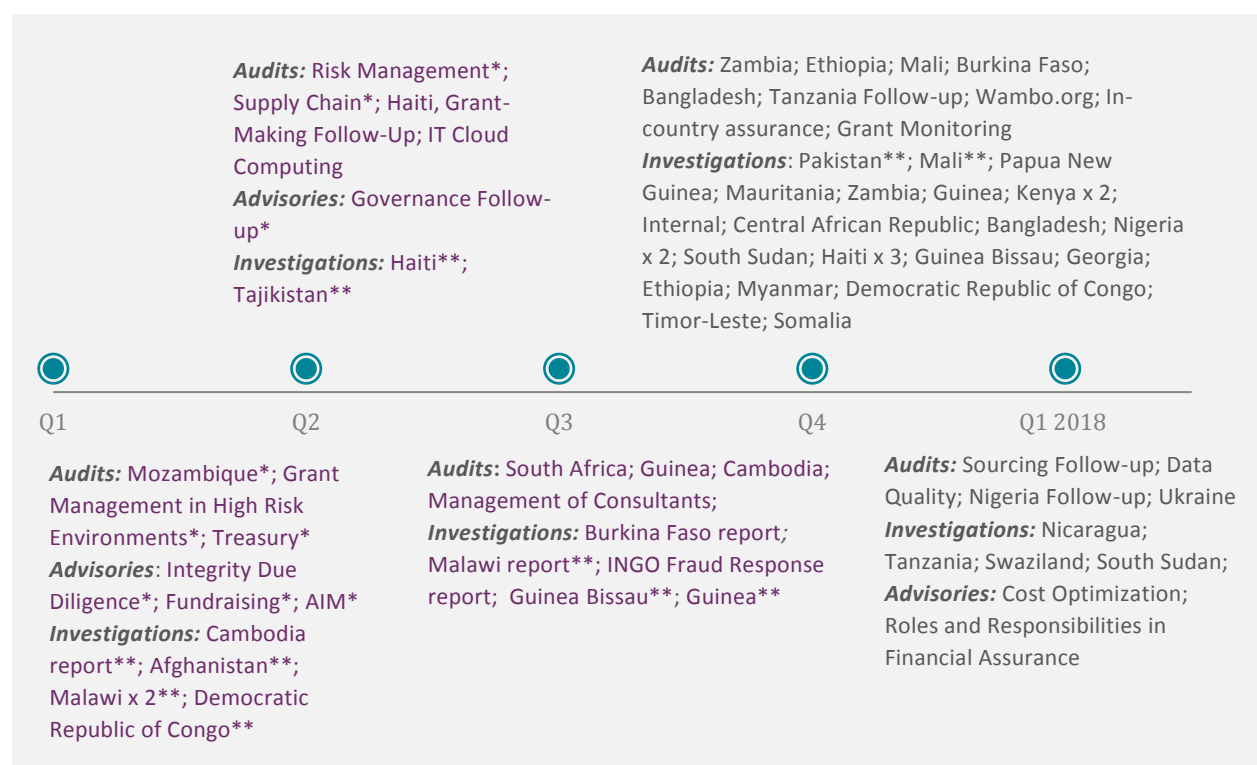
The data below show the progress against the OIG 2017 work plan.

Figure 1 Status of 2017 work plan year to date (19 September 2017)



	Advisory engagements	Follow-up internal audits	Follow-up audits in country	Reactive investigations	Proactive investigations	Country audits	Internal audits	2016 plan completed in 2017
Completed	0	1	0	11	3	4	2	10
In Progress	0	0	2	26	8	6	4	0
Not started	2	1 ¹	0	17	0	0	0	0
Totals	2 ²	2	2	54	11 ³	10	6 ⁴	10

Figure 2 Estimated release schedule for OIG engagements in 2017-2018



Key: Completed; *2016 audit work plan; **2015-2016 allegations

¹ Sourcing Follow-up Audit has been postponed to early 2018

² Two are planned for early 2018

³ Eight proactive investigations were scheduled in the 2016 work plan but there are currently 11 in the pipeline

⁴ Contract Management Internal Audit was cancelled

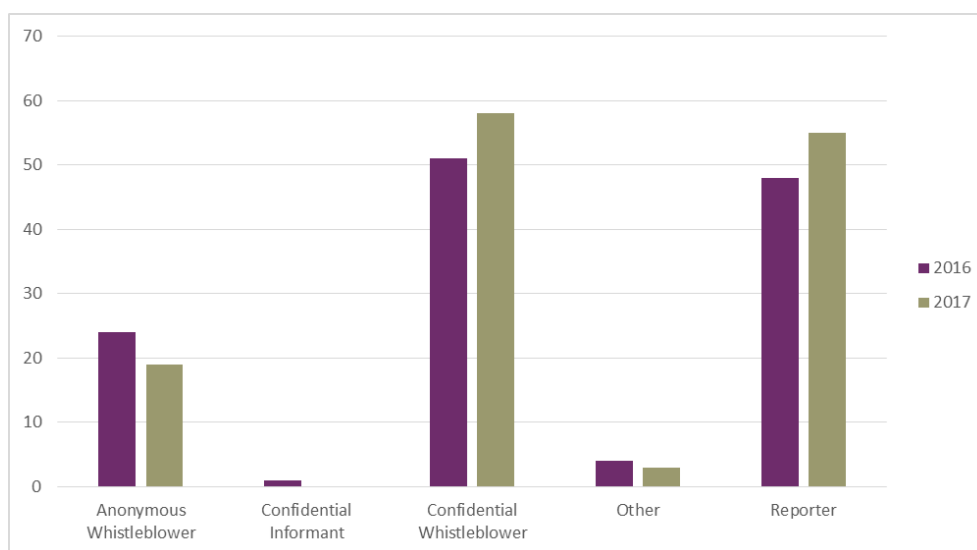
V. Other operational updates

Trends in allegations

From January to August 2017, the OIG received 135 allegations. The number of allegations received by the OIG in this period is 5% higher than in the same period in 2016 (128 allegations).

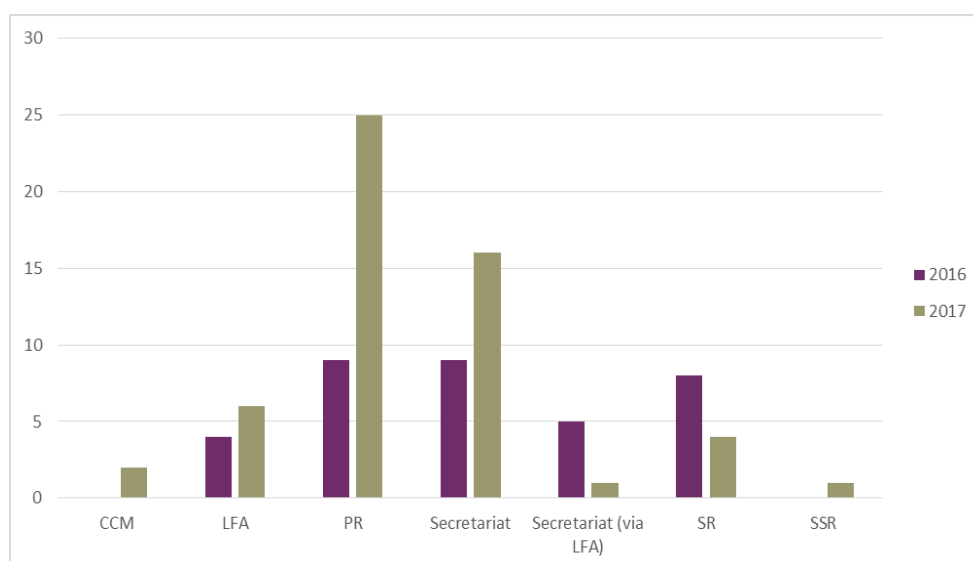
Reports from whistle-blowers have decreased by 21% compared to the same period in 2016, while reports coming to the OIG through regular business channels are increasing (15% more than in 2016). In general, ‘business reports’, typically from the Secretariat and implementers, provide more reliable and verifiable information to the OIG.

Figure 3 Anonymous whistle-blowing has decreased while ‘business reporting’ has increased year on year



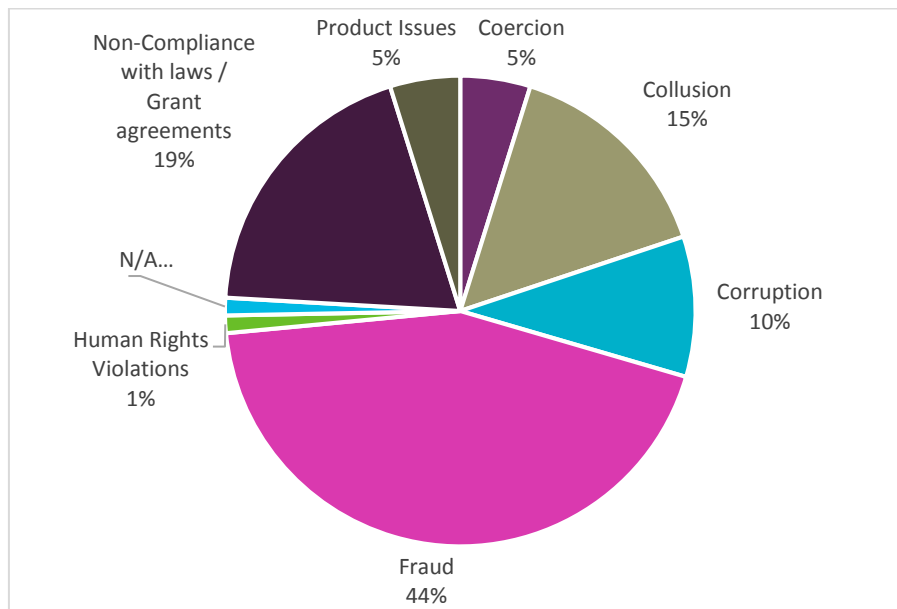
The table below shows the breakdown of ‘business reporting’ in 2016 and 2017. The largest variances can be seen in the Secretariat (+78%) and Principal Recipients (+177%). This suggests that there is greater trust that the OIG will respond proportionately, perhaps partly thanks to the “*I Speak Out Now*” outreach work over the last two years.

Figure 4 Significant increases in reporting to the OIG from the Secretariat and Principal Recipients



Fraud continues to be the most reported type of wrongdoing to the OIG. Theft, diversion or misappropriation of funds or assets are the most reported type of fraud, followed by misrepresentation of information. Often, one or more types of wrongdoing are reported to the OIG. Conflicts of interest are the most commonly reported types of collusion, while bribery is alleged in 11 out of the 16 reports of corruption this year to date.

Figure 5 Types of wrongdoing reported to the OIG in 2017 YTD



VI. Progress on the OIG's 2017 KPIs

Theme	Performance objective	Progress to date
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 6 of the Stakeholder Engagement Model for investigations)	As of 31 August, based on 2017 Work Plan reports issued to date, the Audit Unit and the Investigations Unit were respectively 50% and 33% on track with their performance objective. The investigations objective has been calculated on the basis of 45 cases (following allegations received to date) out of a predicted 62 in the 2017 work plan as of 31 st August.
	A.2 Costs managed within approved budget	At the end of July, the OIG had an underspend of 7% (US\$665 K) on its YTD Operating Expenses Budget. See Section VII for more details.
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	No self-assessment this year as there will be an external quality assurance review (See GF/AFC05/04). All six audits from the 2017 Work Plan completed so far were finalized in advance of the Stakeholder Engagement Model deadline. Thirteen investigations cases were closed by 31 August of which 3 were completed within the Stakeholder Engagement Model deadline.
	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	See GF/AFC05/04 for more details on this year's external quality assurance review.
	B.3 Annual assurance statement on governance, risk management and controls at the Global Fund	The annual assurance statement for 2016 was presented in paper GF/B37/12. The annual assurance statement for 2017 is scheduled for spring 2018 as part of the OIG's Annual Report.
C. To ensure impact in our work	C.1 Agreed actions tracked, reported on monthly and validated within 30 days of Secretariat reported "Completed" date. Reports of slippage on agreed actions are escalated.	As of 31 August, 90% of the Agreed Management Actions reported as implemented by the Secretariat in 2017 had been validated by the OIG within the 30-day limit.
	C.2 Client engagement surveys are conducted for at least 90% of audit engagements completed during the year	At 100%. 15 surveys out of the 15 audit reports issued this year have been sent.
	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.	This is scheduled for the end of the year.
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	100% of staff have had their development plans approved in the system within the deadline. 49% of staff had completed a minimum of 20 hours of formal training as of 31 August 2017.

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

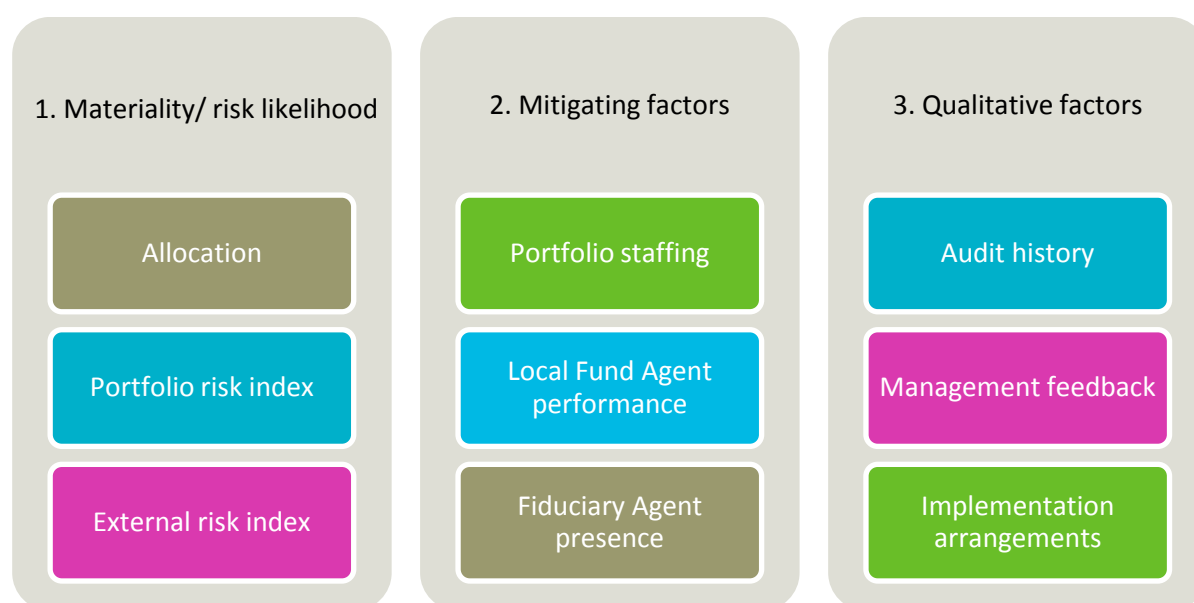
02 Country audits

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?

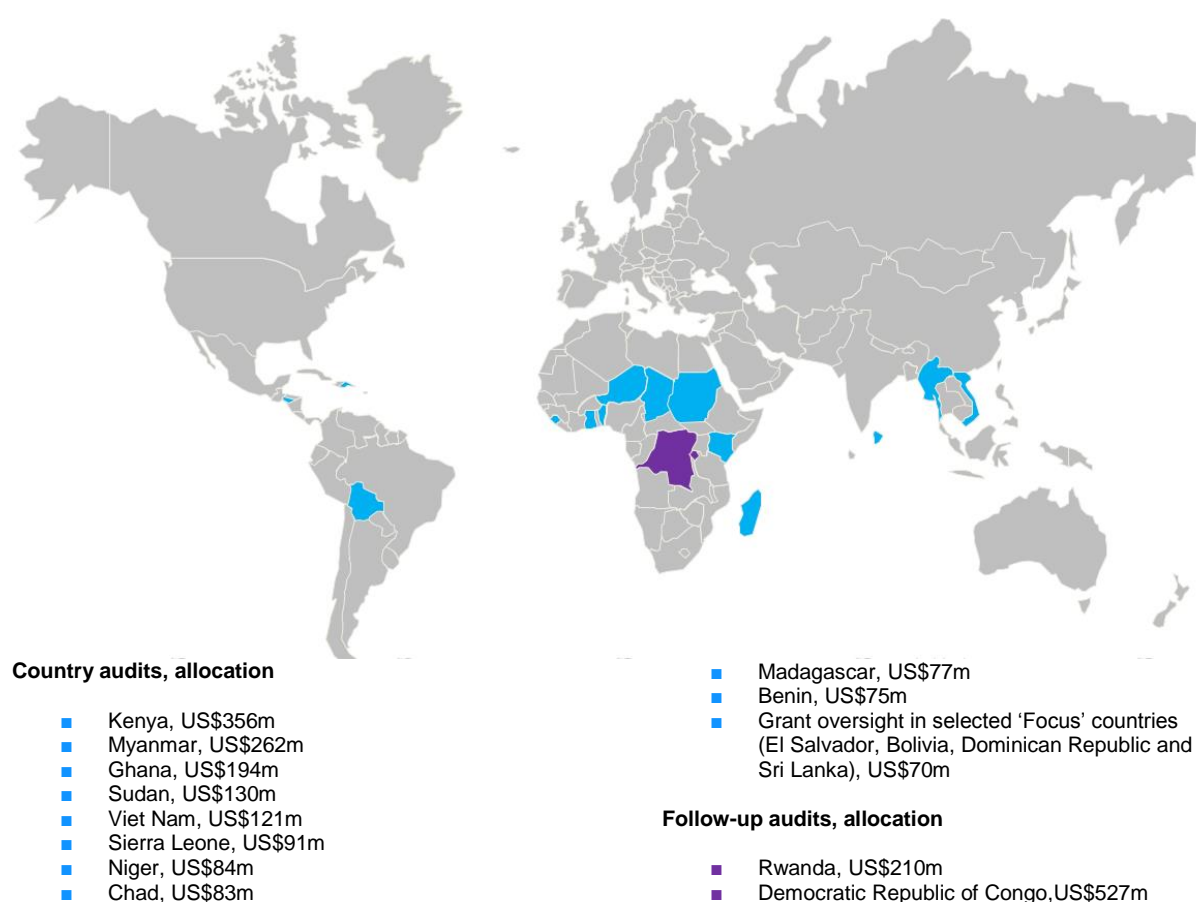
Figure 8 Risk-based methodology for choosing which countries to audit



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

C) STAKEHOLDER SATISFACTION/VALUE					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.
	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.