

39th Board Meeting

The Office of the Inspector General 2017 Annual Report

Including an Annual Opinion on Governance,
Risk Management and Internal Controls

GF/B39/08
09-10 May 2018
Skopje

For 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 in 2017. It also includes an operational update on the Office of the Inspector General's activities in 2017 as well as the main highlights of the 2018 work plan.

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:

The Office of the Inspector General

The Global Fund

Global Health Campus

Chemin du Pommier 40

1218 Grand-Saconnex

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

More information about the OIG:

www.theglobalfund.org/oig

I. Message from the Inspector General



Limitations in systemic areas such as supply chain and quality of services are rooted in fragile country systems which the Global Fund cannot address on its own.

The work of the OIG in 2017 confirms the steady progress of the Global Fund in many areas. Stronger in-country financial mechanisms are increasingly mitigating the risk of financial loss. Large cases of fraud are less prevalent, although the risk should never be underestimated. Most of this year's country audits found undeniable programmatic achievements across the three diseases. The Global Fund is also investing substantially in building resilient and sustainable systems for health in many of those countries. Internally, at the Secretariat, important initiatives are improving operations. Grant management processes, the core of the business, are improving and are now supported by a more robust and integrated technology platform. Risk management is maturing and progressively becoming an intrinsic part of core business processes. Financial management is well-embedded, with the finance function increasingly elevating its line of sight to operate as a strategic enabler. Overall, the OIG 2017 opinion is that the aggregate maturity of the Global Fund is moving closer towards an "embedded" stage.

Overall, significant progress has been made in strengthening internal structures and processes. However, the organization still faces a number of major challenges, several of which reflect limitations that are inherent to the partnership model of the Global Fund. In this annual report, we outline the main strategic themes that have emerged from our assurance work this year.

Some of the themes are consistent with years past, denoting the persistence of these issues. Weaknesses in **supply chain** continue to affect the delivery of health products and services. Several of our audits this year identified significant gaps in quantification of needs, management of drug inventories, or accountability for delivered commodities. Whilst there have been major programmatic achievements, **quality of services** remains a major challenge with continued gaps identified in areas such as early infant diagnosis and treatment of HIV; monitoring and retention of patients; tuberculosis case detection; and a lack of reliable data across the three

diseases. The persistence of these issues reflects, to some degree, the challenges inherent in the business model. Limitations in supply chain and quality of services often have systemic causes deeply rooted in fragile country health systems. Whilst these weaknesses represent binding constraints that limit the impact of Global Fund interventions, addressing them is often beyond either the mandate or the ability of the Global Fund alone. Lack of capacity in country, combined with weaknesses in implementation arrangements and funding limitations, also makes it difficult to deliver ambitious programs to build **Resilient and Sustainable Systems for Health**, as highlighted in several of this year's audits. The significant gaps in all these areas are increasingly being incorporated in the Secretariat's **risk management** framework, and the challenging trade-offs they involve are a key underpinning to the evolving risk appetite agenda. As the risk profile of the organization increasingly shifts from financial to programmatic risks, the Global Fund will also need to strike the **right balance between financial and programmatic assurance**.

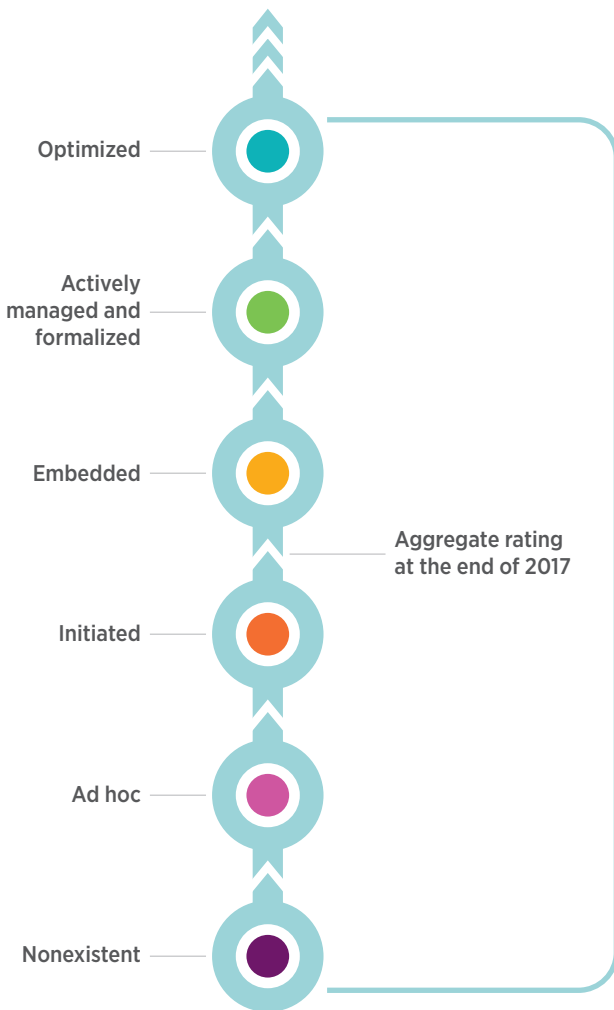
This report also summarizes the OIG's 2017 operational highlights. Aside from breaking a record with 28 reports issued this year, the high quality standards of our work were unequivocally validated. In its triannual external quality assessment, recently conducted by independent auditors against rigorous industry standards, the OIG scored the highest possible rating in every evaluation category, for both its audit and investigation functions. I am tremendously proud of and express my deepest appreciation to our dedicated staff who, often under difficult or adverse circumstances, but always with the highest standards of professionalism and integrity, strive every day to serve the mission of the Global Fund and to maximize its impact.

Mouhamadou Diagne
Inspector General

II. The year at a glance: The Global Fund

The Global Fund continues to move up the OIG maturity scale finishing 2017 between the “initiated” and “embedded” stages (see Maturity Rating definitions in Annex 1). Significant progress made in many of the internal processes have moved the organization closer towards an “embedded” stage of maturity. The Secretariat is defining and progressively integrating internal controls, governance and risk management processes into everyday management practice. However, whilst these improvements have definitely moved the organization up the scale, there are still gaps in the active management of some key processes that are not consistently performed or reliably monitored. This is an aggregate rating following the OIG’s evaluation of six key areas at the Secretariat (as noted below) which all scored between “initiated” and “embedded”.

FIGURE 1 GLOBAL FUND MOVING UP THE ORGANIZATIONAL MATURITY RATING



Significant strategic themes

- ▶ 1 Improving service quality
- ▶ 2 Strengthening supply chain management
- ▶ 3 Embedding risk mitigation and advancing risk appetite
- ▶ 4 Implementing Resilient and Sustainable Systems for Health
- ▶ 5 Finding the right balance between financial and programmatic assurance
- ▶ 6 Developing Secretariat internal processes

- ◀ Strategy, Partnership and Fundraising: **Embedded**
- ◀ Grant Management: **Initiated**
- ◀ Finance: **Embedded**
- ◀ Risk Management: **Initiated**
- ◀ Corporate enablers (HR, IT, Legal): **Initiated**
- ◀ Governance: **Initiated**

More information on these six key areas in IV 06 Developing Secretariat internal processes

III. The year at a glance: The OIG

The OIG continues to strengthen its productivity, efficiency and impact. In 2017, the office produced more than in previous years with a record number of 28 reports issued (see Section VIII for summaries). In terms of efficiency, the average number of weeks to finish an engagement went down from 26 weeks in 2016 to 25 weeks in 2017 for audits and from 51 weeks to 38 weeks for investigations. One way to measure the OIG's impact in 2017 is through its annual stakeholder satisfaction survey in which it achieved an overall 89% satisfaction rate from Board and AFC committee members.

OIG facts and figures 2017 versus 2016

- ▶ **28** reports issued in 2017 vs 26 in 2016

- ▶ **207** allegations in 2017 vs 180 in 2016

- ▶ **83** Agreed Management Actions created in 2017 vs 95 in 2016

- ▶ **28** investigation cases closed in 2017 vs 59 in 2016

- ▶ **17** audit engagements in 2017 vs 19 in 2016

- ▶ **47** members of staff end of in 2017 vs 49 end of 2016

- ▶ **25** weeks for audits in 2017 vs 26 weeks in 2016

- ▶ **38** weeks for investigations in 2017 vs 51 weeks in 2016

OIG operational highlights

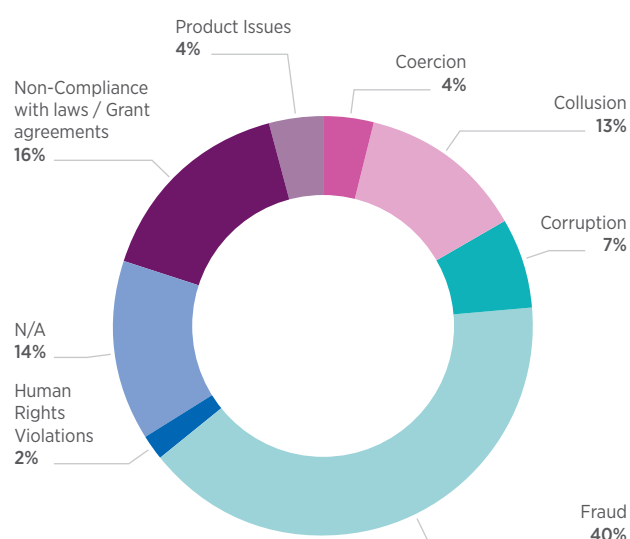
- ▶ **1** Progress on 2017 work plan and KPIs

- ▶ **2** Budget and headcount in 2017

- ▶ **3** Quality assurance and stakeholder feedback

- ▶ **4** Developing outreach and building partnerships

FIGURE 2 BREAKDOWN OF ALLEGATIONS RECEIVED IN 2017 PER WRONGDOING CATEGORY



IV. Significant strategic themes

01 Improving service quality

Global Fund investment in health programs has grown steadily. As of end December 2016, the Global Fund had disbursed US\$32.6 billion to support programs for HIV, TB and malaria, achieving impressive results:



22
MILLION

LIVES SAVED



1/3
FEWER DEATHS

FROM HIV, TB AND MALARIA
SINCE 2002, IN COUNTRIES WHERE
THE GLOBAL FUND INVESTS



11
MILLION

PEOPLE ON ANTIRETROVIRAL
THERAPY FOR HIV - MORE THAN
HALF THE GLOBAL TOTAL



17.4
MILLION

PEOPLE WHO RECEIVED
TB TREATMENT



795
MILLION

MOSQUITO NETS DISTRIBUTED
THROUGH PROGRAMS
FOR MALARIA

At the end of 2016, donors pledged over US\$12.9 billion for the next three years, demonstrating strong commitment to global health and the Global Fund's mission to end the epidemics of HIV, TB and malaria. At the end of October 2017, 88% of the country allocations for this new funding cycle had been approved for grant-making and over 200 grants were submitted for Board approval in 2017.

OIG audits this year have found Global Fund programs to be generally well aligned with national strategies and focused on critical interventions. In some cases, such as **South Africa**, the Global Fund is also exploring innovative approaches which, if successfully implemented, can contribute greatly to the reduction of infection and mortality rates and provide a blueprint for potential replication in other countries. There have also been generally good programmatic results in most of the countries reviewed this year. Antiretroviral treatment coverage has significantly increased in **Cambodia, Ethiopia, Tanzania** and **Guinea**. Both **Cambodia** and **Ethiopia** have met the Millennium Development Goals concerning TB, with a major decline in prevalence rates. They are also making good progress towards malaria elimination. Likewise, **Zambia** has made good progress with malaria deaths decreasing by 70% over the last five years.

Community-based activities have played a key role in the successful implementation of grant activities in several countries. In **Burkina Faso**, 263 community health organizations and over 17,000 community health workers have been key to achieving grant objectives.

Interventions aligned
with national strategies,
with strong involvement
from civil society.

In addition, in most of the countries reviewed this year, civil society is effectively involved in grant implementation and the fight against the three diseases in general. In **South Africa**, a strong civil society voice was instrumental in turning around the national government's initial stance on HIV and in championing the adoption and significant expansion of antiretroviral therapy. Civil society has also advocated effectively for increased government funding for the national response to HIV and TB. The government of South Africa is today the largest investor in the country's national response to these diseases, providing 78% of the funding for HIV and 91% for TB.

Likewise, in Ukraine, civil society organizations have successfully advocated for significant reductions in drug prices from manufacturers as well as an increase in government commitment for HIV and TB funding.

Notwithstanding these important programmatic achievements overall, this year's audits also identified major challenges that still exist in key aspects of grant services. Progress remains uneven for HIV early infant diagnosis and for monitoring of people living with HIV on treatment. Early infant diagnosis is designed to test infants from four to six weeks to treat those who are HIV positive while giving access to prevention to those who test negative. In **Ethiopia**, the achievement of the paediatric antiretroviral treatment targets remains low, with only 22% of the annual target achieved as of 2016. A similar situation was also noted in **Burkina Faso** where, in the second half of 2016, only 35% of infants born of HIV-positive mothers received an HIV test, compared to a target of 70%. In **Zambia**, 70% of HIV-exposed infants in the 30 health facilities visited by the OIG did not receive their HIV test results before they were eight weeks old. In **Guinea**, 44% of infants under 12 months exposed to HIV were not screened. This was primarily caused by delays in the collection, processing, transportation of blood samples, and communication of results from the laboratories.

The auditors also found gaps in patient monitoring in several of the countries reviewed this year. In **Ethiopia** and **Zambia**, tests required prior to starting treatment and subsequent routine monitoring have not been consistently carried out. This is also due to gaps in the collection, processing, transportation and communication of results as well as the sub-optimal use of available viral load equipment. Rates of patients lost-to-follow-up 12 months after starting treatment are between 20% and 30% for **Zambia** and **Burkina Faso**. In **Guinea**, the OIG also noted limited coordination and gaps in monitoring of patients on antiretroviral therapy. In **Tanzania**, the auditors identified significant areas of improvements to address quality of service issues and access to care. The relatively high attrition rate of people on antiretroviral therapy identified in a 2015 OIG audit of Tanzania remains a persistent issue and the proportion of patients on second line HIV drugs is below what is expected.

OIG audits this year also highlight an increasing need to prioritize TB interventions in various countries. In many of the countries, reliable prevalence data is missing, case notification is low, and there are gaps in TB infection controls as well as persistent challenges regarding multidrug-resistant tuberculosis (MDR-TB). In **South Africa**, the national TB prevalence survey was delayed, affecting the identification and prioritization of hotspots for delivery of TB and MDR-TB interventions. The availability and quality of TB and MDR-TB services and the delivery of quality services to beneficiaries may also be affected by gaps in the implementation of program interventions. In **Burkina Faso**, the case detection rate for TB is currently 31/100,000 people, falling short of an estimated incidence of 51/100,000 people. In **Zambia**, a lack of infection control measures creates an environment conducive to the spread

of TB in health facilities. Also, 62% and 45% of the patient cohorts initiated on MDR-TB treatment in 2015 and 2016, respectively, either died or were lost to follow up.

Our audit reports have often highlighted, where applicable, the weaknesses in the design or implementation arrangements of Global Fund country grants that contribute to these issues. However, it is equally important to acknowledge that the persistence of issues related to quality of services also reflects to a large extent the challenges inherent in both an operating model that is highly contingent on the effectiveness of a broader partnership and the often weak environment in which grants are implemented. As a result, many of the quality of service issues have root causes far beyond the control of the Global Fund alone. For example, adopting new standards to put people with HIV on treatment has sometimes resulted in rapid and massive scale-ups that, if not well planned and coordinated amongst all partners, can put additional strain on quality of services. Likewise, a key driver behind poor quality of services is often the limited human resources for health (both in terms of quantity and quality) or material weaknesses in the country systems for logistics and health management. These often result from significant funding gaps that are well beyond the limited resources that the Global Fund can commit to.

Whilst these inherent weaknesses represent binding constraints with a direct and material impact on the effectiveness and long-term impact of our programs, and as such they cannot be ignored, addressing these constraints is well beyond the mandate and the ability of the Global Fund alone. Thus, there is often an asymmetry between the high level of accountability for impact that the Global Fund is generally held to and the sometimes low level of control that the organization has on many of the factors that drive such impact. Until there is a real partnership approach to addressing these issues, with clear accountability for both the Global Fund, the partners and the governments, quality of service is likely to remain a persistent gap.

Many quality of service issues have root causes beyond the control of the Global Fund.

02 Strengthening supply chain management

Supply chain activities are crucial to the Global Fund both strategically and operationally. At the strategic level, procurement and supply chain success is a core component of ‘Building resilient and sustainable systems for health’, one of the four main objectives of the Global Fund 2017-2022 Strategy. At the operational level, health commodities account for approximately 40% of grant expenditures. This percentage is even significantly higher for some of the more commoditized grants. This trend is expected to continue in the new allocation cycle. The Global Fund has set ambitious operational objectives on market shaping and transparency as well as strategic procurement practices through pooled procurement and use of the new online procurement platform, wambo.org.

Individual OIG country audits in 2017 highlighted recurring weaknesses in supply chain that confirm some of the findings from a cross-cutting 2016 OIG review. The review found 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.

More synergies needed between supply chain teams and country teams.

Since then, the Global Fund has taken many steps to address supply chain management issues across the portfolio. The Secretariat established a dedicated supply chain team in 2017. A detailed implementation plan has been developed to support the roll-out of a comprehensive supply chain strategy. The strategy takes a more comprehensive, end-to-end approach including both upstream and downstream processes: forecasting, logistics, capacity building, data, investments, key performance indicators, risk management, and assurance.

However, actual progress on implementation remains limited at the time of writing. Twenty countries have been selected for holistic supply chain diagnostics by the end of 2018 but only three have been completed to date. Actual transformation work has not yet begun. Qualitatively, whilst the establishment of a dedicated team has allowed the Secretariat to take a more strategic approach in line with the cross-cutting nature of supply chain issues, there are limited synergies between the supply chain team and individual grant management country teams. As these teams manage the country portfolios, own the relationships with key country stakeholders and have the best understanding of the individual country contexts, they would eventually have to drive any successful transformation efforts at the country level. Hence there is a need for substantive engagement and buy-in from the country teams. The OIG views this lack of connectivity as a significant risk that could jeopardize the actual implementation of an otherwise ambitious and innovative approach for improving supply chain management at the Global Fund. The Secretariat has recognized this risk and recent leadership changes of the supply chain initiative are expected to help mitigate it going forward. Other aspects of the strategy remain at a nascent stage, including forecasting, capacity building pilots, assessment of investments, key performance indicators or assurance processes.

The Global Fund is moving in the right direction and tackling the right challenges but, given the complexity of these various areas, sufficient time will be needed to design and implement the appropriate responses. Even more time is needed before a tangible impact can be expected.

In the meantime, OIG country audits in 2017 continued to identify persistent gaps in supply chain. In **Zambia** and **Guinea**, the OIG noted gaps in quantification and forecasting processes affecting the availability of medicines. In **Cambodia** and **Zambia**, fragmented and outdated logistics management information systems in stores and hospitals impede the effective management and monitoring of medicines and commodities. Similar challenges in Inventory and Logistics Management Information Systems were also noted in **Guinea** and **Mali**.

In **Ethiopia**, the OIG identified difficulties in tracing significant amounts of medicines due to gaps in record-keeping, the multiplicity of systems and weak inventory management practices. At the central level, the OIG could not trace 15% and 21%, respectively, of sampled anti-malarial and TB medicines. Unexplained stock differences throughout the supply chain were also identified 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.

In **Tanzania**, an OIG follow-up review noted that Global Fund programs are still facing risks of low program efficiency due to expired antiretroviral and pediatric TB drugs. Expiries of antiretrovirals in 2016/2017 valued at US\$9 million were reported, of which 75% were procured through Global Fund grants.

Supply chain issues also remain a focus area for OIG investigations, as a significant concern remains the theft of Global Fund-financed commodities from public health supply chains for resale in private markets. In **Malawi**, the OIG worked in cooperation with local law enforcement agencies and donor partners to try and address the leakage of anti-malaria drugs from the public health system. It is likely that the frequent stock-outs of donor-funded free anti-malarial drugs at health clinics throughout the country create a market demand for medicines available to buy privately. In **Zambia**, OIG investigators have identified material theft of HIV test kits, anti-malarial and antiretroviral medicines amounting to over US\$1 million. Evidence suggests that these products were stolen over a two-year period from 2014-2016. A criminal investigation by the local authorities is currently ongoing and an OIG report is forthcoming.

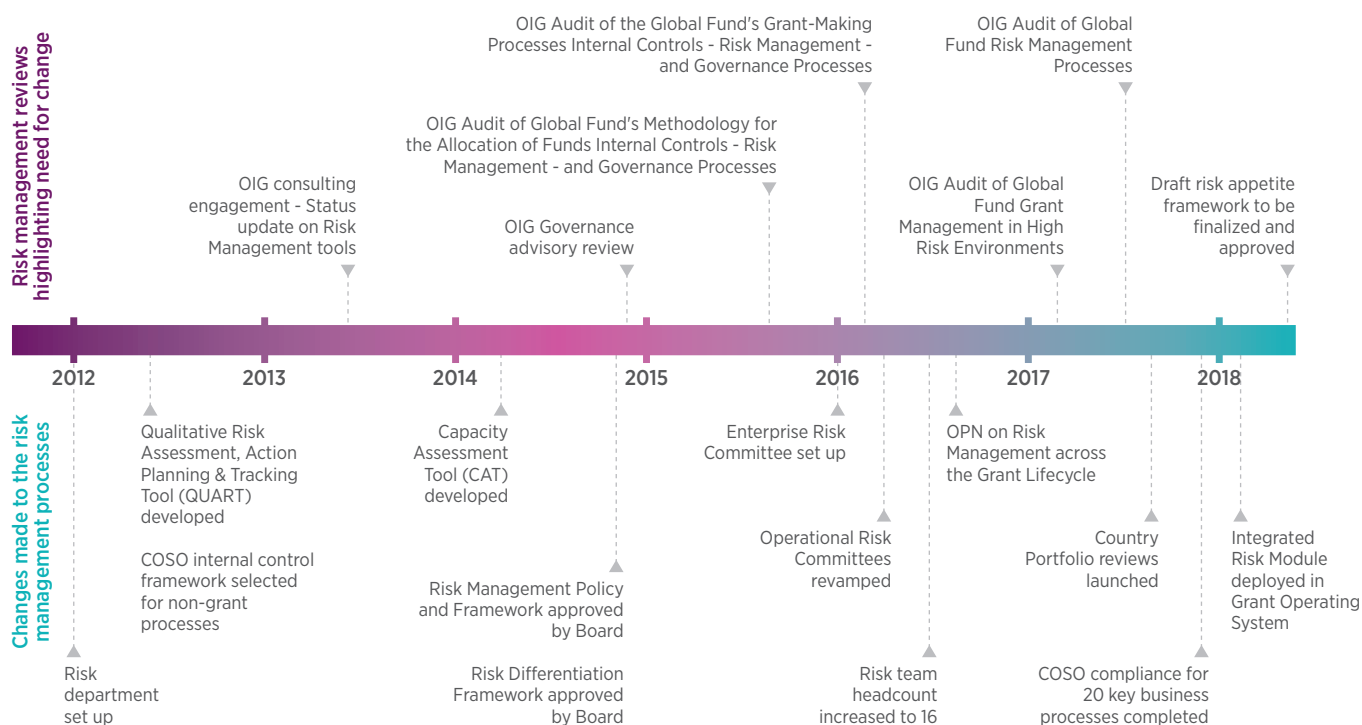
Challenges around logistics systems, drugs traceability and expiries.

Despite these continued challenges, the OIG also noted major progress in other countries. In **Nigeria**, the most critical country portfolio, a recent follow-up review noted improvements in both storage, inventory management and accountability for medicines at the central and zonal warehouses managed by a new service provider. All medicines and health products received from the Global Fund pooled procurement mechanism can now be reconciled and traced in the central level warehouse inventory management system.

At the Secretariat level, the online purchasing platform **wambo.org** increased the transparency of the ordering process of the Pooled Procurement Mechanism, including the aggregation of country orders and negotiation of the best conditions for countries. The platform has also received high client satisfaction rates.

03 Embedding risk mitigation and advancing risk appetite

FIGURE 4 RISK MANAGEMENT PROCESSES STRENGTHENED SINCE 2012



The [OIG Annual Report \(GF/B37/12\)](#), published in May 2017, coincided with the completion of our audit on **Risk Management Processes** and included an extensive update on both achievements and remaining gaps. Since then, the Global Fund's risk management landscape has continued to improve.

The risk infrastructure has been considerably strengthened in terms of people, processes and tools. The Risk Department has seen its headcount quadrupled from four when it was established in 2012 to 16 staff currently, with a majority of the recruitments completed in the past two years. Good progress is being made towards embedding risk management into core grant decision-making processes. The risk team is now substantively involved in the upstream grant-making process, bringing a useful risk perspective in the evaluation of the proposed grants prior to approval. During 2017, the team reviewed 72 of the 105 grant applications that went through the first two approval windows. Likewise, the Annual Funding Decision process now includes a risk clearance step before a disbursement can go through. Over 250 annual funding decisions were reviewed during 2017.

The Secretariat has significantly enhanced, both in form and in substance, the Organizational Risk Register, which is the main tracking tool for the key strategic and operational risks facing the Global Fund. The format has been improved from a mostly generic Excel spreadsheet in the past to a more robust register with details for each significant risk area. From a substantive standpoint, there is increased focus on clearly identifying root causes, controls and assurances; progress on mitigating actions; and timelines for mitigation. The revised register also identifies more explicitly the key countries that drive the majority of the portfolio-related risks, thus allowing for a more focused response. These enhancements represent meaningful steps towards a better understanding of, and therefore a more tailored response to, risk exposures. However, there is still significant room for additional improvements including a more rigorous assessment of the direction of travel for key risks; adequate metrics for risk impact or levels of residual risk, where applicable; and clear ownership and accountability for risk mitigation actions.

Efforts are already under way to make improvements in these various areas. If sustained and with effective execution, the existing gaps are likely to be remediated in the near future.

As of February 2018, the Integrated Risk Management (IRM) module has been successfully deployed in the main system that will manage Global Fund grants. A phased approach focusing on selected country teams is being run and full deployment to all country teams is expected in the first quarter of this year. The deployment of the IRM will address long outstanding and overdue Agreed Management Actions following past OIG audits that consistently identified the fragmentation of risk tools as a key weakness. If implemented effectively and used well, aside from reducing fragmentation, IRM should also significantly facilitate the follow-up and tracking of identified risks throughout the lifecycle of each grant. Whilst this initial roll-out only addresses the convergence of the grant risks assessment and the implementer capacity assessment, the Secretariat expects further integration in the future with other processes and functionalities related to annual funding decisions, grant-making, and progress updates.

General consensus on the need to define 'risk appetite.'

Another significant gap identified in the past by the OIG in individual country audits, cross-cutting reviews of grant management, and risk management processes, is the lack of clearly defined risk appetites. As noted in our prior year annual report, in the absence of formal Board guidance and relatively clear risk parameters, the Global Fund operates largely under implicit assumptions of risk appetite that differ significantly amongst the key stakeholders. As a result, there has often been ambiguity in decisions to accept or to mitigate risks; inconsistency in risk responses across different teams and individuals; limited dialogue around risk trade-offs; reactive reporting on risk events by the Secretariat; and friction at the Board level when risks did materialize. Significant progress has been made this year towards addressing this material deficiency in the organization's risk framework. Whilst the notion of setting explicit "risk appetite" had little traction in the past, and was seen at best as irrelevant, there is now a general consensus at both Board and Secretariat levels not just on the concept but also increasingly on its necessity. Hence, there seems to be genuine support for the initiative underway to define organizational risk appetites. The Chief Risk Officer has now developed a high-level framework and some operating principles that

were presented to the Board committees in late 2017. The Risk Department has also worked with country teams to establish preliminary risk levels for eight grant-facing risks and the foreign exchange risk. The approach is being refined and consultations are underway with a target to have a decision on risk appetites approved by the Board at its May 2018 meeting.

These represent meaningful milestones towards building a robust risk management framework at the Global Fund, embedding risk processes in both strategy formulation and day-to-day operational decision-making, and proactively managing risks on an ongoing basis. Whilst this destination may still be one or two years and several improvements away, the Global Fund is already well on its way on that journey. Defining the high-level risk appetite statements, agreeing the operating principles and securing explicit Board and stakeholder buy-in are solid first steps.

Yet, continuous progress will also require realistic and candid expectations. It is important for the organization not to swing the pendulum too far from one extreme, when the concept was seen almost as an anathema, to another extreme, when the formulation of risk appetite statements would be perceived as a panacea. Risk appetite is just one tool (albeit a critical one), in a broader risk toolset that encompasses robust processes for risk identification and assessment, measurement and analysis, robust governance, internal controls, all underpinned by sound and shared risk culture across all layers of the organization. A mature risk framework will require a *cascading mechanism* that translates these high-level statements into actual operational guidance that can assist Fund Portfolio Managers and other line managers as they make the day-to-day business decisions that eventually aggregate into an overall risk profile for the organization. Unless such cascading and operationalization effectively occur, as is already planned by the Risk Department, risk appetite would remain largely an academic concept rather than an operational tool.

Measuring risk both quantitatively and qualitatively.

Likewise, effectiveness of the risk appetite framework will hinge on the extent to which **well-tailored metrics** are developed to gauge both risk levels and risk targets. The Global Fund faces important challenges in that area. Given the unique nature of the business, traditional risk metrics commonly used in mature industries such as financial institutions may have little to no relevance in our context. There could also be a risk that an over-engineered and excessively structured approach to risk appetite calibration may quickly prove inefficient, ineffective, and generate backlash at the operational level. Yet, even with these caveats, it is important to recognize that risks that cannot be reasonably measured cannot be effectively managed. Not every significant risk will lend itself to quantitative metrics and, in some cases, qualitative indicators will be more appropriate. The key will be in the development of appropriately tailored metrics and indicators, leveraging strong **risk analytics** and **reliable data**, in order to provide the Board, executive management and operational business units with a relatively objective measure of the level of exposures in each relevant risk dimension.

IRM should help track risks throughout a grant's lifecycle.

Another gauge of maturity will also be the extent to which the organization is able to establish an effective **linkage** between key risk indicators, once these are developed, to key performance indicators such that risk management activities increasingly focus on those key risks that are most likely to cause major variances in the organization's key performance targets. Such linkages will be an important driver in the maturation of the Global Fund's **risk culture**, as the reward and incentive mechanisms progressively evolve towards an environment in which assessment of performance - at the levels of both the business unit and the individual managers- increasingly reflects the extent to which risks are effectively managed in the pursuit of operational delivery targets.

Whilst all of the above elements are necessary to building a strong and mature risk management, they are incremental steps -not weaknesses- in the Global Fund's journey towards building a comprehensive framework of risk. This journey is evolving and much progress has already been made in a short period of time as shown in Figure 4 above. If the current momentum is kept, the Global Fund is well positioned to overcome the remaining challenges and to reach the destination of a mature risk organization in due course.

04 Implementing Resilient and Sustainable Systems for Health

Resilient and Sustainable Systems for Health (RSSH) are crucial to achieving the Global Fund's strategic goal of ending the three epidemics. Well-functioning and responsive health and community systems facilitate people's access to effective and efficient health services in general, including prevention and treatment services for HIV, TB and malaria.

Significant investments were made in health systems strengthening over the previous allocation period (2014-2016):

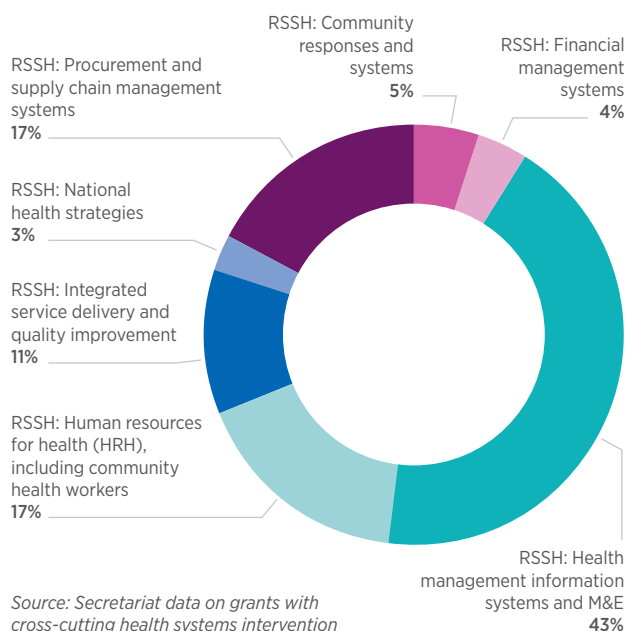
- ▶ almost US\$800 million to support key integrated services targeting women, children and adolescents;
- ▶ over US\$1.5 billion in human resources; and
- ▶ almost US\$600 million budgeted to support the extensive scale-up of integrated health information system platforms in more than 40 countries.

RSSH remains one of the four core objectives in the *Global Fund's 2017-2022 Strategy: Investing to End Epidemics*. Under this strategic framework, whilst the split of investments has shifted from the previous allocation cycles, RSSH is targeted at key priorities that include:

- ▶ community responses and systems;
- ▶ reproductive, maternal, newborn, child and adolescent health and platforms for integrated service delivery;
- ▶ procurement and supply chain systems;
- ▶ human resources for health;
- ▶ data systems for health and countries' capacities for analysis and use;
- ▶ robust national health strategies and disease-specific strategic plans; and
- ▶ financial management and oversight.

Approximately one-third of Global Fund investments go toward improving systems for health.

FIGURE 3 BREAKDOWN OF GLOBAL FUND SPENDING IN 2017-2019 FOR HEALTH SYSTEM STRENGTHENING



Source: Secretariat data on grants with cross-cutting health systems intervention in the 2017-2019 funding cycle

Several of the countries reviewed by OIG this year (**Ethiopia, Burkina, Cambodia**) have grants dedicated to strengthening 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. These include, 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. Global Fund investments in Ethiopia's Health Extension Workers' Program, which uses trained non-medical staff to provide primary health care in areas where access is limited, have significantly increased the availability of health services at the community level, including for HIV, TB and malaria.

However, whilst these grants generally target the right areas and are aligned with the Global Fund Strategy, implementation remains challenging as noted in each of the countries reviewed. In **Cambodia**, there have been significant delays in the implementation of key RSSH interventions, including those related to pharmaceutical and health product management; health management information systems; as well as the integration of HIV, TB and malaria services within existing primary health care packages. As a result of these delays, halfway into the grant cycle, only 25% of grant amounts had been absorbed to implement the budgeted RSSH interventions. In **Burkina Faso**, critical activities were also significantly delayed, including recruiting community-based organizations or equipping health workers with health kits. The grant supporting these activities received a “C” rating (“unacceptable”) in December 2016. Likewise, in **Ethiopia**, health systems related activities in the grant had to be significantly revised midway through implementation; 60% of the new activities could not be completed within the grant period, which ended in December 2017. On the other hand, when RSSH activities are embedded into the normal disease grants, absorption has generally been better. The Secretariat reports an average absorption of approximately 80% for RSSH activities embedded in the regular new funding model grants.

Several factors, some of which are beyond the control of the Global Fund, contribute to the challenging implementation of RSSH grants. They include: significant gaps in the capacity of implementers to oversee sometimes complex RSSH arrangements; fragmented execution across multiple implementers without effective coordination mechanisms; insufficient definition of key budgeted activities, potentially resulting in disbursement delays; and a lack of clear performance metrics and indicators of success to effectively gauge both progress and assess the real impact of the investments. In **Burkina Faso**, the grant has several implementers with funds distributed to ten different types of actors. In both **Ethiopia** and **Cambodia**, the RSSH grants also have a large number of activities spread across various implementers. The units at the Ministry of Health in charge of grant coordination have limited ability to provide the requisite oversight and direction for such complex grant arrangements.

Lack of capacity to implement complex RSSH grants can lead to implementation delays.

To a large extent, the limitations identified above reflect the limits that are inherent in the Global Fund partnership model. On the one hand, Global Fund investments attempt to fill gaps that significantly limit the prevention and the treatment of the three diseases. At the same time, both the nature and the magnitude of these gaps are such that the Global Fund has neither the primary mandate nor the resources to tackle them alone. Success in overcoming these challenges requires not only well designed and effectively implemented programs on the part of the Global Fund, but also a strong level of both political will and financial commitment from host countries that own the underlying systems for health. It also requires effective coordination across a large number of partners who play key roles in the overall health ecosystem of the countries. Because the Global Fund has limited control on these critical variables of the equation, the RSSH grants will likely yield limited improvements in the absence of a broader strategy underpinned by collective ownership and joint accountability of all stakeholders and partners, including the countries themselves.

Given these implementation challenges, the OIG, as part of its 2018 plan, will fully review Global Fund-financed RSSH activities, including risk management, oversight arrangements, monitoring, performance indicators and results measurement.

05 Finding the right balance between financial and programmatic assurance

The Global Fund's business model does not involve in-country presence in the form of field offices. The model relies on internal and external assurance providers to give assurance that key risks in the grant programs are effectively managed. At the operational level, the assurance arrangements support critical business decisions, such as grant disbursements. At a more strategic level, assurance provides the Global Fund Board and senior management with the comfort that program objectives are being met and controls in place are effective in managing risks to an acceptable level.

The Secretariat has implemented several initiatives that are improving the organization's assurance maturity. These include the Risk and Assurance pilot, which resulted in the introduction of risk matrices to identify key risks and inform the assurance activities. Likewise, the Differentiation for Impact initiative (known as D4I) sought to tailor the Global Fund's processes to the characteristics of a country portfolio and to adapt the assurance activities to country-specific risks.

Continuous enhancement of financial controls in Global Fund programs over the years has significantly contributed to a decrease in large cases of fraud and unsupported transactions. In response to financial risks, the Global Fund has used a variety of control mechanisms to reduce its exposure, including Fiscal Agents, zero—cash policies, additional safeguard policies, in addition to increased transactional verifications by the Local Fund Agents, where warranted. The Secretariat has put in place Fiscal Agents in 23 countries at an estimated cost of US\$10 million a year. This cost is in addition to Local Fund Agents (annual cost of US\$14 million for the same 23 countries and US\$48 million in aggregate for the entire portfolio) and External Auditors (estimated cost of US\$3 million).

Strong financial assurance mechanisms reduce the risk of fraud...

These various oversight mechanisms have paid off in terms of the mitigation of financial risks in the countries reviewed by OIG this year. In **Cambodia** the combination of a Fiscal Agent to provide assurance over government implementers and an electronic payment mechanism to limit cash payments has reduced ineligible and unsupported transactions. This is equally true for three other countries reviewed by OIG this year, namely **Guinea, Mali** and **Burkina Faso**, where high fiduciary risks and financial irregularities have been identified in the past. Additional safeguard measures put in place in these countries have significantly improved the financial controls.

...but operationalizing the financial controls sometimes presents challenges to the program implementation.

The Global Fund's heavy focus in the past few years on mitigating financial risks was rightfully grounded in the recognition that, for a partnership that relies exclusively on public and private contributions, prudent safeguarding of those contributions and maintenance of donor confidence are an existential imperative. Yet, while the financial mitigations measures have been effective in tackling financial and fiduciary risks, there is also a growing need to evaluate the appropriate balance between fiduciary risk and programmatic risk. In some of the countries reviewed by OIG, there has been a clear tension between maintaining tight financial controls and operational flexibility to allow the smooth implementation of key programmatic activities. In **Cambodia**, for example, major issues in rolling out new and tighter financial management controls delayed critical community activities to support the country's malaria elimination strategy. Village malaria workers, a key component for malaria elimination in the epicenter of artemisinin drug resistance area, were not able to provide services to communities for two years due to delays caused by the implementation of additional financial safeguards.

In most of the countries audited this year, a relatively well functioning assurance framework is in place to safeguard Global Fund grants; however, it is not always adequately balanced between financial and programmatic assurance. While assurance on financial risk is generally well designed and effective, there is comparatively limited programmatic assurance, particularly on the reliability of data and the quality of services. Limited assurance over programmatic data was observed in most of the countries reviewed this year, mainly due to gaps in systems to collect quality data, limitations in monitoring and evaluation frameworks, and weak oversight from implementers. In **South Africa, Cambodia** and **Zambia**, parallel and fragmented data systems and deficiencies in data quality assurance mechanisms significantly limit the completeness, timeliness and accuracy of programmatic data.

Limited assurance over programmatic data and quality of services.

At the Secretariat, an OIG audit of **In-Country Assurance** confirmed that assurance remains insufficiently aligned to the critical risks facing the Global Fund. The audit highlighted limited assurance on critical programmatic, procurement, and supply chain risks. Whilst these are rated as top risks in the organization's risk register, they account for a proportionately smaller part of the Local Fund Agent's assurance activities, which remain heavily focused on financial verifications. Programmatic assurance activities such as *On-Site Data Verifications*¹ and *Rapid Service Quality Assessments*² were discontinued as they did not provide the level of assurance needed. They were replaced with various programmatic assurance options, including Health Facility Assessments, but these have not yet been fully executed as per the Secretariat roll-out plan.

As key exposures in the grants increasingly shift from financial mismanagement to gaps in programmatic delivery, there is an increasing risk of misalignment between risk profile and assurance structure. This imbalance was highlighted in several audits this year, including **Haiti, Tanzania**, and **Ethiopia**.

Striking the right balance is not an easy task for the Global Fund given the confluence of many challenges:

- ▶ **First, although fiduciary risks have been significantly mitigated over the years, the grants are never immune to potential misuse of funds. Any such occurrence could significantly set back the organization and shake donor confidence at its core.**
- ▶ **Second, in the absence of clearly expressed risk appetites, there is an inherent –albeit unconfirmed– assumption that donors have a much lower appetite for financial risks and a comparatively higher appetite for programmatic risks. The current assurance model reflects to a large extent that underlying assumption.**
- ▶ **Third, whilst financial risk management and assurance rely on fairly well established and tested processes and mechanisms, programmatic assurance remains an evolving field. There are no uniformly accepted frameworks and, to a large extent, the Global Fund is facing the same challenge as other international aid organizations in trying to design models and approaches that are systematic yet tailored to the specific needs of each portfolio.**
- ▶ **Fourth, in addition to the lack of uniformly accepted frameworks, programmatic assurance has also suffered from limited and generally inadequate tools. The Secretariat has recognized this gap and is taking steps to address it, such as the recently completed Assurance Handbook. But more still needs to be done in this area.**
- ▶ **Lastly, where financial assurance generally covers a fairly self-contained set of activities, programmatic assurance is far broader and its objects (for example, data quality, service delivery, health facility conditions, etc.) extend far beyond the confines of Global Fund grants. Programmatic assurance often involves more interdependencies and requires a more integrated approach with all stakeholders.**

Yet, as challenging as these various barriers are, overcoming them and striking the right balance between prudent management of financial risks and effective mitigation of programmatic risks will be key to achieving sustainable success and improving both the quality of services in the near term and grant impact in the long term.

¹ On-Site Data Verification assessed the quality of reported programmatic results for specific grants and for the portfolio as a whole to improve accountability.

² Rapid Service Quality Assessments evaluated the quality of services at country level. They aimed to continuously build capacity and use quality improvement as an integral part of program implementation.

06 Developing internal Secretariat processes

The Global Fund has developed an ambitious strategy to end the three epidemics with strong stakeholder support. Key priorities have been agreed, significant resources mobilized and allocated to countries, and grant-making for the new cycle is well underway. Organizational focus has now shifted from strategy design to implementation. Robust internal processes will be key to effectively executing strategic priorities, monitoring of progress, and timely course correction where needed. The OIG 2017 internal reviews of various Secretariat processes indicate continued improvements and increasing maturity across many of those processes, while gaps also need to be addressed in some areas.

The **fundraising process** is embedded in the organization and proved its effectiveness during the last replenishment cycle. An OIG advisory review, requested by senior management, evaluated the fundraising processes and related performance of the Global Fund in comparison to peer organizations. Overall, the Global Fund is a strong performer among its peers. The review highlighted a pattern of sustained growth over the past 15 years marked by more contributions from current top donors, increasing commitment from emerging donors, and a widening of the public donor base. This was demonstrated by an unprecedented US\$12.9 billion raised in the last replenishment in September 2016.

However, the review also highlighted four main threats that need to be carefully managed if the Global Fund is to maintain its current strong performance:

- ▶ **adapt to a changing landscape to accommodate new donors from emerging economies and to strengthen private sector resource mobilization;**
- ▶ **further invest in people, processes and systems to institute more sustainable fundraising that is less dependent on key individuals or supporters;**
- ▶ **improve tracking and measurement of progress against new priority areas that are critical to some donors' expectations, such as health systems, young women and girls, or human rights in health;**
- ▶ **build a stronger network of third-party advocates.**

The **allocation process**, following the mobilization of resources, is also embedded with a country allocation methodology that has been successfully implemented over the last two cycles. Whilst the key factors that drive the allocation and qualitative considerations may be subject to different views from different stakeholders, the process itself is well established and operating effectively.

Following an OIG audit published in 2016, significant progress has been made in the internal processes that monitor and report on the **implementation of the strategy**. High-level strategic priorities have been translated into specific operational work plans, mission-critical deliverables identified, and there is now regular monitoring and reporting

to the Management Executive Committee on progress. The Secretariat has also rolled out detailed communication plans, early enough in the strategy cycle, to ensure that Global Fund employees across the different divisions both understand the organizational approach to strategy implementation and their own expected contributions to its achievement. Still, key challenges remain the prioritization of the deliverables; clear accountability for delivery; effective coordination both internally and externally; and finalization of relevant key performance indicators that are informed by reliable data, a crucial element of effective strategy monitoring.

The **grant management** business process reached a major milestone in 2017 with the completion of the first phase of the Accelerated Integration Management project (AIM), which delivered a new and much improved Grant Operating System. Whilst its delivery encountered delays, the new system is a significantly improved platform that covers all key aspects of the grant management lifecycle, from country allocations to funding requests, grant-making, implementation and ongoing monitoring, grant performance reviews, funding and disbursement decisions, data management, all the way to grant closure. Besides providing end-to-end grant management capability and better integrating previously fragmented processes, the new system also allows for more robust controls and streamlined access to portfolio data to facilitate more effective monitoring and decision-making. Over 200 grants for the current 2017-19 allocation cycle have already been processed through this new platform, representing around US\$9 billion, close to 90% of the overall allocation. Additional enhancements to the system, including related business processes and controls, are also expected with the second phase of the project which is now under way.

The Global Fund has established a well-functioning treasury function.

Notwithstanding this significant achievement, an OIG audit of **Grant Monitoring** activities identified significant areas of improvement needed in some of the **core grant implementation processes**. The identified weaknesses relate mostly to the performance review process for grants, the adequacy of existing policies and procedures, gaps in the controls over the review and approval of funding decisions, and limited correlation between programmatic and financial performance of the grants as there is need for

better alignment between performance frameworks and the grant budgets. Whilst some of the issues identified by the OIG relate to limitations in legacy systems, and should be addressed going forward with the implementation of the new integrated platform, others have root causes that go well beyond system capabilities and relate to broader root causes in the control environment. These include a need for clear guidelines and criteria to support the operationalization of high level policies applicable to critical business processes; effective delineation of roles and responsibilities and clear accountability; and adequate quality assurance mechanisms to complement the system controls. The Secretariat plans to strengthen several of the grant implementation processes and controls as part of the second phase of project AIM.

The Global Fund is also heavily dependent on financial, allocation and programmatic data to manage, monitor and inform decisions in order to achieve its mission. The Secretariat has acknowledged the importance of adequate and effective data management processes and taken several steps to identify the issues as recognized by a recent OIG audit on **data management** (publishing soon). However, the audit also found that progress is limited in defining and executing an effective data management strategy and governance framework. In its absence, challenges around embedding data management processes and quality controls across the organization are likely to persist resulting in a varying maturity of data management and a lack of data culture in the organization.

An OIG **treasury** audit published at the beginning of 2017 concluded that the Global Fund has established, in a relatively short timeframe, a **well-functioning treasury function**. The audit did not identify any material weaknesses or process failures. Processes and controls over cash, liquidity and investment management are adequately designed, consistently well implemented and effective. Some opportunities for improvement were identified in Asset and Liability Management, forecasting and budgeting process for grant expenditures, and foreign exchange management. However, these improvement areas should be evaluated in the context of a relatively new function built almost from scratch and still evolving. No exceptions were identified in our review of treasury transactions. The OIG concluded that the governance, risk management practices and internal controls are adequate. In general, financial management processes remain the most advanced on the overall maturity curve of the organization with business processes that are executed consistently; robust systems supporting business transactions; effective controls and management oversight; and adequate ownership over financial data. With the fundamental control processes already effective, the finance function is increasingly shifting to a more strategic value-add focus aimed at addressing program delivery inefficiencies or bottlenecks and providing analytic insights to support grant impact.

There is also a need for the Secretariat to continue evaluating the trade-offs in its investment and budget choices in order to better prioritize. A thorough review of the organization by function may enhance efficiency, identify potential duplication or fragmentation of functions while strengthening risk management.

Financial management
at the Global Fund is the
most advanced on the
OIG maturity scale.

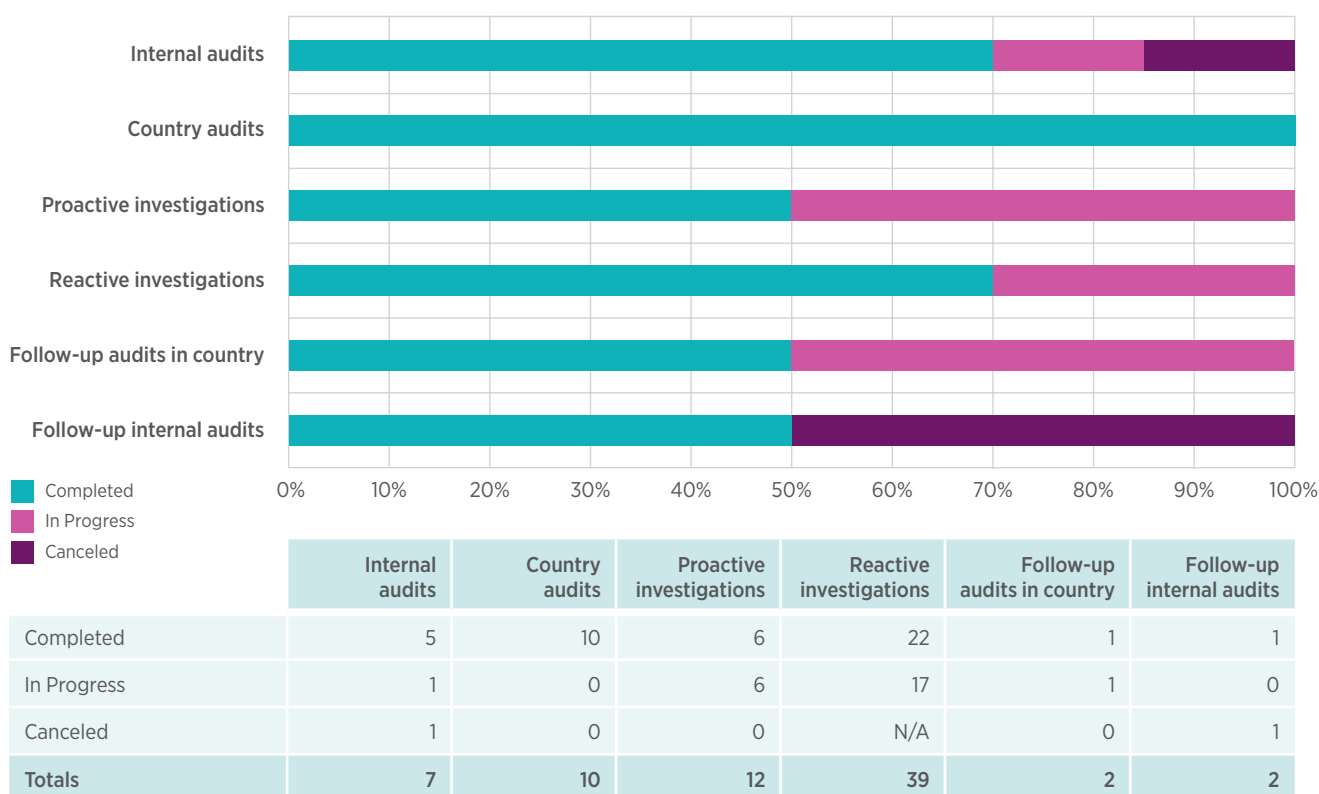
Basic **IT controls** have improved since the last OIG audit in 2015. At the time, the OIG had identified serious weaknesses and security gaps, which could have been exploited to inflict harm on the organization. Those weaknesses have since been materially addressed as confirmed by a subsequent follow-up audit, as well as the 2017 OIG **IT Cloud Computing audit**. Whilst the fundamental control weakness previously identified by OIG have been remediated, the recent audit identified a significant gap related to IT strategy and governance.

Approximately 60% of the IT infrastructure and applications are currently managed by external providers through cloud computing and supported by various outsourced and hosted arrangements. Cloud computing can offer significant benefits to the Global Fund in terms of potential cost savings, technological flexibility, agility and responsiveness, and an opportunity to better integrate and streamline the management of data and information across the organization. Yet, it also presents risks and vulnerabilities that need to be effectively managed. More importantly, to fully deliver on its promises, and to move IT from a mere transactional tool to a real business enabler, the adoption of cloud computing needs to be a component of a broader and well thought-out IT strategy. The strategy needs to set out a clear vision for the target state of the Global Fund IT infrastructure; a structured roadmap to achieve that state; an effective process to analyze the risk/reward trade-offs; and sound IT governance to challenge and validate the high-level strategic choices being made. Whilst a strategy was developed subsequent to the audit and reviewed by the Management Executive Committee, several of these components are not yet in place to move the IT business process up from its current level of initiated on the maturity curve.

V. Operational themes

01 Progress on 2017 work plan and KPIs

FIGURE 5 STATUS OF 2017 WORK PLAN AS OF 15 MARCH



Out of the 21 audits on the 2017 work plan, the Audit Unit completed 17, with the last reports published in quarter one of 2018. One planned internal audit (sourcing follow-up) was canceled for the 2017 work plan but added to the 2018 work plan at the request of the Secretariat as the underlying issues had not yet been remediated. A second internal audit (contract management), was canceled following a preliminary risk assessment which concluded that key risks had been addressed in other audits.

Advisory reports are demand-driven engagements and four had been projected in the original work plan. However, only one request was received from the Secretariat. The engagement (cash optimization) has been substantially completed and the report will be issued in quarter one of 2018.

The Investigations Unit screened 207 allegations of wrongdoing in 2017. Secretariat reporting increased by 26% and implementer reporting by 138% partly due to outreach initiatives such as the OIG's anti-corruption campaign 'I Speak Out Now!' This included allegations from sub-recipients and sub-sub recipients for the first time.

During 2017, the OIG handled 51 investigations compared with the 62 that had been predicted in the original work plan. The prediction had been based on the previous year's actual figures of 59 completed cases. Previous years had been significantly front-loaded with investigations carried over from the year before. In 2017, however, the Investigations Unit started the year with 13 cases compared to 42 at the start of 2016. This had an effect on the number of published cases during the year and an impact on the KPIs. As allegations increased in 2017, 38 new cases were referred for investigation, bringing the cumulative number of investigations to 51 in total (38 + 13). This explains why the unit only reached 53% of its KPI (See Figure 6 below).

Of the 51 investigations in 2017, the team has now closed 28 either as published reports or case closure memoranda. The unit is still processing 23 investigations from cases mainly opened in 2017. Nine of these investigations will result in published reports and concern issues such as product diversion, data and per diem fraud. Half of the 23 investigations were opened in Q3 2017 and will require more time to close.

FIGURE 6 OIG 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 December, based on 2017 work plan reports issued to date, the Audit Unit was at 100% and the Investigations Unit at 53%. See Section V 01 for the explanation.
	A.2 Costs managed within approved budget	At the end of December, the OIG had an underspend of 11% (US\$ 1,929K) on its YTD Operating Expenses Budget. See below 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, including general conformance with the Stakeholder Engagements Models timelines	No self-assessment this year as there was an external quality assurance review. See below for more details. 73% of the audits from the 2017 work plan completed so far were finalized in advance of the Stakeholder Engagement Model deadline. 22 investigation cases were closed by 31 December 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	The quality assurance review was carried out by Moore Stephens at the end of 2017. Both the audit and investigation functions of the OIG comply with the relevant industry standards. See below for more details.
	B.3 Annual assurance statement on governance, risk management and controls at the Global Fund	Contained in this paper.
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 December, 88% of the Agreed Management Actions reported as implemented by the Secretariat in 2017 had been validated by the OIG within the 30-day target.
	C.2 Client engagement surveys are conducted for at least 90% of audit engagements completed during the year	At 100%. 25 surveys out of the 25 audit reports issued this year were conducted.
	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 an 89% satisfaction rate from a Board and Audit and Finance Committee survey conducted by external auditors in December 2017 as part of the quality assurance review.
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. 96% of staff had completed a minimum of 20 hours of formal training as of December 2017.

02 Budget and headcount in 2017

At the end of December 2017, the OIG had 47 employees out of a budgeted headcount of 52.

Recruitment is underway to fill all the open vacancies. Three offers have been made as of March 2018.

FIGURE 7 HEADCOUNT AND VACANCIES AS OF 31 DECEMBER 2017

UNIT	HEADCOUNT 1 JAN 2017	HIRES	DEPARTURES	HEADCOUNT 31 DECEMBER 2017	BUDGET	VACANCIES
Front Office	8	N/A	0	8	8	0
Audit	20	2	4	18	21	3
Inv	21	2	2	21	23	2
TOTAL	49	4	6	47	52	5

At the end of December 2017, the OIG had a budget underspend of US\$1,929K (-11.33%) against the 2017 Operating Expenses Budget.

FIGURE 8 OIG OPERATIONAL BUDGET IN THOUSANDS OF US\$

	2017 BUDGET	YTD ACTUALS	YTD VARIANCE BUDGET VS ACTUALS	
Salaries	10,951	10,314	-637	-5.82%
Professional fees	2,187	1,784	-403	-18.43%
Travel	1,992	1,601	-391	-19.63%
Meetings	76	11	-65	-85.53%
Communications	267	189	-78	-29.21%
Office Infrastructure	1,557	1,051	-506	-32.50%
Foreign Exchange Adjustment	-	151	151	-
TOTAL	17,030	15,101	-1,929	-11.33%

The variances can be explained by the following factors:

- ▶ 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. Three other staff left during the year.
- ▶ Professional fees and Travel: the underspend is mainly due to savings achieved on country audits. The savings are primarily attributable to a reduction of the country audit scopes, which cannot be predicted before the risk assessment phases for each individual audit.
- ▶ Meetings: Amounts budgeted for the OIG retreats were not used in 2017. The retreat took place in January 2018.
- ▶ Communications: Savings were achieved on the “I Speak Out Now!” campaign costs as some activities were delayed.
- ▶ Office infrastructure: Following guidance from the finance department, 332K in IT-related services budgeted under this category are reported as spent under the Professional fees category. Updated depreciation guidance also resulted in 87K of savings. The balance of the variance is linked to postponing the enhancements to investigation support systems to 2018, pending finalization of the knowledge management strategy and ongoing alignments with the Secretariat on IT service delivery.

03 Quality assurance and stakeholder feedback

The Institute of Internal Auditors' Quality Assessment Framework includes an evaluation of the audit function across 44 dimensions that are aligned with the International Standards for the Professional Practice of Internal Auditing. The Audit Unit received the highest possible rating ("generally conforms") across all the dimensions in its triannual external quality assessment. The Investigations Unit also received the highest rating of "fully compliant" with the Uniform Guidelines for Investigations of the Conference of International Investigators.

The OIG carries out an annual self-assessment and a triennial external assessment in line with professional standards. This latest assessment took place at the end of 2017 by Moore Stephens, an independent accounting and business advisory firm, selected through a competitive tender.

Moore Stephens concluded that the OIG's audit function is well-structured and progressive. It underlined specifically three areas where the audit function is "particularly effective or efficient", namely its organizational independence, its engagement planning, and how it communicates its findings. Moore Stephens also expressed the opinion that the Audit Unit's overall maturity level is **optimized** in all key areas (Policy; Methodology and Process; People; Systems and Information; Communications and Reporting).

Similarly, for the OIG's investigations function, Moore Stephens noted "constant improvement" and "a very positive culture within the team." The auditors highlighted areas where the function has made progress notably the creation of standard operating procedures; the move from reactive investigations to increasingly proactive and intelligence-led reviews; and the anti-corruption initiative 'I Speak Out Now!'.

The assessment also identified a number of opportunities for the OIG to improve and capitalize on its progress to date. For example, following interviews with audit staff, it recommended more focus on career development along with the opportunity for staff to provide and receive 360-degree feedback. The reviewers acknowledged that OIG processes for the internal and external reviews of reports have matured. But they also recommended that the OIG continues its engagement with the Secretariat on ongoing improvements related to the presentation of country contexts and Global Fund span of control.

For the investigations unit, among other recommendations, Moore Stephens suggested a clearer division between proactive and reactive investigations, and between simple and complex cases; and more collaboration with the Secretariat in the form of short-term secondments or informal meetings to encourage deeper understanding.

Both reports are available through the Updates section of the OIG website at <https://www.theglobalfund.org/en/oig/updates/2018-04-17-the-oig-audit-and-investigation-units-pass-their-external-quality-assessments/>

Stakeholder feedback

Every year, the OIG conducts a Stakeholder Satisfaction Survey with AFC and Board members. Overall, the OIG received an 89% satisfaction rate in the 2017 survey conducted by external reviewers as part of the quality assurance review. Some of those surveyed encouraged the OIG to ensure that critical issues are better highlighted in papers and presentations; reflect more explicitly the role of partnerships and civil society; and continue producing shorter and clearer reports.

Following an audit, the OIG also surveys auditees to assess its performance. An average of all the 2017 surveys gave the audit function an overall score of 3.42 on a scale of 1 (poor) to 4 (good). More details in Figure 9 below. The unit received the highest scores in technical proficiency and interactions with auditees. Generally, auditees were satisfied with the opportunities to discuss the OIG findings during fieldwork and draft reports. The Audit Unit scored less well on giving auditees sufficient notice of the impeding audit or for managing document requests. There was also criticism of the disruption to routine activities that an OIG audit can sometimes cause.

FIGURE 9 OIG SURVEY SCORES FOLLOWING AUDIT ENGAGEMENTS IN 2017

SECTION	2017
Category 1: Effectiveness of the audit/review in covering key areas	3.52
Category 2: Organization and scheduling	3.37
Category 3: Execution of field work	3.35
Category 4: Quality of final report	3.48
Category 5: Overall rating and whether the audit added value to the organization	3.37
RATING	3.42/4.00

04 Developing outreach activities and building partnerships

In 2017, the OIG continued to strengthen its partnerships with other audit institutions and oversight bodies in donor countries. For example, the audit teams from the Global Fund and USAID had their first formal interactions to identify some practical areas of collaboration such as exchanging information on countries before an engagement and exploring approaches to common challenges encountered such as supply chain and risk appetite. The investigation functions of the two offices already collaborate closely on several cases and initiatives.

The OIG also significantly developed in 2017 its engagement with Supreme Audit Institutions in implementing countries. The OIG has signed a Memorandum of Understanding with AFROSAI-E, a branch of the International Organization of Supreme Audit Institutions for English-speaking African countries. The OIG hosted the AFROSAI-E leadership in a two-day seminar in Geneva to discuss ways to improve relationships between Supreme Audit Institutions, the OIG and the Global Fund Secretariat. This helped the OIG to identify five Supreme Audit Institutions with which to partner for the 2018 country audits. The OIG also participated in an Aidsplan-organized round table discussion in Kigali on how to involve Supreme Audit Institutions more in grant audits.

There were also regular exchanges with other audit functions on specific engagements. For example, for an audit of grants in Mali, the OIG team worked closely with the Global Internal Audit and Investigations team of Population Services International, one of the main Principal Recipients of Global Fund grants in the country.

The OIG continued working closely with its counterpart at GAVI, the Global Vaccine Alliance. Already in 2016, the two offices conducted a detailed joint exercise to identify the top 25 countries which had the highest potential for collaboration. The exercise concluded that there was no significant overlap in the work undertaken in those top countries, taking into account the differences in implementer arrangements, supply chain processes, flow of funds etc. But although there is no obvious overlap, the two functions are closely coordinating. For example, in Zambia, the teams synchronized their respective audits to be able to maximize impact and to drive consistent messages where appropriate. The OIG audit team also worked with three staff seconded by the Zambia Auditor General during the engagement.

In 2017, the OIG continued to strengthen its partnerships with other audit institutions and oversight bodies.

VI. Looking ahead:

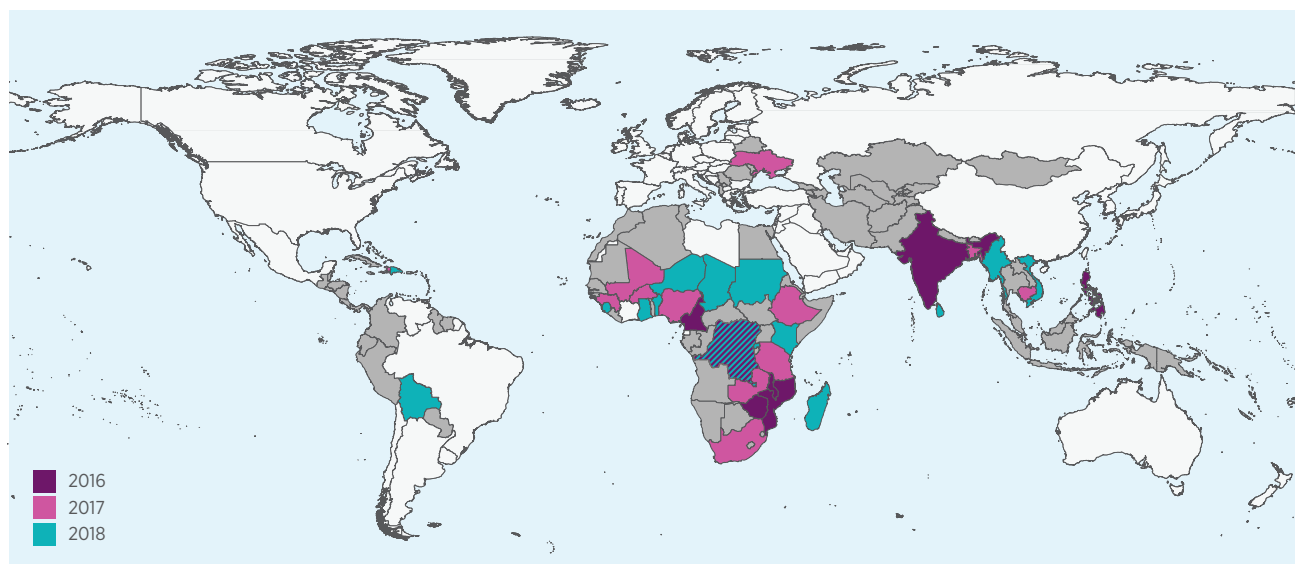
01 2018 work plan and KPIs

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

FIGURE 10 BREAKDOWN OF 2018 WORK PLAN

	Advisory engagements	Follow-up audits	Internal audits	Country audits	Reactive investigations	Proactive investigations
TOTALS	4	4	5	11	55 estimated of which an estimated 38 will be closed	4

FIGURE 11 OIG'S 2016-2018 THREE-YEAR ROLLING AUDIT PLAN COVERS 75% OF GLOBAL FUND ALLOCATION



At the last AFC meeting in October, the committee approved the OIG's 2018 KPIs comprising a) the existing 2017 KPIs, and b) three additional "Impact" KPIs to be selected by the Inspector General from a full range of options.

Full details of the OIG's 2018 work plan, its corresponding budget, and KPIs are available in Section VIII of OIG paper [GF/B38/09](#).

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 2018	OIG ACTIVITY IN 2016 AND 2017
Strategic Risks	Program Quality	<p>11 country audits in 2018 cover 17% of the 2017-19 allocation. OIG audit coverage cumulatively over the three-year cycle 2016-2018 cycle adds up to 75% of allocation.</p> <p>In terms of disease burden, OIG audits in 2018 will cover 17%, 26%, and 13% of HIV, malaria and TB disease burden respectively. Cumulatively, for the three-year cycle 2016-2018, this coverage is respectively 85%, 74% and 53%.</p> <p>There are other cross-cutting reviews that support assurance over program quality: RSSH, an advisory on bed net distribution, and an advisory on the utilization of Gen-Ex machines.</p>	<p>Program quality was considered in the 18 country audits (which covered 58% of allocation in 2017-19). This included the four largest portfolios – Nigeria, DRC, India and South Africa.</p> <p>The Secretariat's grant approval and monitoring mechanisms were also reviewed in 2017 as part of the grant-making follow-up and grant monitoring audits.</p>
	Transition	An audit of the Secretariat's transition management process is planned in the first quarter of 2018.	This was covered in country audits in Ukraine and India in the 2016 and 2017, respectively.
	Human Rights and Gender Inequality	An advisory engagement of Human Rights for Health is planned for 2018. All allegations will be monitored for potential issues and this topic may be considered in 2018 country audits where necessary.	No specific audit for this risk; however, human rights-related risks were considered in relevant 2016-17 country audits, e.g. Philippines and Ukraine.
	Drug and Insecticide Resistance	No specific audit for this risk; however, the related programmatic risks are considered 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. Ethiopia, DRC and Malawi).
	Strategic Data Quality and Availability	Data quality will be considered as part of the 11 country audits.	<p>In 2017, the OIG audited data quality at the Secretariat level.</p> <p>In addition, country audits included significant objectives on data quality (unless specifically scoped out).</p> <p>Issues on data quality were raised in the 2016-17 audits of DRC, Nigeria follow-up, and Tanzania follow-up audits.</p>
Procurement and supply chain	Procurement	A follow-up audit of procurement processes is planned in 2018.	<p>This was covered as part of a limited review of procurement processes for the wambo.org platform in 2016 and a full review of the platform in 2017.</p> <p>The OIG also investigated a case related to the Secretariat's procurement processes in 2016.</p>

RISK TYPE	RISK PER CORPORATE RISK REGISTER	OIG ACTIVITY IN 2018	OIG ACTIVITY IN 2016 AND 2017
Procurement and supply chain	In-Country Supply Chain	Supply chain components are reviewed as part of the 11 country audits. The OIG will also monitor implementation of the agreed management actions from the 2016 supply chain audit.	Supply chain management processes were audited in 2016. This was also supplemented by country audits where supply chain is always a focus. For example, supply chain-related issues were reported during the DRC, Bangladesh, Cambodia, Ethiopia, Nigeria follow-up and Tanzania follow-up audits.
	Quality of Health Products	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. Ethiopia, DRC and Malawi).
Financial Risks	Future Funding/ Replenishment	No specific engagement planned in 2018. The OIG will monitor this risk for consideration in subsequent plans.	In 2016, the OIG completed an advisory engagement on fundraising.
	Foreign Exchange Risk	Not specifically covered in 2018; however, the OIG is monitoring the corrective actions from a 2016 treasury audit.	This area was covered in a treasury audit in Q4 2016.
Operational risks Secretariat	Risk Management and Internal Controls	Not specifically covered in 2018; however, agreed management actions from a 2016 risk Management audit will be monitored. In addition, grant level risks will be included in the scope of the 11 country audits. The OIG also attends Enterprise Risk Committee and monitors this area on an ongoing basis. Relevant internal controls and risk management processes are covered as part of each country audit or internal audit of Secretariat processes.	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 18 country audits in 2016-17. Audit work has identified weaknesses in risk and assurance, in audits in Ethiopia, DRC, India and South Africa.
	Integrated Processes, Systems and Tools and internal operations	Underlying processes, systems and tools will be reviewed as part of internal audits such as grant oversight in focus countries, transition management, and follow-up audits of procurement processes and KPI reporting.	Underlying processes, systems and tools were reviewed as part of internal audits such as risk management (2016), grant closure (2016), grant-making follow-up (2017), grant monitoring (2017), in-country assurance (2017) and data quality (2017)
	Internal Operations	A project management audit is planned in 2018 to assess the Secretariat's framework and processes for implementing and monitoring key initiatives and projects. Key internal operations will be considered during the 2018 follow up audit of KPIs and other advisory engagements. As well as regular audit work, OIG is represented on the Project Review Board.	An advisory review of the Grant Operating System took place in 2016. The OIG was also represented on the Project Review Board, and the AIM, Differentiation for Impact, and Implementation through Partnership steering committees. Audits of IT cloud computing and the wambo.org platform took place in 2017.
	Staff Health	This will be considered as part of the 2018 audit of the Human Resources strategy implementation and monitoring.	Not specifically covered.
	Organizational Culture	Culture is covered in thematic audits where necessary. In 2018, culture will be covered in the relevant internal audits such as Human Resources Strategy implementation and monitoring.	Culture was covered in thematic audits where necessary. For instance, organizational culture was covered in the risk management audit in 2016 and the grant monitoring audit in 2017.

RISK TYPE	RISK PER CORPORATE RISK REGISTER	OIG ACTIVITY IN 2018	OIG ACTIVITY IN 2016 AND 2017
Grant-related fraud and fiduciary risks - Grants -	Various fraud and fiduciary risks including poor accounting and financial reporting, other financial risks and poor grant oversight.	<p>Operational grant level risks will be covered in 11 country audits for 2018.</p> <p>Internal audits of grant oversight in focus countries, RSSH and regional grants will add to the assurance coverage in this area.</p> <p>Both reactive and proactive investigations will also cover significant fraud risks.</p>	<p>Operational grant level risks were covered in 18 country audits in 2016-17, covering 58% of the 2017-2019 allocation.</p> <p>Cross-cutting audits of in-country supply chains and risk management (performed in 2016) and grant monitoring processes and in-country assurance (2017) added to the coverage provided by the OIG.</p> <p>Fraud risk is appropriately responded to through investigations.</p>
Governance Risks	Governance and Oversight	Given audits of risk management and follow-up of the governance review in 2016, no specific audit is proposed. The OIG will continue to monitor implementation progress on the Governance Action Plan.	In 2016, the OIG conducted an audit of risk management and also a follow-up to the 2014 governance review.
Ethics Risks	Ethical misconduct	Ethical misconduct is inherently covered in all audits and investigations.	<p>Ethical misconduct is inherently covered in all audits; however, risk covered in a number of specific reviews/initiatives:</p> <ul style="list-style-type: none"> ▶ An advisory review of integrity due diligence in Q3 2016; ▶ The OIG's 'I Speak Out Now!' anti-corruption campaign in 2017.
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 low-moderate by the Secretariat, which has already developed a strategy on Privileges and Immunities.	No coverage.

VIII. High-level summary of 2017 reports

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. Most of the reports are available in full at this link <https://www.theglobalfund.org/en/oig/reports/>

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.

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

ADVISORY OF FUNDRAISING GF-OIG-17-005

The review confirmed the Global Fund's strong fundraising performance with a growing donor base and effective use of limited resources. There are four opportunities to strengthen fundraising capacity: adapting to a changing more competitive aid landscape; investing in people, processes and systems; harnessing strategic information to deliver on donor expectations; and sustaining advocacy 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. 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 better structured platform. Business needs have been considered and platform users are being trained. 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 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; effective oversight is still affected by inherent conflicts in the Board; and challenges remain in defining risk appetite.

AUDIT OF RISK MANAGEMENT PROCESSES	GF-OIG-17-010	<p>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.</p>	AUDIT OF GRANTS IN SOUTH AFRICA	GF-OIG-17-014	<p>Global Fund programs are well aligned to South Africa's needs and target the right areas, in innovative ways. At the same time, there is 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.</p>
FOLLOW-UP AUDIT OF GRANT-MAKING PROCESSES	GF-OIG-17-011	<p>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.</p>	THEMATIC REVIEW OF FRAUD REPORTING	GF-OIG-17-015	<p>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.</p>
AUDIT OF GRANTS IN HAITI	GF-OIG-17-012	<p>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.</p>	PLANNING AND MANAGEMENT OF CONSULTANTS	GF-OIG-17-016	<p>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.</p>
AUDIT OF CLOUD COMPUTING	GF-OIG-17-013	<p>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.</p>	PROACTIVE INVESTIGATION IN MALAWI	GF-OIG-17-017	<p>This OIG investigation documents work to disrupt the theft of anti-malaria drugs from public health facilities in Malawi. The OIG worked closely with Malawian authorities and 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.</p>
AUDIT OF GRANTS IN GUINEA	GF-OIG-17-018	<p>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.</p>			

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

INVESTIGATION IN BURKINA FASO	GF-OIG-17-019
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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
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The Global Fund has significantly strengthened the financial management of its 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.

AUDIT OF WAMBO.ORG	GF-OIG-17-021
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The initial goals of the Global Fund's online procurement platform, wambo.org, remain valid and aligned with the organization's long-term strategic objectives. The platform has also received high user satisfaction rates. However, it is unclear how wambo.org fits into the Global Fund's overarching procurement and supply chain management strategy.

AUDIT OF GRANT MONITORING PROCESSES	GF-OIG-17-22
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The Global Fund has continuously improved its grant management structures, processes, controls and systems. However, the OIG found control gaps in core grant implementation and monitoring processes. For example, there are weaknesses in the Annual Funding Decision, a critical milestone that reviews overall grant performance. They also concluded that ongoing grant performance assessment and monitoring need significant improvement.

AUDIT OF GRANTS IN MALI	GF-OIG-17-23
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Financial management of Global Fund grants in Mali is generally functioning effectively. Despite being one of the poorest and most fragile countries in the world, Mali has made significant progress in reducing its AIDS, tuberculosis and malaria disease burdens. However, improvements are still needed in the supply chain as well as in the accuracy of program data and patient service quality.

AUDIT OF GRANTS IN BURKINA FASO	GF-OIG-17-24
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Grant arrangements in Burkina Faso are well-structured and supported by a system of community health organizations. This has contributed to reducing significantly the AIDS, tuberculosis and malaria burden in the country. However, although the main grant recipient has functioning governance and control processes in place, it needs to improve its transparency, oversight capacity, program and financial management.

AUDIT OF GRANTS IN ETHIOPIA	GF-OIG-17-25
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The Global Fund has contributed to major progress in Ethiopia with malaria incidence and mortality down, a drop of 50% in TB incidence, and an increase of 27% in the number of people on antiretroviral therapy. However, health systems strengthening activities need significant improvement and the country has difficulties absorbing funds.

AUDIT OF IN-COUNTRY ASSURANCE	GF-OIG-17-26
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The Global Fund has improved assurance since the last OIG audit in 2014. For example, countries are now differentiated based on their risk profile as a starting point to determine assurance needs. However, assurance is insufficiently aligned to the highest risks in grants such as supply chain and program activities. This often results in gaps and possible redundancies in assurance at the country level.

AUDIT OF GRANTS IN BANGLADESH	GF-OIG-17-27
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Bangladesh has made significant progress despite political unrest and severe flooding in recent years. The country is edging closer towards malaria elimination with 51 out of its 64 districts now considered to be non-endemic. However, many cases of tuberculosis go undetected which could compromise gains made to date. The OIG audit also called for more operational efficiency and value for money from current grant arrangements as well as a longer term plan to transition programs to national implementers.

AUDIT OF GRANTS IN ZAMBIA	GF-OIG-17-28
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Zambia has successfully scaled up its response to the three diseases and made significant progress towards ending the epidemics. However, as the programs have scaled up, the country's infrastructure has had difficulties in keeping up, particularly in terms of human resources, diagnostics, monitoring and evaluation capacities. The auditors also noted stock-outs and expiries in the supply chain that the OIG is currently investigating.

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

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.