41st Board Meeting

The Office of the Inspector General 2018 Annual Report

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

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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 2018. It also includes an operational update on the Office of the Inspector General's activities in 2018 as well as the main highlights of the 2019 work plan.

The Global Fund
Office of the Inspector General

What is the Office of the Inspector General?

The Office of the Inspector General (OIG) works to ensure that the Global Fund invests the world's money in the most effective way possible to accelerate the end of AIDS, tuberculosis and malaria. Through audits, investigations, oversight and 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 on this page. 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:
hotline@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

OIG's 2018 work confirms that Global Fund grants continue to achieve significant programmatic impact. We see a steady expansion of HIV treatment coverage, progress towards malaria control or elimination, and high success rates in the treatment of tuberculosis.

The impact of our country programs remains the main headline of our report. But our work also highlights key areas that continue to require attention. First and foremost is **program quality,** particularly related to HIV diagnostics and treatment monitoring, services to key populations, or integration of service delivery. Finding **missing TB cases** continues to be a major hurdle, although there is increasing political commitment and additional resources are being committed at the global level. Our work on **Transition** this year highlighted that, whilst the Global Fund has enhanced its internal processes to manage the transition of countries or disease components away from our support, significant country-level challenges could put at risk the sustainability of the gains that have been made with Global Fund support. At the broader portfolio level, our portfolio audits show increasing country ownership and government commitment to supporting the three diseases, which bodes well for long-term **sustainability** of the programs. But a significant challenge to sustainability remains limited capacity, a major constraint in many countries. This requires from the Global Fund an increased focus on striking the right **balance between short-term delivery needs and longer term capacity-building** of national implementers and strengthening of systems.

OIG's internal assessments also confirm **continued improvements in the Global Fund's own internal processes and systems.** Grant management, risk management, organizational governance, and other key processes are all improving steadily. Whilst these process improvements will take time to prove their effectiveness, the direction of travel is positive. The organization is increasingly maturing, **edging closer to the "embedded" stage of maturity** that management has targeted and which seems well within reach in the coming year, provided focus and execution discipline are maintained and the improvement initiatives across key processes are well implemented.

As the organization matures, it is also vital to manage stakeholder expectations. Increased maturity in internal controls, risk management and governance processes means that the organization will be better positioned to tackle business challenges, to identify and mitigate risks, and to respond effectively when they do materialize. Increased maturity, however, does not imply that these risks will no longer materialize- they will, albeit with hopefully less likelihood or lesser impact. **Risk-taking is inherent to the Global Fund's business,** its delivery model and its operating environment. By sheer law of probability, when risks are frequently taken, some will occasionally materialize, whether in terms of programmatic failures or financial losses. The only way to prevent this would be to avoid engaging in high risk environments or interventions; while this would reduce the short-term risk of adverse events, it would likely increase the long-term risk of losing the fight against the diseases, the Global Fund's principal mission.

Thus risk-taking and its corollary, the inevitable materialization of adverse events, will remain a constant feature of the Global Fund's landscape. What needs to evolve, though, is how the organization and its stakeholders manage and respond to that reality.

> OIG's internal assessments confirm continued improvements in the Global Fund's internal processes and systems.

For the organization, it means being more proactive in anticipating and identifying risks, more disciplined in executing mitigating actions, and more systematic in addressing root causes rather than fire-fighting symptoms. This will require becoming a **learning organization** capable of candidly evaluating weaknesses and failures, learning lessons, overcoming silos, adapting processes accordingly, and analyzing best practice to replicate success to a larger scale.

For program beneficiaries, this landscape means a **strong expectation of accountability** and an appropriate balance between their rights and obligations. Whilst country ownership remains one of the key principles of the Global Fund and a cornerstone of its engagement model with beneficiaries, it needs to be effectively balanced with the equally important principle of performance-based funding. Where there is failure to responsibly manage entrusted funds or to deliver on program commitments, accountability should trump entitlement. This generally involves institutional accountability at the level of countries or implementing agencies. But, in relation to the management of our grant funds, it should also increasingly involve personal accountability when egregious acts or behaviors cause significant harm in our programs. This report highlights various efforts undertaken by the OIG to drive such personal accountability through referrals to, and cooperation with, national law enforcement and anti-corruption agencies. However, as the OIG and the Secretariat have limited follow-up options and are fully reliant on national authorities, there is still a weak track record of individual accountability being enforced, even though the Global Fund has a strong record of substantially recovering financial losses from countries or from implementing agencies.

> While country ownership remains a cornerstone of the Global Fund's engagement model with beneficiaries, it needs to be balanced with performance-based funding.

Lastly, for stakeholders who support the organization, this landscape means a firm demand for accountability, but also a **sensible response when things do go wrong** - as they inevitably will, from time to time. In many respects, what makes the Global Fund appear vulnerable on the surface is, in fact, what makes it resilient at its core. Among international organizations, the Global Fund has one of the most robust oversight mechanisms, including a fully independent and well-resourced Office of the Inspector General that provides objective assessments of its programs and operations. The Global Fund also has one of the most transparent disclosure practices. When it comes to audits and investigations, what the general public sees is exactly what the executive management and the Board see, a rare practice amongst its peers. As a result of this strong oversight and open disclosure practice, it may run a higher risk of being perceived as having more issues. But the ability to proactively identify issues, to be fully open and transparent about them, and to take decisive and strong corrective actions to address them, only makes the organization more resilient in the long run and more worthy of donor confidence and support.

As the Global Fund heads into its Sixth Replenishment later this year, both the strong track record of impact it has delivered so far, and its clear path of continuous organizational improvements and rising maturity strongly support the narrative of what many stakeholders, on both donor and recipient sides, consider **one of the best investments in global health.**

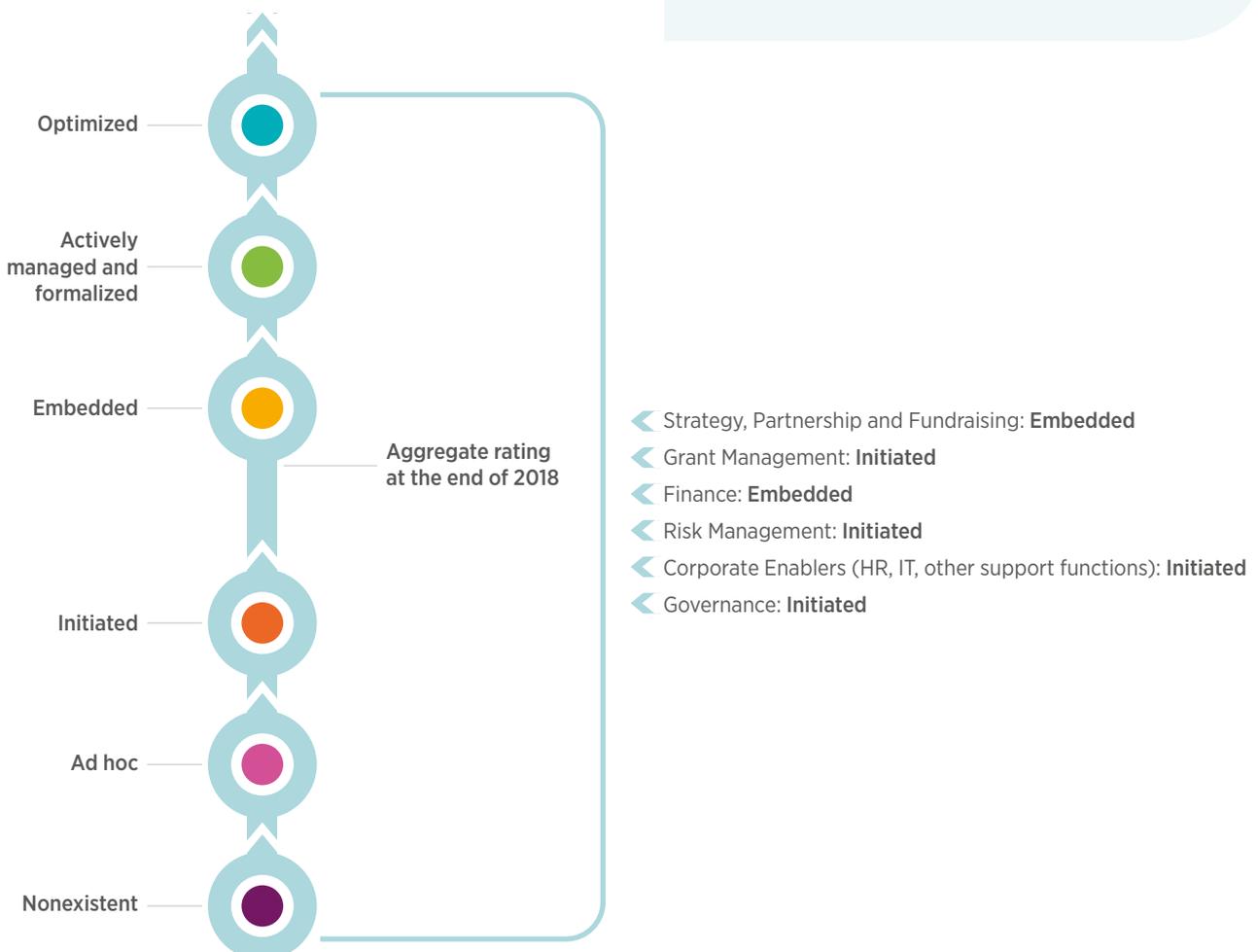**Mouhamadou Diagne**
Inspector General

II. The year at a glance: The Global Fund

The Global Fund's maturity continues to improve, edging closer to the "embedded" level that was targeted for this year. While grant programs continue to deliver significant impact in the countries, internal processes are also being strengthened. Progress has notably been made in risk management, with the approval and operationalization of a risk appetite framework. Grant management processes also achieved an important milestone with the completion of a major, three-year initiative to deliver a robust and more integrated grant operating platform. Some challenges remain but overall, the target of achieving an "embedded" level of maturity is well within the organization's reach by next year provided the new risk management and governance processes fully settle in, grant management business process controls are strengthened, and a robust roadmap is in place to guide long-term improvement in supply chains. Detailed information on progress can be found in Section V Key Operational Processes (see Maturity Rating definitions in Annex 1).

Significant Strategic Themes

▸ **1** Global Fund Partnership is achieving impact

▸ **2** Finding the missing TB cases

▸ **3** Managing Transition and Sustainability of Global Fund grants

▸ **4** Managing financial risks and a changing fraud risk profile

▸ **5** Maturing internal Global Fund processes and structures

FIGURE 1 GLOBAL FUND MOVING UP THE ORGANIZATIONAL MATURITY RATING

Optimized

Actively managed and formalized

Embedded

Aggregate rating at the end of 2018

Initiated

Ad hoc

Nonexistent

‹ Strategy, Partnership and Fundraising: **Embedded**

‹ Grant Management: **Initiated**

‹ Finance: **Embedded**

‹ Risk Management: **Initiated**

‹ Corporate Enablers (HR, IT, other support functions): **Initiated**

‹ Governance: **Initiated**

III. The year at a glance: The OIG

In 2018, the OIG further strengthened its capacity to safeguard the Global Fund's assets, investments, reputation and sustainability. OIG audits and investigations are helping the Global Fund identify and manage key risks, strengthen controls, improve processes, and ultimately deliver impact. In addition to its core assurance mandate, the OIG is also increasingly focusing on delivering additional value-adding services through advisory engagements.

OIG's front office services have been consolidated into a new Professional Services Unit, to manage operations and provide critical support services to ensure the OIG delivers to its stakeholders. This year, the OIG achieved its highest ever rating in its annual stakeholder satisfaction survey with Board and AFC committee members (3.51 on a scale of 1-4, up from 3.45 in 2017 and 3.32 in 2016).

OIG Operational highlights

▸ **1** Satisfactory delivery on the 2018 workplan target

▸ **2** Expansion of advisory services

▸ **3** OIG restructuring and creation of a Professional Services Unit

OIG facts and figures	2018	2017
▸ Reports issued	25	28
▸ Agreed Management Actions created	50	83
▸ Audit Reports published	14	17
▸ Advisories completed	2	1
▸ Total Allegations Received	208	207
▸ Allegations from whistleblowers	107	92
▸ Allegations from Secretariat	35	55
▸ Investigation cases closed	36	28
▸ Headcount at end of year	44	47

The Inspector General confirms that the OIG has maintained its organizational independence. The OIG reports directly to the Board through the Audit and Finance Committee. During the reporting period, there has been no interference in determining our scope of activities, or the work performed by the OIG, or the communication of the results from our work. The Inspector General confirms that the resources allocated to the OIG are adequate to allow it to discharge effectively its mandate.

IV. Significant strategic themes

01 The Global Fund Partnership is achieving significant impact

2018 OIG audit results confirm a continued trend of improvements in grant implementation processes and systems, delivering measurable impact. Most of the country portfolios reviewed this year show significant programmatic results being achieved across the three diseases.

Significant expansion of HIV treatment coverage – With support from the Global Fund and other partners, antiretroviral treatment coverage has significantly increased in many countries. In **Kenya,** the number of people enrolled in antiretroviral treatment increased by 52% between 2013 and 2015, contributing to a 38% decline in AIDS-related deaths. Between 2007-2017, AIDS-related deaths also decreased by 68% in **Rwanda** and 22% in **Viet Nam.** A similar decline of 52% was noted in **Myanmar** between 2000-2016.

Progress towards malaria control or elimination – Similar progress has been made in reducing the malaria burden, with some countries moving towards elimination. **Myanmar** saw a 64% decline in malaria cases between 2014 and 2017, and related deaths falling from 1,707 in 2005 to just 30 in 2017. In **Viet Nam,** malaria deaths are now in single digits. Substantial progress was also noted in higher burden countries such as Kenya, which achieved a 47% reduction in malaria incidence between 2015 and 2017. Even challenging operating environments audited this year showed notable gains in the fight against malaria: **Niger** had a 30% decrease in malaria-related deaths between 2010 and 2015 while **Sierra Leone's** malaria incidence and mortality fell by 50% and 40%, respectively, during the same period thanks to increased bed-net coverage and access to anti malaria medicines, supported in large part by Global Fund grants.

TB treatment success – Most countries reviewed by OIG in 2018 continue to have high success rates for TB treatment. **Myanmar** and **Viet Nam** have treatment success rates of 87% and 91%, respectively, and further improvements are expected as both countries fully implement a new short-course treatment for Multi-drug resistant tuberculosis (MDR-TB), currently in pilot phase. Similarly high treatment success rates were also noted in **Ghana** and **Kenya** at 85% and 87%, respectively. In **Rwanda,** TB mortality decreased by 55% between 2015 and 2016 as the country achieved a treatment success rate of 88%.

Notwithstanding the significant achievements highlighted above, our 2018 country audits noted **persistent challenges related to quality of services.**

Weaknesses in **HIV diagnosis** and adherence to national guidelines are a recurring issue. Sample testing of facilities in **Ghana, Myanmar,** and **Kenya** found that, respectively, 73%, 38% and 24% of facilities did not follow approved HIV testing guidelines, due to limited training and capacity of service providers, and weak supervision by national programs. Failure to follow consistent testing guidelines increases the risk of potentially incorrect diagnosis.

HIV coverage for Key Affected Populations and vulnerable groups remains inadequate in some countries. Less than 45% of people who inject drugs and who were reached by prevention programs in **Myanmar** were tested for HIV, despite an extremely high prevalence among this population. In **Niger,** although half of new infections come from mother-to-child transmission, HIV testing was performed for only 32% of pregnant women who had a pre-natal consultation and 50% of new mothers who had a post-natal consultation. Interventions for key populations in **Kenya** are implemented based on outdated bio-behavioral surveillance, making it difficult to estimate the size of key populations and to target interventions effectively.

Retention and monitoring of HIV patients remain weak in some countries. The audit of **Ghana** found that only 37% of patients testing HIV-positive were initiated on treatment. Loss to follow-up after treatment initiation was 22% and only 33% of patients on antiretroviral treatment received a viral load test. In **Niger,** 40% of patients initiated on treatment were lost to follow-up, against a national target of 5%. Weak monitoring of patients under antiretroviral treatment has also contributed to one-third of HIV patients in **Chad** being lost to follow-up a year after treatment initiation.

Limited integration of service delivery also affects access to quality services. In **Myanmar,** the Global Fund supports over 17,000 malaria health volunteers, but this important network is not being leveraged to support HIV or TB services at community level. Ghana has expanded geographical access to health care at the community level by increasing the number of Community-based Health Planning and Services. However, these centers are not being used to provide services for the three diseases, although they represent over 60% of all health facilities in the country. Community Health workers in **Madagascar, Benin** and **Rwanda** only provide malaria services and are not mandated to cover the other diseases, a missed opportunity given the shortage of health workers in those countries. Increased service-delivery integration and better leverage of community health resources, whilst not a panacea, could significantly improve the quality of services.

02 Finding the missing TB cases

With an estimated 1.6 million deaths each year, tuberculosis is now the biggest killer among infectious diseases, ranking above HIV/AIDS. The World Health Organization estimates that, each year, around 3.6 million people suffering from TB remain missing – beyond the reach of detection and unable to access life-saving treatment. These missing TB cases represent a major global health challenge.

> **TB is the number one killer among the three diseases and requires more attention.**

While the need is increasing, the international donor funding reported by national TB programs (NTPs) is decreasing, from US$1.2 billion in 2017 to US$0.9 billion in 2018, far short of the US$2.6 billion annual requirement estimated in the Global Plan for TB. The Global Fund is the single largest source of international financing for TB programs in the world, making it a key player in the global fight against this disease. In 2018, the Global Fund provided 74% of international funding to NTPs.

Various root causes for weak case detection - The issue of missing TB cases is a complex challenge with multiple driving factors, several of which are beyond Global Fund control. These factors include access limitations, particularly for certain under-served and hard-to-reach groups, gaps in diagnostic processes, limited implementation of active case finding, and insufficient leverage of private sector health providers. OIG audits this year have highlighted these challenges in the context of Global Fund grants. **Kenya** has fallen short of its case notification targets in the last three years and TB treatment coverage remains low at 45%; most outpatients are not screened for TB even though national guidelines require it. In **Sierra Leone,** one of the top 30 high-burden countries for TB, a targeted approach has led to significant improvements in case notifications, however only 64% of the estimated cases were detected for drug sensitive or simple TB. Community-referred patients are not being tested due to limited access to service delivery points. **Ghana's** TB case detection of 33% is one of the lowest in the region: root causes include ineffective sputum sample transport mechanisms, limited TB screening at the community level, and poor utilization of GeneXpert technology for diagnostics.

Under-utilization of available technology - The Global Fund and Partners help countries procure GeneXpert screening machines for TB case detection. However, the coverage and use of the available machines remain low across the countries audited in 2018. In **Kenya,** machine utilization averaged 49% in 2016 and 2017, partly due to the machines' delayed deployment and limited functionality (47% of the modules on installed machines were not functional because maintenance costs had not been adequately planned for). In **Sierra Leone,** only 3% of patients in TB high burden districts are tested using the machines, whose utilization rates remain very low (between 4% and 12%). **Ghana's** GeneXpert machines perform 2.1 tests per day (against a target of 4) due to limited machine functionality and stock outs of cartridges.

> **Limited active case finding, sub-optimal use of new technology and lack of effective private sector engagement contribute to high volume of missing TB cases.**

Weak private sector links - A significant number of patients seek health services in the private sector, yet this sector has not been actively engaged in identifying and treating TB cases. In **Kenya,** 42% of suspected TB patients access the private sector as the initial point of care, but the National TB Program data show that only 18% of total TB case finding was diagnosed and notified through the private sector. The Global Fund has recognized this gap and is supporting the country to better engage the private sector in TB diagnosis and treatment in subsequent grants. The audit of **Sierra Leone** similarly noted the lack of a strategy for Public Private Partnerships to improve case detection. The national program also lacks the resources to effectively engage and supervise TB service providers in the private sector.

Global Fund initiatives to find the missing TB cases include catalytic investments of US$190 million, from which the Secretariat plans to invest an additional US$115 million in 13 key countries accounting for 75% of the estimated missing cases; 1.5 million additional cases are expected to be found by end of 2019. In 2018, WHO, in collaboration with the Stop TB Partnership and the Global Fund, launched the initiative 'Find. Treat. All.' with a target of detecting and treating 40 million people with TB between 2018 and 2022.

03 Managing Transition and Sustainability of Global Fund grants

Long-term sustainability and eventual transition are core tenets of Global Fund programs. Countries are expected to be able to maintain and scale up services even after funding from the Global Fund or other donors ends. In April 2016, the Global Fund Board approved the Sustainability, Transition and Co-financing (STC) policy.

Transition processes established but challenges remain at country level - The 2018 OIG audit of **Transition Management Processes** recognized significant progress by the Secretariat in implementing the STC policy. Internal governance mechanisms have been established to support transition planning and to oversee implementation. Notable improvements include the allocation of dedicated resources, the enhancement of grant-making processes to fit the needs of transition portfolios, and the development of tools to support transition planning and preparedness. Transition Readiness Assessments (TRAs), or equivalent studies, have been conducted for all the countries and components that are transitioning in the current allocation cycle.

Yet the OIG audit also highlighted significant challenges. While many are beyond the Global Fund's full control, they pose a significant risk to successful transition outcomes:

▶ **Limited political will at the country level, affecting funding and program decisions;**

▶ **Legal and cultural barriers that can often impede access to services for key populations;**

▶ **Limited evolution of program governance mechanisms to fit unique needs of transition;**

▶ **Persistent gaps in advocacy to effectively influence government at senior level.**

While the Global Fund's ability to tackle these broad challenges reduces as funding decreases or ends, it can however exert meaningful influence with both in-country stakeholders and across its broader partnership network. The Global Fund can also leverage existing non-financial mechanisms, other than grant funding, to support countries post-transition. The audit also highlighted that standard grant indicators alone are not sufficient for measuring the performance of transition-specific activities.

Encouraging trends of increased country ownership - In several countries, governments are taking over key components of programs previously funded by the Global Fund. In **Myanmar,** the government supports the funding of methadone maintenance treatment and the procurement of antiretroviral medicines, other HIV-related commodities, and anti-TB medicines. The government of **Viet Nam** is taking increased domestic responsibility for tackling the three diseases, integrating HIV treatment services into the National Health Insurance reimbursement scheme. These trends are consistent with the principle of country ownership and bode well for long-term program sustainability and transition preparedness. However, there

is a need to carefully manage the risks related to these shifts. In **Viet Nam,** there has been limited assessment of the risks related to poor insurance coverage or increased drop-out rates, which could impact poorer populations who face barriers to insurance enrolment. Equally, stigmatized groups accustomed to the outpatient system may face discrimination from hospital healthcare staff inexperienced in providing HIV-related services to key populations. In **Myanmar,** while the transitioning of HIV treatment services will shift a large number of patients from Non-Government Organizations to government facilities, no detailed assessment has been performed to evaluate the impact on an already constrained public supply chain system.

Increasing government commitments, but gaps in actual investments - Many of the countries reviewed this year are increasing their financial commitments. The government of **Kenya** meets all its counterpart funding in line with Global Fund requirements and provided up to US$84 million to the national programs between 2015 and 2017. In Rwanda, the government spends 17.9% of its budget on health, making **Rwanda** one of the few African countries to meet the 2001 Abuja declaration. The country also meets its counterpart funding requirements in line with Global Fund policies. That said the HIV, TB and malaria programs in many countries are still heavily reliant on donors and commitments made by governments are not always honored. For example, our country audit in **Ghana** noted that, whilst the health sector budget increased by 26% between 2017-19 and the country also increased its co-financing commitment in the last two allocation cycles, actual investments made were on average at only 64% of the planned commitments.

Sustainable impact requires increased focus on capacity-building - The Global Fund, as a last resort, uses United Nations organizations and other international Non-Government Organizations (NGOs) to manage grants in challenging operating environments or where the Ministry of Health does not meet certain minimum requirements. These U.N. entities and NGOs are expected to build capacity of national implementers, in particular the Ministry of Health, to eventually take over implementation of the grants. However, our audits in **Chad** and **Sudan** highlight that these capacity-building components are often not effectively implemented. In **Chad,** UNDP has been a Principal Recipient since 2009, but there was no formal capacity-building and transition plan until 2017. Subsequently, implementation of the plan has been delayed, with only about 40% of the planned activities executed. In **Sudan,** UNDP and other in-country stakeholders developed a capacity-building plan to ensure smooth transition of the implementation of the grants to the Ministry of Health. However, many of the activities in the plan have not been completed due to lack of clarity and accountability between the Ministry of Health and UNDP, and inadequate oversight of the plan by the Global Fund and the Country Coordinating Mechanism.

Balancing short-term delivery needs and long-term sustainability goals - Building the capacity of national implementers is a complex process involving many factors, some of which are beyond the control of the Global Fund or its implementing partners: lack of in-country political will, leadership and commitment; low baseline capacity; limited available financial and human resources, etc. Trade-offs and prioritization must often be carefully evaluated between para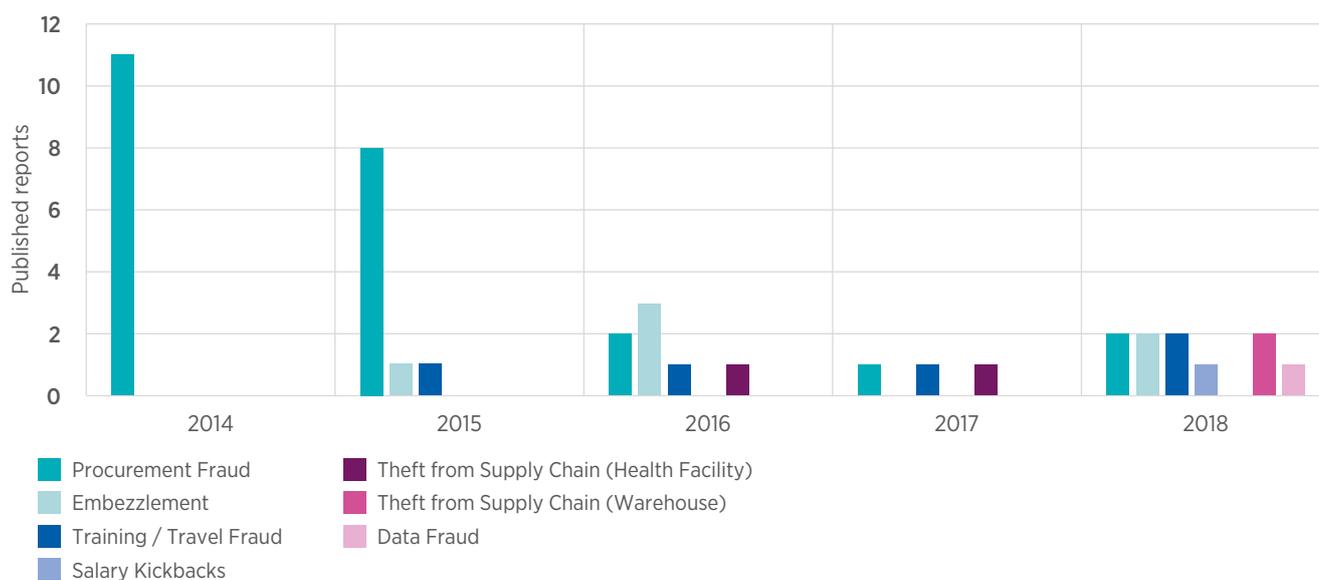mount, short-term needs of service delivery, and longer-term objectives of sustainability planning. Priority must often be given to meeting the immediate needs of delivering health commodities and services to communities at risk. However, to achieve sustainable impact, the Global Fund must also work with both its current international implementers and the countries' national entities to develop more robust capacity-building roadmaps, with realistic timeframes, clear milestones and metrics to gauge progress and to measure success.

04 Managing financial risks and changing fraud risk profile

OIG investigations have become more diverse over the years, evolving in line with the financial and fraud landscape. In 2014-15, 80% of investigation reports dealt with procurement fraud, while today this is only 20%. Now 33% of investigations concern training-related frauds, 20% are supply chain-related issues, 7% relate to instances of embezzlement, 7% to data manipulation and 13% to other schemes such as salary kickbacks and school fee related frauds.

FIGURE 2 CHANGING FRAUD RISK PROFILE

The Global Fund is continuously improving its financial management systems and processes. In **Niger,** following 2014 OIG investigations that identified major financial irregularities, the Secretariat instituted safeguards to better manage grant funds. These measures have significantly mitigated financial risks and the 2018 audit found no significant issues related to the use of funds, irregularities or financial mismanagement. Despite high inherent financial risks in **Madagascar,** the audit found no material financial irregularities or ineligible expenditures, although OIG performed an extended review of financial transactions related to Global Fund grants after we were informed of losses incurred by another donor. This outcome is due, in large part, to additional financial controls and assurances put in place over Global Fund investments in the country.

The Secretariat's mitigation measures have not however been as effective in some challenging operating environments. Additional safeguards were instituted in **Sierra Leone** following a 2014 OIG investigation, including the use of a fiscal agent. However, these measures have not sufficiently mitigated fraud risk as this year's audit identified irregularities in several of the procurement activities reviewed. Similar financial safeguards instituted in **Chad,** such as the use of Fiscal Agents and Zero cash policy, have not resolved that portfolio's financial management issues. The Principal Recipient's overall internal financial controls and procurement processes need improvement, and financial problems persist, including a lack of proactive management of the issues raised by the external auditors and the Local Fund Agent (LFA).

A recently completed OIG investigation in the **Democratic Republic of Congo** identified systematic manipulation of local tenders managed by an international NGO who was one of the principal recipients of our grants in the country. This resulted in over-pricing losses of US$7.5 million, which have since been recovered by the Global Fund. Beyond the large size of the loss involved, this investigation highlighted important gaps in the internal controls of the international NGO, in the Secretariat's grant risk oversight and over-reliance on the international NGO's controls and risk mitigation, and in the Local Fund Agent's scope of work. In **Sudan,** grants implemented by a United Nations entity suffered losses of US$846,000 related to missing fixed assets, which have also been fully reimbursed to the Global Fund; a subsequent OIG audit also identified additional missing fixed assets which are being further investigated. The challenging operating environments in which grants are implemented often require the Global Fund to rely on International NGOs and U.N. organizations. For the 2017-19 funding cycle, International NGOs implement 51 grants with a total budgeted value of US$1.7 billion, while U.N. Principal Recipients manage 24 grants with a total budgeted value of US$1.3 billion dollars. Given the size of these investments, while recognizing the limited leverage the Global Fund has on these institutions in comparison to local entities, the Secretariat needs to maintain an effective risk oversight and controls monitoring framework over these implementing partners.

OIG investigations are helping the Secretariat to identify and mitigate against fraud risks. Following a 2018 OIG investigation, in **Papua New Guinea** the Secretariat is working with the Principal Recipient, an international NGO, to improve its financial assurance processes globally on all its Global Fund portfolios, improving its internal control procedures and changing the way accounting data flows between headquarters and countries. In the **Kingdom of Eswatini,** as a result of a 2018 OIG investigation into the diversion of grant funds through electronic transfers, standard operating procedures are being developed by the Secretariat to guide the management of mobile money systems.

Shift from procurement fraud to theft of commodities: Material health product procurement-related fraud has been mitigated through the use of the Global Fund's pooled procurement mechanism, which aggregates order volumes on behalf of participating grant recipients to negotiate prices and delivery conditions with manufacturers, and through additional safeguards. However, whilst these safeguards have mitigated procurement fraud, our 2018 reports highlight increased drug thefts from central warehouses or medical stores facilities. In **Zambia,** US$1.06 million of Global Fund-financed health products could not be accounted for. Evidence suggested that these products were stolen over a two-year period. In the **Central African Republic,** our investigation highlighted approximately US$200,000 of Global Fund-financed anti-malarial and antiretroviral medicines which were stolen or leaked from the central warehouse.

Emerging fraud risk areas: Programmatic data fraud and salary kickback schemes are two emerging fraud risk areas highlighted in recent OIG investigations.

In 2018 the OIG published its first investigation into deliberate data falsification. In **Guinea,** the Principal Recipient commissioned a third party to conduct an HIV Integrated Biological and Behavioural Surveillance (IBBS) survey. The third party provider created fictitious participants, amounting to around 25% of the survey sample, inflated HIV blood test numbers by more than 50%, and paid field workers for more days than they actually worked. Initially, the third party provider falsified the amounts and supporting documents for the costs it reported to have incurred in conducting the survey and overcharged the program. The investigation turned to the survey itself, where the investigators identified pervasive documentary fraud. As a result of the OIG investigation, the Secretariat has commissioned an in-depth review of 10 similar IBBS surveys to ensure there are no similar recurrences.

While not new, 'salary kickback' schemes have become more numerous, grander in scale, or operated by more senior staff members. In **Nigeria,** an OIG investigation found that senior finance and audit staff in a TB grant collected up to 40% of employees' salaries and per diem payments, following orders from the National Coordinator. Employees feared their jobs would be lost if they refused to pay. The OIG is currently evaluating allegations of similar schemes in several countries. Based on the results of these assessments, the OIG may undertake a comprehensive and proactive review in 2019 to identify systemic root causes and preventive control measures, to mitigate the risk of these schemes spreading further.

> Importance of maintaining effective risk oversight and control monitoring framework over implementing partners.

V. Key Operational Processes

The OIG's internal reviews in 2018 confirm continued operational improvements and process optimization efforts within the Secretariat. The Performance and Accountability framework currently being implemented places increased emphasis on improving organizational efficiency, streamlining business processes and systems, and promoting agile decision-making and a stronger focus on delivery and performance management. If well implemented, it will be another building block in the continuing maturation of internal business processes.

As OIG concluded in our previous annual report, some key Global Fund business processes have already reached an "embedded" stage of maturity (Finance; and Strategy, Partnerships and Fundraising). Others are moving towards that stage and, while progress is being made in each case, some key challenges need to be addressed.

01 Risk Management – Significant steps towards an embedded level of maturity

The Global Fund risk management framework has matured further during 2018. The main building blocks of a comprehensive risk management framework are now mostly in place and being used:

▶ **Risk governance - There is increasing focus of the Board on the risk oversight component of its core mandate. At the committee level, there is more targeted review of key risks falling under each committee's mandate, although there is still room to further improve oversight of cross-cutting risk areas.**

▶ **Risk culture - Organizational attitudes towards risk management are shifting. There is increased synergy between front-line business functions and second-line risk oversight functions, and risk management activities are being gradually embedded into day-to-day business management decision-making processes.**

▶ **Risk infrastructure - Systems and tools have improved with the 2018 deployment of a new Integrated Risk Management (IRM) tool. IRM addresses the previous fragmentation of risk tools and allows for more systematic capture, analysis, consolidation and reporting of key grant-related risks and mitigating actions. Policies, standards and methodologies are now largely defined and are being used to guide key processes around risk identification, analysis and reporting.**

A significant milestone in the maturation of risk management was the finalization of a Risk Appetite framework, approved by the Board in May 2018. Besides aligning expectations across key stakeholders as to what levels of risk the organization is prepared to assume, the framework helps evaluate trade-offs in business decisions, enhances the allocation of limited resources, and fosters a more mature dialogue when risks materialize. The Secretariat is operationalizing the framework across the portfolio of 53 High Impact and Core countries; this has now been done for 29 countries representing over 70% of the global burden for the three diseases.

While operationalization of this framework represents a significant step forward, fully embedding risk appetite will require additional progress in some critical areas.

Risk metrics and indicators - Effective monitoring of risk levels requires key metrics or qualitative indicators to gauge against. Although progress has been made in establishing key outcome indicators in Program Quality, more remains to be done in other critical risk areas such as Supply Chain. It is also important to define meaningful risk metrics to measure current risk levels against defined targets. The Risk function and relevant business units are working towards developing key risk tracers and outcome indicators in these various areas.

Risk mitigation - While risk appetite provides a systematic analytic framework for identifying, analyzing and scoring risks, effective mitigation goes beyond mere analysis. It requires strong and disciplined processes to define appropriate mitigating actions, establish clear accountability for their implementation, monitor actual progress, evaluate impact, and course-correct on a real time basis. Although risk identification processes have significantly improved, risk mitigation requires further maturation and discipline.

Internal controls framework - Significant progress has been made in strengthening the internal controls framework, including: documentation of key processes and related policies and procedures; performance of business process risk reviews for prioritized areas; tracking of control improvement areas and action items, and related progress reporting to the Management Executive Committee. Based on risk level, business process owners must establish monitoring activities to ensure controls operate as intended. Operational process performance dashboards and control monitoring reports are being developed for key processes in Grant Management and should be rolled out in 2019; as such, their design or actual effectiveness cannot yet be validated. Likewise, the escalation mechanisms for significant control exceptions and the quality of second-line oversight remain to be confirmed. As robust business owner monitoring and effective second-line oversight are crucial to establishing a sound internal controls framework, this remains an important milestone to reach an embedded level of maturity.

O2 Sourcing and Supply Chain – Strategic direction being defined

Several aspects of Sourcing and Supply Chain are working well. The biggest area of procurement spend remains the purchase of health products for grant programs through the Pooled Procurement Mechanism (PPM), representing around US$1 billion annually. Initiated in 2007, PPM has significantly matured, delivering increased reliability, cost efficiency and quality products to countries. It is also filling mission-critical gaps for some of the lowest-capacity countries. While some stakeholders have highlighted risks around long-term sustainability and the need to build country capacity, PPM functions well overall. It is a significant achievement and a critical tool in meeting immediate program delivery needs. Indirect sourcing, which mainly includes internal procurements under the Secretariat's operational budget, represents an annual expenditure of around US$240 million. While significant weaknesses were identified in this area in prior reviews, the 2018 OIG follow-up audit reported material improvements, with enhanced procurement regulations and procedures, controls to increase transparency and competitiveness, stronger business unit accountability, and staff training on compliance.

However, significant gaps will need to be addressed before the Sourcing and Supply Chain business process reaches the "embedded" stage:

▶ **Strategy – The sourcing and supply chain business process has seen significant structural changes in 2018. Until now, the Secretariat had a siloed approach to procurement and supply chain. Responsibilities were spread across two divisions (Finance and Grant Management) and four departments (Sourcing, Supply Chain, Wambo, and Health Products Management), all of which had different objectives, priorities and performance measures, hindering synergies. The main Sourcing and Supply Chain functions have now been consolidated in a single unit. Its leadership has been elevated to a more senior level as the department's Head is now a member of the Secretariat's Management Executive Committee and reports directly to the Executive Director. This new structure has only been in place since October 2018, and the new leadership will need time to evaluate the status quo, develop a vision and related strategy for the future, and build the supporting organization to deliver it. This strategy will be a significant milestone, an opportunity to perform a critical and objective assessment of the Global Fund's approach to sourcing and supply chain to ensure it is fit for purpose, to refocus priorities, and to recalibrate existing goals and commitments.**

▶ **Organizational structure - The recent consolidation helps to address the fragmentation of procurement and supply chain processes within the Secretariat. However, until a new work process is fully defined and functioning, it is too early to assess whether all critical structural gaps have been effectively addressed. For example, the OIG previously highlighted the ineffective linkage between technical Health Products Management (HPM) specialists, who oversee procurement and supply chain matters within grant portfolios, and the procurement specialists in the Sourcing function. As HPMs still continue to reside within Grant Management, it is critical to align processes, establish complimentary target-setting, and build necessary incentives, in order to ensure end-to-end execution and monitoring of all procurement and supply chain related activities. The recent redesign of the Supply Chain Steering Committee and the alignment of country supply chain objectives between HPMs and Supply Chain Specialists is a step towards improving overall efficiency. The announcement of the new Sourcing and Supply Chain organisation will also focus on end-to-end process alignment.**

▶ **Supply Chain transformation - Recognizing supply chain's role in meeting the Global Fund's strategic goals, the Secretariat launched a major supply chain transformation initiative in 2016. It included plans for in-depth diagnostics in 20 high-risk countries which represented the majority of grant allocations and approximately 75% of Global Fund investments in health products. Results were expected to inform the development of country-specific supply chain transformation plans to be implemented with governments and partners. The aim was to complete these 20 diagnostics by end-2019. The Secretariat also planned to have started the transformation phase in 16 countries by that date. As of end-2018, the Secretariat had completed 14 diagnostics and initiated transformation in eight countries. The remaining diagnostics should be completed, and eight additional countries are expected to have begun transformation, by end-2019. While the actual transformation work will be a long-term effort, defining a problem statement based on the diagnostics and a structured roadmap to guide the transformation work will advance the maturity of this business process.**

Systems, tools and data - Previous OIG reviews have highlighted the lack of an effective internal management information system to support procurement and supply chain analysis, monitoring, and decision-making. Existing systems do not support end-to-end monitoring of supply chain and procurement activities, requiring significant manual workarounds for transactions processing, analysis of data, tracking of performance, and reporting. Both at country level and within the Secretariat, systems do not allow for effective forecasting, demand planning or inventory monitoring. Progress is being made in measuring product availability for those countries prioritized within the transformation program. In 2016, a strategic investment was made with the launch of wambo.org, an online purchasing platform. It has been gradually leveraged to support PPM procurement processes and at end-2018 was being used to process orders worth US$1.1bn for 62 countries. This will progressively improve efficiencies and synergies in procurement whilst also improving visibility

and compliance, through more formalized approval steps. Although the savings assumptions and the related targets in the initial business case may need to be recalibrated, leveraging the wambo.org platform is likely to enable PPM to deliver additional savings associated with an expansion of volumes and increased scale. However, the business case for wambo.org needs to be fully re-evaluated in the context of the Global Fund's broader procurement and supply chain strategies, and an objective assessment of its future strategic development performed.

03 Grant Management – Key improvements made, significant challenges remaining

Grant management business processes continue to improve. The Secretariat has completed the Accelerated Implementation Management (AIM) project, putting in place a new, integrated Grant Operating System which supports the end-to-end management of grants, from initial allocation to implementation, monitoring and closure. The final module was released in early 2019, completing a series of twelve releases over the past three and a half years of implementation. While the project was delayed and over-budget, its completion is an important milestone. The new platform reduces fragmentation of previous grant management systems and tools, embeds more automated controls in the workflow, and enables strengthened portfolio management by providing better visibility into key data and processes across the full grant lifecycle.

Other improvements in the Grant Management processes include strengthened operational policies and procedures, a more differentiated approach to portfolio management to enable increased focus on highest-impact investments, and targeted initiatives to tackle implementation bottlenecks, improve absorption and optimize portfolios. While these various measures have improved the level of maturity of grant management processes, the "embedded" stage of maturity has not yet been achieved as gaps remain in some important areas.

Business process controls - Operational policies and procedures are largely in place, but there is often inconsistency in the effectiveness of the related business process controls. Recent OIG reviews have highlighted gaps in the effectiveness of controls over key processes such as grant funding and disbursements, revisions, grant performance ratings, compliance with reporting requirements, management of exceptions, and validation of data integrity. As noted in the Risk Management section above, the development of effective business controls monitoring processes remains work-in-progress.

Grant performance monitoring - In our 2015 annual report, OIG highlighted the need for "greater attention to post-disbursement oversight and monitoring of the activities of grantees". Grant monitoring quality remains uneven across the portfolio. Some challenges relate to broader country contexts, while others are more within the Secretariat's span of control. Effective performance monitoring hinges on the availability of reliable and timely data, which continues to be a significant challenge at country level. OIG highlighted this issue in our 2018 audits of grant portfolios in **Madagascar, Benin** and **Niger.** While clearly affecting the quality of grant monitoring, these are generally linked to core country-level weaknesses that do not necessarily relate to internal Global Fund processes. More within the Secretariat's span of control is the quality of the grant management oversight and assurance framework, which remains inconsistent both in terms of rigor around the disbursements and monitoring of results after disbursements. In the **Democratic Republic of Congo,** disbursements to an international NGO on a US$180 million grant continued to be made despite the lack of verified financial reports and large unexplained variances in multiple expenditure line items (a recent OIG investigation identified significant financial irregularities in the same grant). In **Rwanda,** the Global Fund is implementing a Results-Based Funding model in view of the country's strong track record of performance and good governance. However, the OIG audit identified significant weaknesses in the Secretariat's assurance framework which, despite the results-based model, still focuses mainly on traditional financial assurance and includes very limited assurance on programmatic data based upon which results are presumably measured.

Overall, OIG country audits continue to identify issues and weaknesses that effective ongoing monitoring and assurance processes in Grant Management would be expected to proactively identify and address. Thus, as part of progressing to an "embedded" stage of maturity, there is a need to strengthen the grant monitoring and assurance processes and to build internal controls.

> Need to strengthen grant monitoring and to build business controls.

04 Information Technology - Slow migration towards a strategic business enabler

The Global Fund's IT landscape has evolved in recent years, notably with the shift towards cloud computing. The Secretariat has addressed many operational control weaknesses around access, availability, security, and IT policies. However, the OIG previously highlighted the lack of a clear IT strategy to drive technology investments, the maturation of IT as a strategic business enabler, the need for strong change management capabilities, and effective IT governance, oversight and risk management. There has been less progress on tackling these broader strategic priorities. The weak focus on a long-term strategic perspective has been due, in part, to the lack of stable IT leadership: there have been three different Chief Information Officers (CIO) in the past three years. The IT function has now been elevated in the Secretariat, with a direct reporting line to the Executive Director, in contrast to its previous position as a department within Finance and Administration. This should enhance the function's remit and elevate its line of sight. A new CIO, who is a member of the Management Executive Committee, was recruited in the second half of 2018. The new CIO is in the process of defining a clear IT roadmap to cover the current key technology solutions of the core businesses and longer term strategic needs, enhance organization-wide data management, and reconfigure the IT operating model to enhance capabilities. While it may take years before the organization fully reaps the benefits from this more strategic approach, getting these building blocks in place would move the IT business process from its current **initiated** to a more **embedded** maturity stage.

05 Human Resources – Tackling performance management

The Secretariat has made considerable progress in improving human resources management processes, including the development and ongoing implementation of the People Strategy 2017–2022. This strategy sets out an approach to create a working environment in which the Global Fund can deliver on its mission by empowering management and staff with the necessary organizational tools and culture. Our 2018 audit of the **Human Resource Management** at the Secretariat highlights that the function has substantially evolved, from being an administrative support unit to a more strategic function that is well-placed within the organization. Despite this, some significant challenges in human resource management processes need to be addressed. Known issues relating to ineffective management of poor performance have not been properly tackled. The lack of consequences and incentives for managers in handling poor performance, lack of enforcement by Human Resource Department, a perception that the applicable legal standards are too constraining, and limited managerial capabilities are contributing factors to the ineffective management of poor performance. The Secretariat recently recruited a consulting firm to undertake a major review of the Global Fund's performance and talent management. The results will inform necessary changes in policies, processes and systems to remedy the weaknesses in this area.

Another significant gap in human resources is the lack of Strategic Workforce Planning (SWP), a need that was identified and has been outstanding since 2012. This has now been prioritized as a key initiative under the Human Resource Strategy. The Secretariat plans to implement SWP through a staggered approach, to be finalized by June 2020.

> Known issues relating to ineffective management of poor performance have not been properly tackled.

06 Governance - Ongoing maturity journey

Progress continues to be made on the journey to strengthening the Global Fund's governance, both at Board and Committee levels. Following a series of reviews and recommendations, including OIG's 2017 advisory engagement and various self-assessments, in May 2018 the Board approved a Governance Action Plan designed to address various highlighted gaps. Several components of the action plan have been completed, while others remain work in progress. The Action Plan covers six main thematic areas; in each, concrete steps have been taken and progress made during 2018, but important elements remain to be substantively addressed:

▶ **Board size, structure and composition:** an additional Public Donor seat has been created as a transitional compromise, but final consensus remains to be reached on the Board's appropriate size and composition, given the Global Fund's evolving landscape;

▶ **Ethical decision-making and managing Board-related conflict of interest:** Increased emphasis is now placed on ethical conduct of governance officials, with Ethics fully embedded in onboarding programs, in committee agendas, and through targeted constituency trainings. A review of ethics policies, with appropriate revisions, is pending on the Board's agenda in 2019 to further strengthen the existing framework.

▶ **Succession planning, selection processes and skills:** Key leadership positions (Board and Committee leaderships, Executive Director and Inspector General) have been staggered to reduce the risk of concurrent changes in key roles during critical phases of the business cycle. Both the selection processes and the terms of reference of Board leadership have been enhanced, with an overarching goal of selecting the most competent candidates for these roles. Work also began in 2018 to strengthen committee selection, with the aim of tackling significant issues such as onerous processes, limited candidate pools and lack of gender balance, perceived lack of transparency and balance in constituency representation, weak institutional memory management, etc. Overall, the Global Fund's most recent selection processes (for both the Executive Director and the Committees) have proved challenging, even though satisfactory outcomes were eventually reached. Whilst steps have been taken to address the noted gaps, the effectiveness of the new selection processes remains largely untested; the first marker of progress will be provided with the new Board Leadership selection process, currently underway and expected to complete by May 2019.
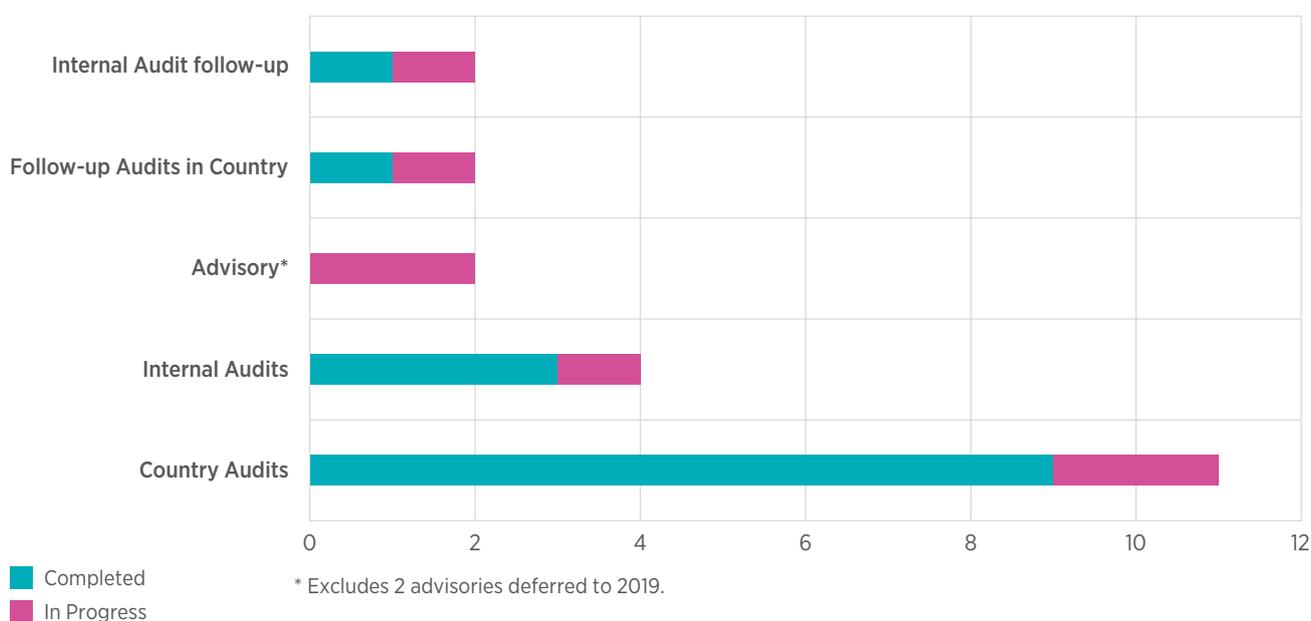
▶ **Leveraging the role of committees:** Work has been done to clarify the mandates of the committees, particularly as it relates to cross-cutting matters, and to standardize the management of committee meetings in order to enhance consistency, focus, and coordination across the different committees. The Action Plan calls for a review of the effectiveness of the overall structure following completion of two committee terms in May 2020.

▶ **Elevating Board discussions:** Significant effort has been made to tighten Board agendas, with increased emphasis on strategic matters and decision-making topics, and aligning priorities between the Board, Committees and the Coordinating Group.

▶ **Cultural change to enhance effectiveness:** The previous OIG advisory review, separate governance performance assessments, as well as the EGC's own lessons learned highlighted potential significant symptoms of cultural issues at the Board level. Following OIG recommendations, the Governance Action Plan had called for a structured assessment of Board culture to better identify the cultural gaps and inform future workstreams to enhance Board culture. This remains an open action, which is being addressed through the governance culture initiative, but it is still early to evaluate.

The above assessment largely depicts a governance improvement journey that remains work-in-progress. Whilst much has been done in 2018 to substantively advance that journey, much still remains to be done. In some cases, such as for selection processes or role of committees, the necessary changes have been made and it is only a matter of embedding these revisions. But one must also recognize that several of the pending governance issues, such as Board composition or managing constituency conflicts-of-interest, are a reflection of deeper tensions that are inherent in the Global Fund's business model and multi-stakeholder governance architecture. Other issues, such as Board culture need a more concentrated effort, though it is understood this is an area that will take a longer time to fully address. Thus, the test to evolve the maturity level from its current "initiated" to a higher "embedded" stage is not necessarily whether these issues have been definitively resolved. Rather the test is whether sufficient progress has been made in fully evaluating the issues, developing actionable proposals to address them, and having in place robust processes and mechanisms to implement and evaluate the effectiveness of those actions over time.

VI. Progress on 2018 work plan and KPIs

01   Audit Plan

FIGURE 3 COMPLETION STATUS OF AUDIT WORK PLAN AS OF 15 MARCH 2019

■ Completed
■ In Progress

* Excludes 2 advisories deferred to 2019.

Of the 19 audits in the 2018 work plan, all audits have been substantially completed. 14 audits have been published, with two due to be published in Q1 2019 and three in Q2 2019.

The OIG set aside time in its work plan to perform four advisory engagements in 2018. During the year, the Audit Unit received a request from the Executive Director to analyse grant implementation in Western and Central Africa to establish how the Global Fund could overcome barriers and enhance performance in the region. The review was complemented with rigorous data analysis and in-country workshops with key stakeholders. Due to the critical, in-depth nature of this large-scope engagement, significant Audit resources were assigned to it, and as a result it was not possible to complete two other planned advisories, which were postponed to Quarter 1 2019 and which are currently underway.

Significant resources assigned to Western & Central Africa advisory.

02 Investigation Plan

FIGURE 4 STATUS OF 2018 AFC-APPROVED INVESTIGATIONS WORK PLAN AS OF 31 DECEMBER

	WORK PLAN	RESULTS
1	Screen over **180** allegations.	**208** allegations screened.
2	Complete investigations opened in 2017 (estimated at **15** cases).	**18** investigations carried over into 2018 are closed, 5 remain under investigation.
3	Open **40** new complaint-led investigations. Complete **23** of the new complaint-led investigations.	**50** new complaint-led investigations opened. **15** complaint-led investigations opened in 2018 were completed this year. 35 remain under investigation.
4	Conduct **4** proactive/thematic investigations.	**5** proactive/thematic investigations completed.
5	I Speak out Now: continue fraud awareness training for implementers and the Secretariat.	The unit has delivered fraud awareness training throughout the year. "I Speak Out Now" videos on Pilfered Products, Problematic Per Diems and Speaking Out Against Human Rights Violations were published. Quarterly "I speak out now" newsletters were sent to approximately 3,000 recipients.

Workplan targets were met or exceeded, with the exception of the plan to complete 23 investigations in the year they were opened. In mid-2018, the OIG formalized and mainstreamed "oversight" investigations. This occurs when an implementing partner or Secretariat, via the LFA, is following up on an integrity issue with the OIG's oversight. The investigating entity is expected to provide a full report to the OIG upon completion. The OIG may also contribute to the investigation's terms of reference. This gives OIG a broader response to all types of allegations of wrongdoing, projects OIG resources using all available synergies, and reinforces mutual accountability in combatting fraud and corruption.

208 allegations were received in 2018, up from 207 the previous year. 64 of the 208 allegations received (31%) were deemed as requiring further OIG attention, up from 31 complaints in 2017 which went on for further OIG assessment (the increase is due to a change of process).

Of those allegations which the OIG did not select for further assessment, 53 were referred to the Secretariat for information and action, up from 43 in 2017.

2018 ALLEGATION RESOLUTION

ALLEGATION RESOLUTION	#	%
Retained for information	62	30%
Referral to Secretariat for information/action	53	25%
Open for OIG assessment/investigation	64	31%
No further action	16	8%
Merge with an existing Case	10	5%
Referral to external agency	1	0%
Referral to OIG Audit	2	1%
TOTAL	208	100%

2018 SOURCES OF INVESTIGATIONS

REPORTER TYPE	#
Whistle-blower/other	107
Secretariat	35
PR/SR/SSR	31
Inter-agency	11
OIG	12
Supplier	7
CCM	5
TOTAL	208

One material variance in allegations intake is that reporting from the Secretariat decreased by 33%: the OIG received 35 reports from the Secretariat in 2018, compared to 55 in 2017. This was only partially offset by the 107 reports received from whistle-blowers/other sources, a 16% increase on 2017 (92). Of the other allegations, 31 were received from implementers, compared to 39 in 2017. CCM reporting increased slightly, from 3 allegations received in 2017 to 5 in 2018.

Overall, the OIG worked on 78 cases in 2018, up from the 59 anticipated in the work plan. This variance is partially explained by the formalization of the oversight investigation process. Cases are now opened and tracked as investigations earlier in the allegation assessment process, which in time will provide a more complete and accurate picture of the investigation workflow.

The Investigations Unit started the year with more cases carried over than expected (23 instead of 15), and also opened more cases than expected (50 instead of 40). With the 5 proactive cases, this resulted in a total load of 78 cases during the year.

Of those cases, 10 resulted in published reports while 26 resulted in case closure memoranda. 42 cases were carried over into 2019. 32 cases were opened after May 2018 and, under the target timelines for investigations, were not expected to be completed before year end.

Impact of 2018 published investigations

OIG investigations often result in the Global Fund being paid back by grant implementers for amounts that were fraudulent or ineligible. However, these financial recoveries are just one aspect of the impact of investigations. Even when recoveries are limited in amount or inexistent, a longer-lasting impact of investigations may come from improvements in internal controls or risk management practices to address exposures identified in the course of the investigation. OIG is increasingly ensuring that the Agreed Management Actions resulting from investigations not only cover financial recoveries but also tackle the underlying process or control weaknesses that enabled wrongdoing to occur.

COUNTRY	ISSUE INVESTIGATED	IMPACT
Papua New Guinea	Embezzlement	Recovery US$176k. The PR is now changing how accounting data flows between headquarters and country level systems to facilitate timely assurance of grant expenditures.
Zambia	Theft	Recovery US$1.06m. Improvement in stock management controls following employee theft from warehouse.
Internal	Procurement fraud	The Secretariat is clarifying its Quality Assurance mandate, including the necessary activities, roles and responsibilities.
Eswatini	Mobile money embezzlement	Recovery US$27k. Standard Operating Procedures developed to guide in the management of mobile money systems.
Nigeria	Salary Kickbacks	Recovery US$64k. Report findings shared directly with implementers (Principal Recipients and sub-recipients) to prevent other schemes and encourage speaking out.
Central African Republic	Theft	Recovery US$198k. Supply chain reinforced and measures taken to reduce demand for prescription medicines in illicit markets.
Bangladesh	Fraud Training	Recovery US$110k. Introduction of regular spot checks on financial management controls and on programmatic activities and expenditures.
Kenya	Per diem fraud	Recovery US$51k. Better compliance by PR with its internal controls to guarantee that all training per diems are justified.
Guinea	Data fraud	Policy and guidance for IBBS and similar surveys to address the potential risks of data fraud and misinterpretation of results. QA reviews for data quality and accuracy of 10 IBBS surveys in 2019
Democratic Republic of Congo	Procurement fraud	Recovery US$7.4m The Global Fund will review assurance arrangements with other iNGOs to determine whether revisions are required to their assurance arrangements and/or framework agreements

Referrals to National Authorities

OIG investigations are administrative, rather than criminal, in nature. Furthermore, OIG does not have any law enforcement authority. As such, OIG does not have a mandate or authority to determine if wrongdoing committed by individuals or entities meets the applicable legal standards for a crime in a given jurisdiction, nor can the OIG initiate legal action even if such standards were met. Instead, when egregious wrongdoing is committed in the management of Global Fund grants, OIG investigation findings often lead to a referral to national law enforcement or anti-corruption agencies. This is in addition to any financial recoveries that may result from those investigations. OIG views such referrals as an important step towards creating personal accountability, as well as a potentially powerful deterrent, for individuals responsible for such behaviors. However, once the referral is made, OIG does not have additional leverage and the disposition of those cases is entirely within the control of the national authorities. The resulting legal proceedings can take time to conclude; the following provides an update on such referrals:

▶ **Kazakhstan – A 2014 OIG report related to bid-rigging schemes which took place between 2005 and 2012. Systematic overpricing for printing, office equipment, health products and food parcels was found, worth US$5.43 million. Kazakh authorities formally requested, through diplomatic channels, the OIG's assistance in their investigation into these matters. The OIG and the Secretariat are providing the background information requested, facilitated by the Permanent Mission of Switzerland to the United Nations Office in Geneva.**

▶ **Angola – In 2016, the OIG found fraud and collusion in procuring technology equipment in a 2013 malaria grant. Senior Ministry of Health staff deliberately diverted US$4 million of grant funds into companies they owned or were closely affiliated to. In February 2018, a court in Luanda condemned two subjects to eight and six years in prison.**

▶ **Nigeria – In 2016, the OIG reported on an investigation that found evidence of systematic embezzlement, fraudulent practices and collusion between 2010 and 2014 by a sub-recipient of Global Fund grants. US$3.8 million in expenditure by the Nigerian Government's Department of Health Planning, Research and Statistics was non-compliant and the OIG proposed a recovery of funds. Nigeria's Economic and Financial Crimes Commission recently arraigned five persons before an Abuja High Court. The case came to trial in October 2018.**

▶ **Zambia – A 2017 OIG investigation identified unexplained stock losses of US$1.06 million of Global Fund-financed pharmaceutical and non-pharmaceutical health products at Zambia Medical Stores Ltd between 2014 and 2016. Five former MSL employees and two foreign nationals, have been taken to court and the Zambian authorities continue to investigate. The Global Fund is working with Zambian stakeholders to review and strengthen physical security systems at MSL and its regional hubs.**

Using referrals to law enforcement as a step towards creating personal accountability.

FIGURE 5 OIG 2018 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 the 2018 workplan, the Audit unit was at 89%. The Investigations unit was at 81% for the same period.
	A.2 Costs managed within approved budget.	At the end of December 2018, the OIG had a budget underspend of US$2,026k (-12.7%) against the 2018 Operating Expenses Budget, out of which US$1,950k are attributed to vacancies. Please refer to Section V.05 of this report.
B. To foster confidence by being accountable and transparent	**B.1** Annual quality self-assessments completed to confirm ongoing conformance with requirements of Quality Assurance and Improvement Program (QAIP), including general conformance with the Stakeholder Engagements Models timelines.	The Audit Unit conducted its annual self-assessment. 8% of the audits published in 2018 met or surpassed the SEM timelines. 22% of the investigation cases closed in 2018 met or surpassed the SEM timelines.
	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.	An external quality assurance review took place in 2017 and OIG received the highest possible rating on both its Audit and Investigations activities. The next one will take place in 2020.
	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 escalated.	As of 31 December, 91% of the Agreed Management Actions reported as implemented by the Secretariat in 2018 had been validated by the OIG within the 30-day limit.
	C.2 Client engagement surveys are conducted for at least 90% of audit engagements completed during the year.	At 100%. 13 surveys conducted for the 13 audit reports issued this year.
	C.3 Conduct annual stakeholder satisfaction survey, including all Audit Committee members and all Board members (or alternates), and achieve an overall satisfaction score of 80% or better.	The OIG received a 96% satisfaction rating from the Board and Audit and Finance Committee in the survey carried out in December 2018.
	C.4 Sixty Percent (60%) of Agreed Management Actions are remediated by the Secretariat by their due date, over a rolling period of eight (8) quarters.	31% of Agreed Management Actions were implemented by the Secretariat by their due date between 1 January 2017 and 31 December 2018.
	C.5 Achieve following coverage targets over a three-year audit cycle: *75% of the disease burdens (for each of the three diseases), 75% of the country allocation amounts, and 35% of the countries classified as High Risk.	As of December 31 2018, the 2016, 2017 and 2018 workplans have covered: ▶ 76% of the HIV burden, 87% of malaria burden and 72% of the tuberculosis burden ▶ 76% of the country allocation amounts ▶ 37% of the countries rated as high risk
	C.6 At least four advisory or consulting engagements requested by management and/or governance bodies during the annual work program cycle.	Two advisories started in 2018: LLINs Net Mass Campaigns and Grant implementation in West and Central Africa. Catalytic Investments and Human Rights were postponed to Quarter 1 2019 due to resources being assigned to the Grant Implementation in West and Central Africa advisory.
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. 95% of staff had completed a minimum of 20 hours of formal training as of 31 December 2018.

VII. OIG Operational Update

01   OIG Strategic Priorities

As the Global Fund gradually matures, the OIG continually adapts to evolving stakeholder expectations and the changing organizational context and risk profile. Providing independent, objective and robust assurance to the Board remains OIG's core mandate. This strong safeguard is also a key tenet of the confidence that donors have in the Global Fund and their continued willingness to entrust significant resources to the organization. In the process of fulfilling this mandate, the OIG takes account of significant organizational developments such as:

▶ **Improvement of financial risk mitigation measures**

▶ **Establishment of risk appetite framework**

▶ **Strengthening of second line oversight functions**

▶ **Evolution in overall organizational maturity**

In this context, OIG's assurance work, which is already risk-based, needs to be continuously refined to ensure resources are targeted at key risk areas with potentially the most significant impact on the organization. Assurance work also needs to inform broader organizational process improvements, often beyond an individual country or business activity, to help the Global Fund better design and execute its operations so that issues and risks are proactively anticipated and addressed before they materialize. This also means increasingly supplementing assurance's traditional approach of finding "downside" risks (what's going wrong and what needs to be fixed) with analysis and insight on "upside" risks (what could be done better and what opportunities to improve are being missed). For Investigations, the OIG is evolving its operational model to focus more on high impact investigations which target systemic fraud risks, identify significant gaps in controls or risk management that enable wrongdoing in the grant programs, and inform improvements in program design for key areas of fiduciary risk.

In that evolving context, the OIG's three strategic priority areas focus on:

1: Delivering **strong assurance** that helps the Global Fund mitigate **key risks** to **maximizing the impact** of its programs, e.g. through audits and investigations that drive accountability, impact and positive change in the organization;

2: Providing **advice and strategic insight** that **enhance the effectiveness, efficiency and economy** of Global Fund operations and grant programs, through additional products which supplement our core audit and investigative products: advisory services, business performance and value-for-money studies;

3: Strengthening **"One OIG"** operations and building a **resilient oversight function** through effective **human capital management** (alignment of skills to business needs, continuous professional development, and strong performance management); robust **knowledge-management** processes to create a learning organization where collective insights from a diverse body of work are leveraged to promote best practices; efficient internal structures, processes and tools to foster a strong delivery discipline.

02   Promoting advisory products

In line with its objective of providing advice and strategic insight that enhance effectiveness, efficiency and economy in Global Fund operations and grant programs, the OIG is developing its approach for performing advisory reviews, recruiting skilled resources, developing a more robust methodology, and building a pipeline of advisory products. These efforts are part of a long-term strategic priority to complement our core assurance mandate with value-adding advisory services to meet the Global Fund's emerging business needs and evolving risk profile. Notably in 2018, the OIG undertook an advisory review of Grant Implementation in West and Central Africa at the request of the Executive Director, focusing on challenges and opportunities for maximizing impact. The unit is also in the process of completing an advisory review of LLIN Net Mass Campaigns, and two other advisories on Human Rights and Catalytic Investments have begun in Q1 2019.

Complementing our core assurance mandate with value-adding advisory services.

03 OIG restructuring and creation of the Professional Services Unit

As part of the OIG's approach of continuous improvements to drive better value and impact while enhancing efficiency and effectiveness, a limited operational restructuring was completed in the first quarter of 2018. The main features and outcomes of this exercise were:

1. Improved managerial span of control in the Investigations function, with a 60% reduction in the number of managers from 5 to 2 and a doubling of the Lead Investigator positions from 2 to 4. Managerial span for the team has more than doubled from 1:3 to 1:7.

2. Streamlining and integrating the Analytics function and core Investigative function, by embedding operational analysts directly into investigations teams.

3. Consolidation of all front office support functions under a new "Professional Services Unit" led by a Department Head.

4. Addition of new roles in Audit department to broaden the skills mix and expand capabilities in advisory, performance and value-for-money reviews.

5. Process changes to drive longer-term strategic initiatives such as more targeted case screening and selection to drive impact; implementation of a division-wide knowledge management platform; development of data analytics capabilities; integration of IT infrastructure and processes between OIG and Secretariat; synergies between Audit and Investigations functions; and people management strategies.

04 Collaboration with other oversight bodies

The OIG continues to strengthen its partnerships with other audit institutions and oversight bodies in donor countries. For example, the audit team engaged with the oversight bodies of USAID and the United States Department of Health and Human Services (HHS) throughout the year to share intelligence as part of our annual planning and to scope particular audit engagements.

Similarly, the OIG continues to engage with Supreme Audit Institutions in implementing countries. The OIG collaborated with the Auditor Generals of Kenya, Rwanda, Ghana and Sierra Leone during the respective country audits in 2018. In all cases, the OIG worked with several staff who were seconded by the Auditor Generals during the engagement. The Inspector General attended the technical update meeting of AFROSAI-E, a branch of the International Organization of Supreme Audit Institutions for English-speaking African countries, and has identified several Supreme Audit Institutions for collaboration during 2019 country audits. The OIG also supports Aidspan in its capacity building initiatives for particular Supreme Audit Institutions in Africa.

The OIG continues to work closely with its counterpart at GAVI, the Global Vaccine Alliance. Despite the lack of significant overlap in implementer arrangements, supply chain processes, flow of funds and assurance arrangements, both oversight functions coordinate annual plans and individual engagements. For example, in Madagascar and Sierra Leone, the teams shared critical information based on prior engagements in those countries. We are looking forward to collaborating further in 2019, and have identified opportunities to do so for the country audit of Nepal.

The OIG also collaborated with the Global Fund's Technical Evaluation Reference Group (TERG) during the audit of Resilient and Sustainable Systems for Health (RSSH) in 2018. The collaboration included joint scoping to avoid duplications, auditee interviews, information sharing and coordination of review findings.

Strengthening partnerships with counterparts in donor countries and with supreme audit institutions in implementing countries.

05 Budget and headcount in 2018

At the end of December 2018, the OIG had 44 employees while its approved headcount of 52 has remained the same:

FIGURE 6 HEADCOUNT AND VACANCIES AS OF 31 DECEMBER 2018

UNIT	HEADCOUNT 1 JAN 2018	HIRES	DEPARTURES	HEADCOUNT 31 DECEMBER	APPROVED HEADCOUNT	VACANCIES
Audit	18	4	3	19	23	4
Inv	20	0	6*	14	18	4
PSU (incl.IG)	9	4*	2	11	11	0
TOTAL	47	8	11	44	52	8

* Includes one lateral move from Investigations to the Professional Services Unit (PSU)

The OIG recruited seven new staff in 2018 to fill vacant positions, with eight other vacancies remaining at the end of 2018. With only three roles remaining to be filled as of February 2019, all recruitments should be finalised by end of H1 2019. An Audit Manager and Lead Auditor roles were appointed internally by promoting high-performing staff.

At the end of December 2018, the OIG had a budget underspend of US$2,026k (-12.7%) against the 2018 Operating Expenses Budget.

FIGURE 7 OIG OPERATIONAL BUDGET IN THOUSANDS OF US$

	2018 BUDGET	YTD ACTUALS	YTD VARIANCE	
			BUDGET VS ACTUALS	
Salaries	11,050	9,100	-1,950	-17.65%
Professional fees	2,199	2,200	1	0.04%
Travel	1,807	1,768	-39	-2.16%
Meetings	78	44	-34	-43.59%
Communications	107	180	73	68.22%
Office Infrastructure	661	584	-77	-11.65%
TOTAL	15,902	13,876	-2,026	-12.74%

The variances can be explained by the following factors:

▶ The largest variance (1,950k out of the 2,026k) is on salaries, which is attributed to vacancies. At the beginning of the year, the OIG had five vacancies. The OIG restructure in early 2018 also generated additional vacancies. Eight positions were filled in total and another eight remained to be filled at the end of December.

▶ Professional fees and Travel: Minimum variance, only 38k underspend overall.

▶ Meetings: Budget not used in full (34k savings)

▶ Communications: Overspend mainly due to the advisory communications costs which were not originally budgeted.

▶ Office infrastructure: Underspend due to five months' rent/facilities costs that were originally budgeted before the final move date to the new building was confirmed. Only four months were needed which resulted in 61k savings.

If not for the vacancies, OIG would have spent all its operating allocation in the budget year.

06 Quality assurance and stakeholder feedback

The OIG carries out an annual self-assessment and a triennial external assessment in line with international professional standards. The latest external assessment took place at the end of 2017 and was carried out by Moore Stephens, an independent accounting and business advisory firm, selected through a competitive tender. The Audit Unit received the highest possible rating ("generally conforms") across all the dimensions rated. Moore Stephens found 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). The assessment identified some development opportunities for the Audit Unit and an action plan was developed for those areas. The OIG's Quality Assurance team has been monitoring the implementation of those actions, with 90% of the actions completed as of 31 December 2018. The final outstanding action relates to amendments of the OIG charter, which is included in a separate Decision Point for the Audit and Finance Committee meeting in March 2019.

The OIG performed its annual self-assessment at the end of 2018 in line with the Institute of Internal Auditors' Quality Assessment Framework. The self-assessment confirms that the Audit Unit continues to generally conform with applicable International Standards for the Professional Practice of Internal Auditing. The assessment identified minor issues for further improvement which will be implemented in 2019.

The 2018 external assessment of the Investigations unit found that it remains fully compliant with the Conference of International Investigator (IIC) guidelines. The external assessors made some recommendations that OIG has already implemented, or is currently implementing. Investigations are now differentiated between level 2 'oversight' cases (relatively simple) and level 3 (more complex) assessments and investigations. Stage 3 (Investigation) of the OIG Investigations Stakeholder Engagement Model is now more flexible and all cases are now required to be closed by capturing the justification in the OIG case management system. By Q3 2019, the OIG Knowledge Management project should deliver a new case management system to enable documents to be loaded directly into the system.

Similarly, this year's Investigations self-assessment found that the function remains fully compliant with IIC guidelines. It did identify areas for further improvements, such as making greater use of data analytics and reviewing existing processes to drive impact and efficiency. OIG will provide updates on these initiatives during 2019.

Stakeholder feedback

The OIG actively solicits feedback from internal and external stakeholders in order to monitor its performance and identify opportunities for improvement. Each year, Board and Audit and Finance Committee members are asked to evaluate the quality, scope and impact of the OIG's work. In December 2018, their responses generated an overall satisfaction rating of **3.51** out of 4, the highest score the OIG has achieved to date (3.45 in 2017, 3.32 in 2016).

FIGURE 8 OIG STAKEHOLDER SATISFACTION SURVEY 2019

FEEDBACK TOPICS (Strongly Agree = 4 points, Agree = 3 points, Disagree = 2 point, Strongly Disagree = 1 point)	AVERAGE SCORE
OIG audits and investigations focus on the key risks of the Global Fund and the priorities of the Board/AFC.	3.61
OIG work is of high quality and provides appropriate assurance on the design and effectiveness of key internal controls, risk management and governance processes.	3.52
As a whole, the work of the OIG adds value and helps to improve and strengthen the Global Fund.	3.79
The outcome of the OIG's work demonstrates a sound understanding of the Global Fund's business.	3.61
The OIG effectively communicates its findings in person at Board/AFC meetings.	3.46
The OIG is responsive to the expectations and priorities of the Board/AFC.	3.39
The scope and quality of the OIG's engagement with the Board/AFC foster a strong relationship of mutual trust and confidence.	3.43
OIG communications with the Board/AFC provide the appropriate level of information and insights.	3.46
OIG maintains an effective level of cooperation with the Secretariat of the Global Fund while preserving its independence and objectivity.	3.32
Overall, the OIG is providing effective support to the Board/AFC in the discharge of their organizational oversight mandate.	3.51

Following each audit, the OIG surveys auditees to assess its performance. An average of all 2018 surveys gave the audit function an overall score of **3.45** on a scale of 1 (poor) to 4 (good).

FIGURE 9 OIG STAKEHOLDER SATISFACTION SURVEY 2019

CATEGORY	SCORE
Effectiveness of the audit/review in covering key areas	**3.67**
Audit/Review organization and scheduling	**3.56**
Audit/Review Field Work	**3.30**
Final Audit /Review Report	**3.50**
Overall, the audit added value to the organization	**3.22**

Highest-ever satisfaction rating from Board and Audit & Finance Committee members.

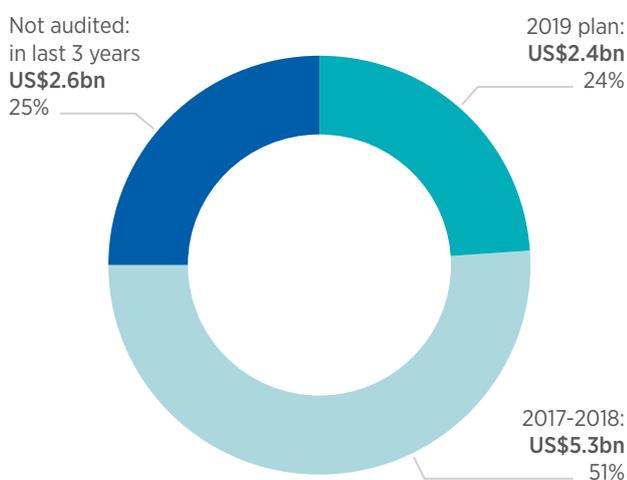# VIII. Looking ahead

01   2019 work plan and KPIs

The AFC, at its 8th meeting in October 2018, approved the following 2019 work plan for the OIG.

FIGURE 10 BREAKDOWN OF 2019 WORK PLAN

	Country audits	Internal audits	Advisory engagements	Complaint-led investigations	Proactive investigations	Investigations carried over from 2018	Assessments
TOTALS	13	6	4	19	4	6	54

Country audits, which focus on countries with significant allocations and/or high residual risk factors, will cover 24% or US$2.4bn of the 2017-19 allocation. As part of its risk coverage and based on current resources and data trends, OIG plans to launch at least 23 new investigations in 2019; four of these new engagements will be proactive investigations.

FIGURE 11 AUDIT ALLOCATION COVERAGE FROM 2017-2019

Not audited: in last 3 years **US$2.6bn** 25%

2019 plan: **US$2.4bn** 24%

2017-2018: **US$5.3bn** 51%

75% of Global Fund allocations covered in 2017-2019 audit plans.

At the last AFC meeting in October 2018, the committee also approved the OIG's 2019 KPIs, which are unchanged from 2018.

Full details of the OIG's 2019 work plan, its corresponding budget, and KPIs are available in Section VII of OIG paper GF/B40/05.

02 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 2019	OIG ACTIVITY IN 2018 AND 2017
External Grant Facing Risks	Program Quality	13 country audits covering 24% of the 2017-19 allocation, and 19%, 18%, and 20% of HIV, malaria and TB disease burden. A cross-cutting Value for Money review of Technical Assistance and Capacity Building activities will be performed in 2019.	Program quality was considered in the 24 country audits (which covered 51% of the 2017-19 allocation). This included the three largest portfolios – Nigeria, DRC and South Africa. In 2018, the OIG performed a number of cross-cutting reviews to provide assurance over program quality: Audit of Resilient and Sustainable Systems for Health (RSSH), and an Advisory review on LLIN distribution. The Secretariat's grant approval and monitoring mechanisms were reviewed in 2017 as part of the Grant Making follow up and Grant monitoring audits. The OIG also performed five proactive investigations covering thirteen countries.
	Monitoring and Evaluation Systems, Data Availability, Quality and Use	Data quality will be considered as part of the 13 country audits unless specifically scoped out. The OIG attends the Data Governance Council meetings at the Secretariat as an observer.	In 2017, the OIG audited data management at the Secretariat level. In addition, country audits included objectives on data quality (unless specifically scoped out). Issues on data quality were raised in the 2017-18 audits of Rwanda, Benin, Kenya, Myanmar, Niger, Sierra Leone, Madagascar, Nigeria Follow-Up, and Tanzania Follow Up audits.
	Procurement	In country procurements will be considered as part of the 13 country audits unless specifically scoped out. No specific audit planned for 2019 because a follow up audit was performed in 2018. The risk will be monitored through the AMA process. A new MEC member in charge of Procurement and Supply Chain joined the Global Fund in Q4 2018, and he has initiated a restructure of the unit.	A follow up audit of the procurement processes was performed in 2018. Procurement processes are routinely reviewed where grant recipients do not use the Global Fund's Pooled Procurement Mechanism. In 2017-18, OIG reviewed Procurement processes as part of country audits in Kenya and Ethiopia. The OIG also performed a proactive investigation into the procurement of HIV test kits across eight selected countries.
	In-Country Supply Chain	In-country supply chain will be reviewed as part of the 13 country audits unless it is specifically scoped out. The OIG will continue to monitor the implementation of the outstanding AMAs from the 2016 supply chain audit.	Supply chain is a major focus of our country audits unless specifically scoped out. For example, supply chain-related issues were reported during the Kenya, Ethiopia, Mali, Zambia, Guinea, Bangladesh, Cambodia, Nigeria Follow Up and Tanzania Follow up audits in 2018 and 2017. The 2018 RSSH audit also focused on in-country supply chains as one of the RSSH strategic sub-objectives.

RISK TYPE	RISK PER CORPORATE RISK REGISTER	OIG ACTIVITY IN 2019	OIG ACTIVITY IN 2018 AND 2017
External Grant Facing Risks	Various fraud and fiduciary risks including fraud and poor accounting and financial reporting	Operational grant level risks will be covered in 13 country audits for 2018 which covers 24% of the 2017-2019 allocation. Fraud risk will also be appropriately addressed through both reactive and proactive investigations.	Operational grant level risks were covered in 24 country audits in 2017-18, covering 51% of the 2017-2019 allocation. Cross-cutting audits of Grant monitoring processes and In-country assurance (2017) and Grant Oversight in Focused portfolios (2018) added to the coverage provided by the OIG. Fraud risk is appropriately responded to through investigations.
	National Program Governance and Grant Oversight	In-country governance and oversight risks will be covered in 13 country audits for 2018 which covers 24% of the 2017-2019 allocation. The risk will also be tracked through country specific AMAs.	Operational grant level risks were covered in 24 country audits in 2017-18, covering 51% of the 2017-2019 allocation.
	Quality of Health Products	This risk 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. Kenya and Niger.
	Human Rights and Gender Inequality	Advisory engagement for Human Rights for Health has been planned in the first quarter of 2019.	No specific audit for this risk; however Human Rights-related risks are considered in relevant country audits.
	Transition	This will be assessed as part of the 13 country audits where necessary and monitored through the AMAs from the 2018 audit.	An Audit of the Global Fund's Transition Management Processes. Likewise, OIG investigations also considered potential Human Rights aspects when screening relevant allegations. Transition was also covered in country audits in Myanmar and Ukraine in 2018 and 2017 respectively.
	Drug and Insecticide Resistance	No specific audit for this risk; however, it is considered, as part of the broader programmatic risks, in country audits where relevant.	No specific audit for this risk; however, it is a consideration in relevant country audits and the risk is highlighted where the OIG observed issues around drug resistance, e.g. treatment without diagnosis in Ethiopia, Kenya and Niger.
External: Other	Foreign Exchange Risk	Not specifically covered in 2019 because the related risks were addressed through the AMA from the 2016 audit of Treasury.	Not specifically covered in 2017-18 because the related risks were addressed through the AMA from the 2016 Treasury Management audit.
	Future Funding/ Replenishment	No specific engagement planned in 2019. The 2017 Advisory on the Global Fund's Fund Raising activities was performed to inform the future replenishment cycles.	The 2017 Advisory on the Global Fund's Fund Raising activities was performed to inform future replenishment cycles.

RISK TYPE	RISK PER CORPORATE RISK REGISTER	OIG ACTIVITY IN 2019	OIG ACTIVITY IN 2018 AND 2017
Corporate Risks	Internal Operations	An audit of Project Management processes is planned in 2019 to assess the Secretariat's framework and processes for implementing and monitoring key initiatives. The OIG acts as an observer for a number of key Secretariat initiatives.	The OIG considered internal operations in its 2017 and 2018 in particular: Transition Management and RSSH audits in 2018, and the IT Cloud Computing audit in 2017. OIG was also represented on the Project Review Board (disbanded in 2018), and the AIM, Differentiation for Impact, and Implementation through Partnership Steering Committees.
	Integrated Grant Policies, Processes, Systems and data	The OIG will perform an audit of the Grant Operating System in 2019.	Underlying processes, systems and tools were reviewed as part of internal audits such as Grant Making Follow up (2017), Grant Monitoring (2017), In-country assurance (2017), Data quality (2017), Grant Oversight in Focus countries (2018), Procurement processes (2018) and Key Performance Indicators (KPIs) reporting (2018)
	Risk Management and Internal Controls	Grant level risks will be included in the scope of the 13 country audits. The OIG also attends Enterprise Risk Committee and monitors this area on an ongoing basis. The OIG will continue to monitor implementation of the risk appetite and will integrate this into its country audit reports in 2019.	Risk Management was audited in 2016 and OIG monitored implementation of the AMAs in 2017 and 2018. Grant level risks were included in the 24 country audits in 2017-18.
	Legal	Legal risk has not been audited separately but is considered in scoping relevant country and internal audits.	
	Governance and Oversight	Given audits of Risk Management and follow up of the Governance Review in 2016, no specific audit is proposed. The risk will be covered through ongoing AMA monitoring. Where applicable, governance and oversight risks are considered in specific thematic audits such as Transition processes.	
	Organizational Culture	Culture is covered in thematic audits where necessary. In 2019, culture will be covered in the audit of the Ethics Framework and management processes.	Culture was covered in thematic audits where necessary. For instance, organizational culture was covered in Grant Monitoring and Human Resource Management audits in 2017 and 2018 respectively.
	In-country Conduct & Ethics	A 2019 audit of the Ethics framework will assess the adequacy and effectiveness of the Secretariat's framework for managing ethical issues at the central and implementation levels. In-country conduct is also addressed through OIG investigations of alleged wrongdoing.	Ethical misconduct is inherently covered in all audits and in a number of specific initiatives such as OIG's 'I Speak Out Now!' campaign in 2017 and 2018. In-country conduct was also addressed through various OIG investigations of alleged wrongdoing.
	Workforce Capacity, Efficiency and Wellbeing	This will be followed up as part of the AMAs from the HR audit	This was considered as part of the 2018 audit of the Human Resources Strategy implementation and monitoring.
	Reputation	The OIG does not audit reputational risk on a standalone basis because it views this as the impact of other risks materializing, which are covered throughout the OIG work plans.	

IX. 2018 published reports

01 High-level summary of 2018 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/

INVESTIGATION IN THE CENTRAL AFRICAN REPUBLIC	GF-OIG-18-001

Medicines worth approximately US$200,000 leaked or were stolen from the Central African Republic supply chain in 2016-2017. Quantities of medicines were available in illicit markets in the capital city Bangui, suggesting a systemic problem. The OIG concluded that they had been diverted from the supply chain due to weak control processes and market demand. The Global Fund is assessing new implementing partners to take over stock management and distribution in the country.

INVESTIGATION IN BANGLADESH	GF-OIG-18-002

The OIG found over US$110,000 of non-compliant expenditures at the National Tuberculosis Control Program (NTP), a recipient of Global Fund grants in Bangladesh. NTP staff falsified mostly training-related documents between July 2015 and September 2016. The Global Fund is seeking to recover the full amount as well as ensuring that NTP puts in place stronger financial management controls.

AUDIT OF GRANTS TO UKRAINE	GF-OIG-18-003

In Ukraine, significant numbers of people diagnosed with HIV are still lost to treatment, and approximately 9000 people with HIV have not started treatment due to a shortage of drugs. Multidrug resistant tuberculosis success rates are low, and there is limited visibility on how the government will transition out of Global Fund grants over the next two years.

INVESTIGATION IN KENYA	GF-OIG-18-004

An OIG investigation found approximately US$63,000 of non-compliant expenditures mainly related to cash advances for activities organized by the Kenyan national tuberculosis program. The Global Fund has since instructed the program to put in place stronger oversight measures and reduce cash advances.

FOLLOW-UP AUDIT OF GRANTS IN NIGERIA	GF-OIG-18-005

This audit followed up on 2015 engagements that had identified significant deficiencies in portfolio management, implementation arrangements, financial controls, supply chain, and data quality. Two years on, the auditors found major improvements thanks to corrective measures put in place by the Secretariat after the 2015 audit. Some of the measures have mitigated the risks while others still need more time to take effect.

FOLLOW-UP AUDIT IN TANZANIA	GF-OIG-18-006

Since the OIG last audited the country in 2015 there have been improvements in supply chain management, leading to fewer medicine stock-outs, and stronger grant implementation arrangements. Nevertheless, the auditors found expired HIV drugs worth approximately US$9 million; significant proportions of people living with HIV lost to follow up within one year of starting treatment; and gaps in governance and oversight.

INVESTIGATION IN ZAMBIA	GF-OIG-18-007

An OIG investigation identified significant unexplained stock losses of US$1,064,788 of Global Fund-financed pharmaceutical and non-pharmaceutical health products at Zambia Medical Stores Limited between 2014 and 2016. The Global Fund and Medical Stores Limited (MSL) have responded to the findings with strong remedial and preventive measures.

IN-COUNTRY CASH MANAGEMENT ADVISORY REVIEW	GF-OIG-18-008

At the request of the CFO, the OIG completed an advisory review of in-country cash balances and in-country cash management processes, to assist the Secretariat in optimizing these processes, thereby reducing the significant in-country cash balances that have existed since 2014.

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

DATA MANAGEMENT AT THE GLOBAL FUND	GF-OIG-18-009

The Secretariat has taken several steps in recent years to improve data management. These include an integrated system to manage financial data, with effective controls and automated reporting capabilities for analysis and decision-making. Similar controls have also been established to manage the accuracy and completeness of data related to country allocations. While good practices are in place in these key areas, the organization still needs an overarching strategy for data management.

PROACTIVE INVESTIGATION OF PROCUREMENTS OF NON-COMPLIANT HIV RAPID DIAGNOSTIC TESTING KITS	GF-OIG-18-010

An OIG proactive investigation found that some Global Fund Principal Recipients had bought HIV rapid diagnostic test (RDT) kits that were non-compliant with the Global Fund's policies for health products. The Global Fund had not detected some of these purchases. The investigation found that four Principal Recipients in three countries bought HIV RDT kits valued at US$230,268 that were non-compliant.

INVESTIGATION IN PAPUA NEW GUINEA	GF-OIG-18-011

A Principal Recipient, Population Services International (PSI), identified fraudulent and non-compliant expenditures in a malaria grant totalling US$551,608. OIG investigators found that weaknesses in PSI's accounting processes had reduced PSI's ability to detect the fraud, and also found additional non-compliant expenditures of US$175,818. The Secretariat is working with PSI to enhance its financial oversight of all its Global Fund grants.

INVESTIGATION IN NIGERIA	GF-OIG-18-012

The National Coordinator of a sub-recipient, Civil Society for the Eradication of Tuberculosis in Nigeria, misappropriated salaries and allowances from employees over a period of 14 months. Three other employees assisted the National Coordinator to implement the fraud, wherein employees working on Global Fund programs paid an average of 30 percent of their monthly salary and 10 percent of their Daily Subsistence Allowance (DSA) into the scheme.

AUDIT OF GRANTS IN MYANMAR	GF-OIG-18-013

Myanmar has made significant progress in its efforts to tackle HIV, tuberculosis and malaria. Programmatic success has been paired with increased financial commitments from the government to fight the three diseases and to widen health care coverage. However, with this rapid expansion of services, concerns have increased about how best to plan for sustainability, optimize resources, and bridge gaps in service quality.

AUDIT OF GRANTS TO VIET NAM	GF-OIG-18-014

Global Fund grants have contributed to declining disease burdens by providing antiretroviral treatment to over 40% of the people living with HIV, supporting tuberculosis detection and treatment and preparing for malaria elimination. The country is implementing several innovative approaches to disease prevention and treatment, along with mechanisms to improve the sustainability of the health system.

INVESTIGATION IN ESWATINI	GF-OIG-18-015

The OIG discovered that the Project Finance Officer at a Global Fund sub-recipient, the Family Life Association of Swaziland, improperly diverted funds from FLAS's official mobile money account to his own account and to other unauthorized accounts. These fraudulent activities were possible because supervision by FLAS management was insufficient and there were inadequate controls in place.

AUDIT OF GRANTS IN NIGER	GF-OIG-18-016

The quality of the three programs has improved, mainly on outreach of services and commodities, particularly for malaria. This has resulted in a material decline in mortality for malaria and HIV, with a 30% decline in malaria prevalence and mortality between 2010 and 2015. Remaining challenges include material programmatic data inconsistencies, missing data records, weakness in the health care services and non-adherence to treatment guidelines.

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

AUDIT OF GLOBAL FUND TRANSITION MANAGEMENT PROCESSES | GF-OIG-18-017

Since the Global Fund Board approved the Sustainability, Transition and Co-financing policy in 2016, the Secretariat has enhanced governance mechanisms and instituted new ones to support its implementation. The Secretariat has also enhanced key processes underlying transition, such as early planning. However, the need remains to leverage existing mechanisms to support countries post transition and to improve Global Fund monitoring of transition grants.

FOLLOW-UP AUDIT ON PROCUREMENT PROCESSES | GF-OIG-18-018

Material improvements have been made since the previous OIG audit in 2015. New indirect procurement regulations and procedures have been designed, closer management and improved oversight have been implemented over suppliers, and oversight and performance management of direct procurements has improved, as has data for reporting on key performance indicators.

INVESTIGATION IN GUINEA | GF-OIG-18-019

SIDALERTE, a Guinea NGO contracted by a Guinea HIV grant Principal Recipient to conduct an Integrated Biological and Behavioral Surveillance (IBBS) survey in 2015, falsified survey participants and responses as well as associated HIV blood test and prevalence data. SIDALERTE also falsified its costs associated with conducting the survey. The Secretariat will enhance its IBBS survey guidance to country teams.

INVESTIGATION IN MOZAMBIQUE | GF-OIG-18-020

The Executive Secretary of the Mozambique Country Coordinating Mechanism embezzled US$22,593 from Global Fund CCM funding in 2016 and 2017. The CCM funding recipient, FDC, approved these fraudulent expenditures and a further US$3,427 of unsupported payments submitted by the Executive Secretary. An absence of CCM governance and expenditure approval guidance were contributing factors to the fraud.

AUDIT OF GRANTS IN KENYA | GF-OIG-18-021

Kenya has made significant progress in the fight against the three diseases. Procurement processes are able to procure medicines cheaply, and supply chain systems are able to distribute medicines to health facilities. Improvements are needed in the quality of data reported, and in oversight and coordination arrangements for Global Fund grants in the context of devolving grant implementation arrangements to counties.

AUDIT OF GRANT OVERSIGHT IN FOCUSED PORTFOLIOS | GF-OIG-18-022

Grant management processes such as reporting requirements, risk assessments and assurance arrangements have been refined to reduce the administrative burden and increase efficiencies in oversight of smaller, focused portfolios. These portfolios however have disproportionately high program management costs, and require more efficient oversight.

AUDIT OF GRANTS IN CHAD | GF-OIG-18-023

Additional safeguard measures, including a Fiscal Agent, limited cash policy, a procurement agent and capacity building support have helped to reduce, but not sufficiently mitigate, significant financial and programmatic risks. While overall grant performance indicators are not improving, Global Fund programs in Chad have increased their capacity to absorb the allocated funds.

AUDIT OF GRANTS IN SIERRA LEONE | GF-OIG-18-024

The country is still recovering from the adverse effects of the 2014 Ebola outbreak. The Global Fund has implemented various layers of financial controls, assurance activities and governance improvements, however these processes are not operating effectively to mitigate key financial and procurement risks.

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 to 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.