



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Fifteenth Board Meeting
Geneva, 25 - 27 April 2007

GF/B15/8
Addendum 1

REPORT OF THE FINANCE AND AUDIT COMMITTEE – ADDENDUM 1 ON OIG MATTERS

Outline: This addendum to the Report of the Finance and Audit Committee (FAC) summarises the deliberations of the FAC on matters relating to the Office of the Inspector General (OIG). The FAC convened an additional session of the 8th FAC Meeting (21-23 March 2007) on 24 April 2007 to consider these matters following receipt of the relevant documentation from the Inspector General *ad interim*.

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Part 1: Development of a Disclosure Policy for OIG Reports

1 The FAC has taken initial steps to develop the principles for public disclosure of OIG reports, taking into account the principles of transparency enshrined in the Documents Policy. A significantly more cautious approach is reflected in the advice received from the Inspector General *ad interim* and Deloitte shortly before the Board Meeting, which is appended as Attachment 1.

2 The Inspector General *ad interim* recommended that adequate consideration be devoted to the formulation of a policy. He considered that the need for due consideration outweighed any urgency because he did not anticipate that his Office would have the need to issue any reports of a sensitive nature in the immediate future.

3 Initial work by a sub-group of the FAC in consultation with the Inspector General *ad interim* identified a number of issues that require further analysis and deliberation. The FAC decided that this work should proceed to develop a position paper for consideration by the FAC in consultation with the PSC, such that a fully developed policy could be recommended (by email) to the Board by both Committees (with the FAC in the lead).

4 If, contrary to the expectations of the Inspector General *ad interim*, it becomes necessary, prior to approval of the policy, to consider public disclosure of any final report, once distributed to the full Board, the FAC recommends that a determination be made by the Chair and the Vice Chair of the Board and the Chair of the FAC.

Decision Point 1:

The Board notes the initial work undertaken by the Finance and Audit Committee to develop a policy for disclosure of reports issued by the Inspector General. The Board notes that the FAC has established a sub-group, composed of the World Bank delegate, the United States delegate and the Inspector General *ad interim*, supported by the Chief Financial Officer and the Legal Counsel, to continue development of the OIG disclosure policy, in consultation with Deloitte. The Board requests that the Finance and Audit Committee, after consultation with the Policy and Strategy Committee, to present its recommended for the OIG disclosure policy to the Board for approval at the Sixteenth Board Meeting.

The Board decides that, prior to Board approval of such policy, the Chair, the Vice Chair and the Chair of the FAC, after consulting the Inspector General and the Legal Counsel, shall have the authority to determine public disclosure of OIG reports after they have been made available.

There are no material budgetary implications for this decision.

Part 2: Recruitment of Inspector General

1 The Inspector General *ad interim* presented the draft Action Plan for Recruitment of a New Inspector General, which was drafted for him by Deloitte, in response to a decision of the First Special Board Meeting (GF/SB1/DP5, paragraph 2). The draft Action Plan sets out options for each element of the process leading to appointment of the Inspector General, which is appended as Attachment 2.

2 The FAC reconsidered the feasibility of achieving the deadline of 31 July 2007 set at the Fourteenth Board Meeting for the selection of the Inspector General. It considers that the Selection Panel, given the need to tender for a recruitment firm, should assess the feasibility promptly after its establishment and take all possible steps to agree a final action plan and an expeditious and appropriate timescale and transmit them to the Board for information.

3 After considering the options presented in the draft Action Plan, the FAC recommends that the recruitment be undertaken as set out in the decision point below.

Decision Point 2:

- 1. The Board takes note of the options for sourcing candidates for the position of the Inspector General as described in the draft Action Plan for Recruitment of a New Inspector General (the “Draft Action Plan”) that is appended to GF/B15/8 (Addendum 1) as Attachment 2, and decides to adopt a combination of option 1 and 2 as set out therein.**
- 2. The Board approves, in principle, the process and responsibilities for selection of the new Inspector General set out in the draft Revised Action Plan, as modified and set forth in Attachment 3 to GF/B15/8 (Addendum 1), and the desired role and personal competencies of the Inspector General that are listed in the draft Action Plan.**
- 3. The Board decides to establish a Selection Panel to lead the recruitment process. The composition of the Selection Panel shall include two representatives of Board delegations, the Inspector General *ad interim* and an external advisor, supported by a member of the human resources staff of the Secretariat. The Chair and the Vice Chair of the Board shall appoint the two Board representatives and the external advisor to the Selection Panel. The Inspector General *ad interim* shall be the chair of the Selection Panel.**
- 4. The Selection Panel shall be constituted not later than 11 May 2007. The Board requests that the Selection Panel take all necessary steps to agree a final action plan and an expeditious and appropriate timescale for the selection process and transmit them to the Board for information as soon as possible.**
- 5. The Board decides to establish a special Sub-committee of the Board to interview not more than three candidates recommended as suitable by the Selection Panel and to select the new Inspector General from among these candidates. The Sub-committee shall consist of the Vice Chair of the Board and two other Board Members who have not participated in the Selection Panel. Notwithstanding Article 23 of the Board Operating Procedures, the Chair and the Vice Chair of the Board shall appoint the two Board Members of the Sub-committee. The Sub-committee shall notify the Board of its selection of the new Inspector General promptly after the selection has been made.**

The budgetary implications of this decision are US\$[_____].

Part 3:OIG Reporting Lines

1 The Inspector General *ad interim* presented the document entitled “draft Options for Inspector General’s Reporting Lines” which was drafted for him by Deloitte, in response to a decision of the First Special Board Meeting (GF/SB1/DP5, paragraph 2), and which is appended as Attachment 4.

2 The FAC agreed to recommend Option 2 as described in Attachment 4, which is in alignment with the International Standards for the Professional Practice of Internal Auditing, the US 1978 Inspector General Act, and established practice in many countries. The FAC noted that this option enables the Inspector General to report independently and confidentially to the Board, while maintaining the administrative reporting line to the Executive Director.

Decision Point 3:

The Board takes note of the document entitled “draft Options for Inspector General’s Reporting Lines” that is appended to GF/B15/8 (Addendum 1) as Attachment 4, and adopts option 2 as set out in such report. The Board clarifies that the Inspector General’s reporting to the Board shall be functional whereas reporting to the Executive Director shall be administrative only.

The Board requests that the IG Selection Panel (established by Decision Point 2) prepare appropriate revisions to the current Terms of Reference of the Inspector General and the OIG Charter to reflect this decision for presentation to the Finance and Audit Committee not later than 31 May 2007. The Board delegates to the Finance and Audit Committee the authority to approve the revised Terms of Reference of the Inspector General and the OIG Charter and requests that the Finance and Audit Committee notify the Board of the revised Terms of Reference of the Inspector General and the OIG Charter promptly after such approval.

There are no material budgetary implications for this decision.

Part 4: Global Fund Assurance Framework

1 The Inspector General *ad interim* presented the document entitled “draft Global Fund Assurance Framework” which was drafted for him by Deloitte, in response to a decision of the First Special Board Meeting (GF/SB1/DP5, paragraph 2), and which is appended as Attachment 5.

2 The FAC noted that this was work-in-process and welcomed the progress to date. FAC requested the Inspector General *ad interim* to continue to share drafts of the framework as work continued towards its completion, in conjunction with the Secretariat, by the end of July 2007. The FAC agreed to convene a special meeting, if necessary, to consider the final draft, in order to recommend its approval to the Board at the Sixteenth Board Meeting.

Decision Point 4:

The Board notes the work already conducted by the Finance and Audit Committee to develop an overall assurance framework for the Global Fund and acknowledges that such effort involves considerations that extend beyond the OIG. The Board requests that the Finance and Audit Committee continue to develop its recommendation for documenting the overall assurance framework of the Global Fund in consultation with the Policy and Strategy Committee, the Secretariat and the Inspector General for presentation to the Board for its approval at the Sixteenth Board Meeting.

There are no material budgetary implications for this decision.

Attachment 1: Advice on Disclosure Policy for OIG Reports

From: Amiri, Iraj (UK - London) [mailto:iamiri@deloitte.co.uk]
Sent: lundi, 23. avril 2007 15:33
To: jodwyer6@eircom.net
Cc: Langford, Kenneth R.; Morgan, Keith (UK - London)
Subject: Disclosures of OIG reports

Ken and I have had a number of discussions in relation to the Global Funds principles for disclosure of the Inspector General Reports. It had been my expectation that these principles would be drawn up as part of the working protocols for the OIG (reporting protocols) in due course, I understand that this is now being given a higher priority, but believe that a number of issues need further consideration in order to arrive at a policy that will safeguard GF's interests.

This being the case I thought it might be useful to set out some of my concerns and my experience of how these types of issues are generally dealt with at other organisations.

I fully understand and subscribe to the Global Fund's founding principles of maximum transparency and accountability which may lead to a desire and or demand on the part of the Board members, donors, recipients, other stakeholders or even the general public for full disclosure of all of OIG's reports. However, the desire for and the benefits of transparency need to be balanced against the need for protecting privileged, proprietary and commercially privileged or legally protected information and also the rights of individuals under employment, privacy and defamation legislation which vary considerably in different legal jurisdictions.

There are also numerous technical and professional considerations which need to be borne in mind in devising a disclosure policy. These considerations apply both to audit reports (i.e. reports resulting from a review of the systems and procedures of the GF to evaluate and improve them) and investigation reports (i.e. reports resulting from work carried out in response to allegations of suspected wrongdoing).

A few examples:

- Many investigation reports include highly sensitive personal information relating to the circumstances and conduct of individuals including those who are not the main subject of the investigation. Public disclosure would expose the GF to serious risk of action by these individuals under privacy, defamation or employment legislation.
- Many investigations are inconclusive where the facts and information found are insufficient to establish guilt to the standards of proof required by law or to warrant disciplinary action. However, their disclosure could seriously damage the individuals' reputation or their ability to continue with their employment. Such individuals may have legitimate claims against the GF.
- It is often the case that an investigation by itself proves inconclusive but its results when combined with the results of related or future investigations could prove sufficient to establish guilt or wrongdoing. Disclosure of the result of an investigation could jeopardise the success of future investigations of the same or similar incidents.
- In rare cases public disclosure could even jeopardise or impede the conduct of investigations which may be in progress by other organisations or law enforcement agencies.
- Investigations could relate to major breakdowns of IT systems, lapses in operation of key controls or external attacks on the organisation by, say, hackers or viruses. Public disclosure would assist perpetrators of these acts and those contemplating similar attacks in the future.
- Even for audit reports, public disclosure could result in 'punches being pulled' thereby reducing the effectiveness of the IG function. You may consider that the interest of the GF are better served by the IG having freedom to express his views

- on systems and controls forthrightly to management, without fear of damage to the organisation through public disclosure of his reports.
- Public disclosure of internal audit reports in most cases could result in a confrontational approach between management and audit which blunts the effectiveness of the audit function and their working relationship. In a public arena management are more likely to try and repudiate audit points rather than accept and address them. This causes friction and reduces the impact of audit in bringing about positive change in the control environment.

For these and other reasons I am not aware of any other comparable organisations which opt for public disclosure of their internal audit or inspection reports.

The general approach adopted is to identify systematically the legitimate needs and entitlements of all stakeholders for information and assurance, and to ensure that these are incorporated into a formal reporting protocol which aims to meet them. Under such a protocol different reports may be necessary with format and content specifically tailored to satisfy and suit these differing requirements.

A major distinction would need to be made between the needs and entitlements of say the board members, who are accountable to stakeholders for the Global Fund's activities and performance, and outsiders such as the general public who have no such accountability. There also needs to be a distinction between reports prepared by the OIG to provide the board members with information and assurance and those prepared by the OIG for the board to issue to other interested parties and stakeholders.

The protocol may for example allow:

- All board members and senior members of the secretariat to receive access to OIG reports provided they sign appropriate undertakings on keeping their content confidential and accepting any liability arising as a result of their unauthorised disclosure to outsiders
- The board at each of its meetings to receive assurance statements prepared by the OIG designed to meet the specific assurance needs of outside stakeholders. The Board (after receiving legal clearance) would then publicly disclose these assurance statements.
- The detailed reports of the OIG would not be disclosed publicly except in exceptional circumstances where such disclosure is directed by the board (after legal clearance) in the interest of the GF.

A typical assurance statement would in general summarise the results of the work of the OIG in the period and the major conclusions reached from this work including any investigations. It would also include the IGs opinions in relation to each of the assurances required (e.g. in my opinion there are adequate controls in place at the Secretariat which have been in effective operation throughout the period apart from the following major exceptions). There is also confirmation that the IG has had unfettered access and has received all necessary information and co-operation.

Obviously these are just examples but I hope they demonstrate that an appropriate protocol can be devised to balance the competing requirements without damaging the interest of the GF.

Best regards
Iraj

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The Global Fund
Action plan for recruitment of new Inspector General

DRAFT

Outline: At the first special meeting of the Board held in Geneva on 8-9 February 2007, the Board requested that the Interim Inspector General submit, at the Fifteenth Board Meeting in April 2007, an action plan for recruitment of a new Inspector General (“IG”). The purpose of this document therefore is to assist the Board in reaching the following key decisions:

- Approval of the approach to sourcing of candidates – options and an analysis of the advantages and disadvantages of each are presented
- Approval of the selection process – a proposed process is outlined, and
- Determination of the Board’s role in the process – options and an analysis of advantages and disadvantages of each are presented.

Action plan

The action plan addresses the following areas:

- Sourcing of candidates
- Selection process and responsibilities
- Selection criteria
- Provision for candidate review by experts in internal audit and other relevant areas

Sourcing of candidates

Three options for sourcing candidates together with the advantages and disadvantages of each are detailed in the table below:

Option	Advantages	Disadvantages
1. Utilise international professional recruitment agencies to provide a selection of suitable candidates.	<ul style="list-style-type: none">• Extensive marketing reach.• Initial screening of potential candidates carried out by the agency.	<ul style="list-style-type: none">• Agencies may fail to appreciate the skills and experience required thereby providing candidates that fail to meet expectations.
2. Place adverts directly in appropriate publications.	<ul style="list-style-type: none">• Cost saving over using an agency.• Better reach to potential candidates not on the market (i.e. currently in other posts).	<ul style="list-style-type: none">• May produce a limited number of candidates.• Screening of applicants' Curriculum Vitae against job specification may be time consuming.

Option	Advantages	Disadvantages
<p>3. Utilise appropriate professional services firms to provide a selection of suitable candidates for a fixed-term engagement (9 – 24 months).</p>	<ul style="list-style-type: none"> • Potentially fill position earlier. • Pay only for hours worked. Training and development costs covered by provider. • Candidate will bring best practice internal audit and risk management knowledge and experience. • Early termination clause if person does not meet with requirements. • Better link with and access to a professional firm's knowledge and resources. 	<ul style="list-style-type: none"> • Knowledge and experience lost when secondment period ends if not passed onto in-house team or subsequent secondee.

Selection process and responsibilities

The key stages of the selection process should include:

- Sift of applications and CVs
- Preliminary selection process
- Shortlist selection
- Expert review of candidates
- References

Key decisions are who is involved at each stage and at what stage and in what role i.e. Board, Secretariat, external experts. Options for Board involvement and a suggested process and responsibilities are set out in the following tables.

Options for involvement of the Board in the selection process

Option	Advantages	Disadvantages
1. Board interviews short-listed candidates selected by professional panel (e.g. interim IG, HR and external advisers)	Board buy-in Professional scrutiny of short-listed candidates	Impractical as no Board meeting at right time Too many different views / constituencies
2. Sub-committee of Board interviews short-listed candidates selected by professional panel (e.g. interim IG, HR and external advisers)	Clearer focus More practical than 1, fewer people Professional scrutiny of short-listed candidates	May be perceived as less Board buy-in Requires special meeting
3. Professionals select the proposed candidate, Board ratifies	Professional scrutiny / selection	Least Board buy-in of 3 options May not be acceptable to Board

Suggested process and responsibilities

This process is designed to ensure, through technical assessment and the involvement of professionals, that candidates presented to the Board are appropriately qualified and capable of performing the role. It leaves the Board to make the final decision as to which candidate they wish to select.

Stage	Process	Possible participants
1. Select panel	Consideration of panel members by Board.	Interim IG External Advisor FAC member x 2 HR
2. Preliminary stage	Panel review of CVs and selection of candidates for first interview.	Interim IG External Advisor FAC member x 2 HR
3. First interview - technical competencies	In person interview of each candidate to assess their technical competencies. Selection of candidates for second interview.	Interim IG External Advisor HR
4. Second interview - non-technical competencies	In person interview of each candidate to assess their non-technical competencies.	FAC member x 2 HR
5. Selection of potential IG	Panel evaluation of remaining candidates for recommendation to the Board.	Interim IG External Advisor FAC member x 2 HR
6. Obtain references	Take up of references for candidates selected for Board interview.	HR
7. Board interview	In person interview of candidates and selection of new IG by Board.	Full Board or nominated sub-committee

Selection criteria

The desired role and personal competencies are set out in the table below. These are rated as E – essential or D – desirable.

Role competencies	Personal competencies
<p>QUALIFICATIONS</p> <ul style="list-style-type: none"> Degree plus recognised accounting or internal audit qualification. E <p>SKILLS/KNOWLEDGE</p> <ul style="list-style-type: none"> Detailed development knowledge. D Thorough understanding of audit and risk management principles. E Fluency in written and spoken English and at least one other language preferably French or Spanish. E Sound, high level planning skills. E Knowledge of best practice in significant business change management. E Relationship building. E Negotiation and conflict management. E IT literate. D Strong written and oral communication skills. E <p>EXPERIENCE</p> <ul style="list-style-type: none"> Proven experience at senior level and proven knowledge of sound corporate governance practices. E Experience of risk identification and defining practical recommendations for improved assurance for management. E 	<p>AUDIT CAPABILITY</p> <ul style="list-style-type: none"> Expert in the field who is normally asked to pass on skills and knowledge to others. E Regularly contributes to external forums. D <p>STRATEGIC VISION</p> <ul style="list-style-type: none"> Strategic awareness and capability. D Inspirational leadership. D Business acumen. D Decisiveness and judgement. D Analysis and mental agility. D International perspective. D <p>PERFORMANCE ACHIEVEMENT</p> <ul style="list-style-type: none"> Focus on customers. D Planning and project management. E Making things happen. E <p>LEADERSHIP THROUGH PEOPLE</p> <ul style="list-style-type: none"> Managing people and teams. D

Role competencies	Personal competencies
<ul style="list-style-type: none"> • Minimum ten years post-qualification relevant work experience, with a minimum of five years (or the equivalent thereof) of performing comparable types of internal audits, inspections, counter-fraud and investigations in a global context. E • Minimum five years experience holding senior managerial / executive responsibilities, working with senior management and with demonstrated knowledge and understanding of business management skills and techniques for the purpose of evaluating management processes. E • Management of teams. E • Performance management for staff. E 	<ul style="list-style-type: none"> • Collaborative team working. D • Developing and enabling. D • Influencing and networking. D <p>PERSONAL QUALITIES</p> <ul style="list-style-type: none"> • Personal impact in business and technical discussions at all levels. E • Resilient to challenge at Executive level whilst building and maintaining relationships. E • Leadership and creativity. D • Self motivated. D • Strong intellect. D • Appreciates and is sensitive to cultural diversity. D • Highest standards of personal conduct and integrity. E

Candidate review

The Board decision noted that the action plan should include provision for candidate review by experts in internal audit and other relevant areas. This could be carried out by the interim IG and an external adviser. Iraj Amiri, Partner led the Deloitte review of the OIG (see report dated February 2007) and is a potential external adviser. He is a fellow of the Institute of Chartered Accountants and a member of their internal audit committee. He is also a member of the Institute of Internal Auditors and has been in their Thought Leadership Group and is a fellow of the Royal Statistical Society. He is a regular speaker at major Internal Audit Conferences around the world on topics related to Internal Audit and Risk Management with emphasis on dynamic risk management, a particular technique pioneered by him.

Attachment 3: Revised Action Plan

Stage	Process	Possible participants
1. Select panel	Consideration of panel members by Board.	<u>Chair and Vice Chair of the Board</u> Interim IG External Advisor FAC Board member x 2 HR
2. Preliminary stage	Panel review of CVs and selection of candidates for first interview.	<u>Selection Panel</u> Interim IG External Advisor FAC Board member x 2 HR
3. First interview - technical competencies	In person interview of each candidate to assess their technical competencies. Selection of candidates for second interview.	Interim IG External Advisor HR
4. Second interview - non-technical competencies	In person interview of each candidate to assess their non-technical competencies.	<u>Selection Panel (excluding Interim IG and External Advisor)</u> FAC Board member x 2 HR
5. Selection of potential IG	Panel evaluation of remaining candidates for recommendation to the Board.	<u>Selection Panel</u> Interim IG External Advisor FAC Board member x 2 HR

6. Obtain references	Take up of references for candidates selected for Board interview.	HR <u>To be determined by Selection Panel</u>
7. Board interview	In person interview of candidates and selection of new IG by Board <u>Sub-committee</u> .	Full Board or a <u>Nominated sub-committee of the Board</u>

**The Global Fund
Options for Inspector General's reporting lines**

DRAFT

Outline: The current reporting line of the Inspector General (IG) is defined in the OIG charter as being to the whole Board only and not to any of its committees. This has not proved effective in providing a clear channel for communication and oversight to ensure that the review process operates effectively and management responds appropriately to issues. It also reduces the accountability of the OIG function itself as it is not subject to regular and rigorous scrutiny.

The Deloitte review report of February 2007 recommended a re-assessment and clear definition of the relationships between OIG, TGF Board, Secretariat and WHO. In the absence of clear definition, there is likely to be continued uncertainty and ambiguity around the role and oversight of the function, undermining its ability to provide effective oversight and assurance.

The purpose of this document is to set out options for the first element of this, the reporting lines of the IG to the Board. Once an option has been approved, other relationships and interfaces can be specified taking account of the chosen option.

Alongside this a number of other developments are taking place, including the development of an assurance framework and clarification of the IG's role and remit. This will subsequently be supported by working protocols setting out the rules of engagement for each of OIG's activities - inspection, internal audit, counter-fraud and fraud investigations.

Options

Options for the IG's reporting lines that can be considered are:

- Continue with the current arrangements on the basis that the clarification of role and working protocols will enable an IG with the required level of experience and professional competence to operate effectively within the current reporting lines.
- IG reports on a day to day basis to the Executive Director, with rights of access to all Board members, in particular the Chair of the Board and the Chair of Finance and Audit Committee (FAC), when needed, at the IG's instigation. The Board retains all powers relating to the IG's appointment and removal, performance assessment, remuneration, plan of activities and operating budget. Similar to the US 1978 Inspector General Act the relationship would be established such that the ED cannot prevent or prohibit the IG from initiating, carrying out, completing, or reporting on any audit or investigation. The Board, in the IG's charter, would grant the IG unfettered access to all records, information, documents and personnel.
- IG reports directly to a specific Board committee or the chair of a Board committee, such as the FAC.

Each of these options has advantages and disadvantages, as set out in the following table.

Options	Description	Advantages	Disadvantages
1. Current reporting line	Reporting line of the IG is to the "whole Board only and not to any of its committees"	Can be perceived as giving strong independence	<p>Lack of accountability for effective supervision of the OIG</p> <p>Insufficient time and focus available to address issues</p> <p>Cumbersome process for consideration of issues and action</p> <p>Unnecessary use of full Board's time</p> <p>Lack of engagement with the organisation</p> <p>Lack of clarity whether OIG is an internal or external function</p> <p>Has created tensions which have required intervention by the Chair of the Board</p> <p>Has proven ineffective to date</p>
2. Report to ED with access to Board	IG reports on a day to day basis to the Executive Director, with rights of access to all Board members, in particular the Chair of the Board and the Chair of Finance and Audit Committee (FAC), when needed, at the IG's instigation. The Board	<p>Clear focus for oversight of the IG function</p> <p>Increased effectiveness through better engagement with the organisation</p> <p>Independence safeguarded by right</p>	May be perceived by some stakeholders and the outside world as insufficiently independent

¹ The *International Standards for the Professional Practice of Internal Auditing* Practice Advisory 1110-1 Organizational Independence; paragraph 3 states 'Ideally, the chief audit executive should report functionally to the board and administratively to the chief executive office of the organisation'. For example, the US 1978 Inspector General Act provides for IGs to report to the head of the agency, and under the UK Government Internal Audit Standards, a similar arrangement applies for heads of internal audit.

Options	Description	Advantages	Disadvantages
	retains all powers relating to the IG's appointment and removal, performance assessment, remuneration, plan of activities and operating budget. Similar to the US 1978 Inspector General Act the relationship would be established such that the ED cannot prevent or prohibit the IG from initiating, carrying out, completing, or reporting on any audit or investigation.	<p>of direct access at IG's sole discretion</p> <p>Proven approach, used successfully in other organisations</p> <p>In alignment with <i>International Standards for the Professional Practice of Internal Auditing</i> and established practice in many countries¹</p> <p>In alignment with the US 1978 Inspector General Act</p>	
3. Report to chair of a Board Committee	IG reports directly to a specific Board committee or the chair of a Board committee, such as the FAC.	<p>Clear focus for oversight of the IG function</p> <p>Independence safeguarded direct reporting to a Board committee</p> <p>Provides clearer focus than option 1 and may be perceived by stakeholders as providing greater independence than option 2</p> <p>Proven approach, used successfully in other organisations</p>	<p>Requires time, focus and acceptance of the responsibility for supervising the IG function on the part of the committee and/or committee chair</p> <p>May be perceived by some stakeholders as reducing transparency and restricting Board members' access to the IG's findings</p> <p>Potential to create unnecessary friction between Board and Secretariat</p> <p>Out of line with <i>International Standards for the Professional Practice of Internal Auditing</i> and established practice in many countries and with the US 1978 Inspector General Act</p>

DRAFT – WORK-IN-PROGRESS

ASSURANCE FRAMEWORK

Outline: At the first special meeting of the Board held in Geneva on 8-9 February 2007, the Board requested that the Finance and Audit Committee (“FAC”) submit, at the Fifteenth Board Meeting in April 2007, recommendations with respect to, among other things, documenting an overall assurance framework for the Global Fund through the Office of the Inspector General (“OIG”). This document provides a draft of the assurance framework for approval. The purpose of the assurance framework is to identify all of the assurances required by the Board and other stakeholders in relation to the Global Fund’s activities, and how these are delivered. The assurance framework identifies:

- a. The assurance stakeholders – those who have a legitimate need for assurance on GF’s activities and performance
- b. The assurances – the areas on which assurance is provided, the assurance categories and the form of the assurance
- c. The assurance providers.

This will allow the Board and other assurance stakeholders within the Global Fund to assess whether they have the assurances needed and identify any gaps. It also allows the work of assurance providers, including the OIG, to be co-ordinated so that unnecessary overlaps or duplication are avoided.

Assurance Framework

2007

Draft V1.6

Initial draft for discussion purposes only

1. Assurance Framework

The overall framework for establishing the assurance needs of the Global Fund Board and other key assurance stakeholders and the provision of that assurance by assurance providers.

The assurance framework is supported by an Assurance Map which summarises the link between the assurance needed and the assurance provided. An Assurance Plan for the OIG is also included.

The Global Fund Board (the Board) is accountable to stakeholders for the oversight of the Global Fund's activities and its performance. The Board provides assurance to Global Fund's stakeholders on activities, performance, management of risks and uncertainties, and the safeguarding of its reputation through a variety of channels (including annual and interim reports, regulatory and other returns, briefings and announcements). The Board needs to ensure that the assurance it provides to outsiders is valid and supported by sufficient and reliable assurance provided to the Board.

Primary assurance is provided to the Board from the Secretariat which is supported by various forms of independent assurance, such as reports from external audit or Office of the Inspector General. The Secretariat receives direct assurance from those accountable for the activities supported by the assurance reports provided by the Office of the Inspector General.

The Assurance Framework provides a systematic, top-down identification and analysis of the assurance needs of the Board and other key stakeholders and the fulfilment of these needs through co-ordinated actions of the various assurance providers and the right combination of direct assurance, assurance validation and independent assurance. The process enables the Board to determine whether sufficient, reliable assurance is provided and to assess whether there are assurance gaps between the assurance it receives and the assurance it gives to outsiders. The Assurance Map provides a record of the Board's determination of its assurance requirements and its decisions on how its assurance needs are met.

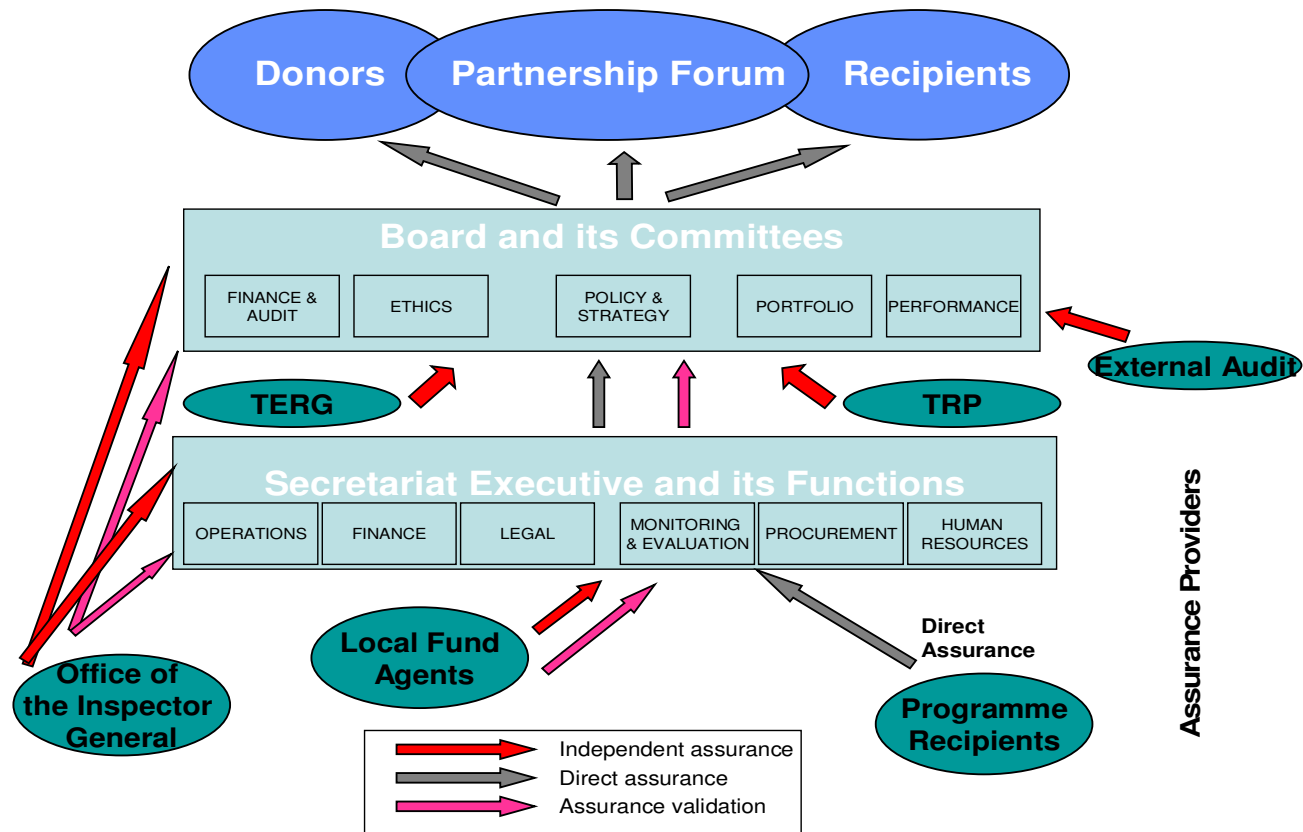
This document provides a framework for establishing the assurance needs of the Global Fund Board and other key assurance stakeholders and the provision of that assurance by assurance providers. It covers the upward flow of assurance to the Board but does not include the flow of assurance from the Board to external stakeholders, although the external stakeholders' assurance needs are taken into account in determining the Board's assurance needs.

The framework supplements the Secretariat's risk management process in that the risk management process deals with the identification and assessment of risks and management assertions in relation to these risks whereas the assurance framework deals with the provision of assurance over the process and outputs.

This framework is formally approved by the Board and forms part of Global Fund's corporate governance arrangements.

2. Assurance Flow

The flow of assurance to the Board and assurance from the Board to external stakeholders is illustrated in overview below – the assurance providers shown are by way of example only, not all assurance providers are shown. A list of assurance providers is included in Section 5 of this document.



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3. Assurance

A statement made to an assurance stakeholder, by an assurance provider, to meet one or more of their assurance needs. Assurance is categorised as direct assurance, assurance validation or independent assurance, each of which has a different provider, arrived at through a different process and delivered in a variety of forms.

The types of assurance, assurance provider, form of assurance and process are summarised below:

Type of Assurance	Assurance Provider	Form of Assurance	Assurance Process
Direct	Management - in relation to activities for which they are directly accountable	Regular or ad-hoc management reports, and presentations or letters of assurance	Management ongoing monitoring including regular management reporting and supervisory activities, and other actions personnel take in the performance of their duties such as enquiry, review and self-assessment. These include formal management representations and informal assertions given as part of the ongoing processes of managing the Global Fund's activities and risks.
Assurance Validation	A competent and appropriately qualified internal or external party not directly accountable for the activity reported on	Regular or ad hoc reports validating the direct assurance given by management, or giving an opinion on the process and underlying information supporting the assurance provided by management	The reliability of assurance is its most important attribute and is achieved through independent assurance or validation of direct assurance provided by management. Direct assurance can be validated by a third party review of the assurance or the assurance provided, and may include: <ul style="list-style-type: none"> • work to confirm whether the opinions or conclusions given were appropriate, or • An assessment of the assurance provider's effectiveness covering aspects such as role and remit, position and authority, resourcing, people and skills, planning and prioritization, processes.
Independent	A competent and appropriately qualified internal or external party not directly accountable for the activity reported on	A report, in an agreed format, giving an opinion on the process used or the assurance provided by management	A review or investigation with defined objectives, scope and deliverables that provides independent assurance substituting for, or supplementing, the assurance provided by management Examples of independent assurance or assurance validation (depending on the objectives of the work done) could include measurement and evaluation activities, data quality assurance, monitoring of compliance with grant conditions, LFA reports., or reports provided by an independent source (such as internal audit or a third party consultant) giving an opinion on the process used or information provided by management.

More details relating to each assurance are included in the Assurance Map and Plan attached.

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4. Assurance Stakeholder

Any person or group of people who have a need and legitimate right to receive assurance about any particular aspect of the Global Fund's activities, performance or reporting.

Although the Global Fund has many stakeholders, this framework applies to **key assurance stakeholders** who have a significant interest in any aspect of the Global Fund's operations and who could materially influence, or be likely to influence, the decisions, actions and behaviours of the organisation. However the external stakeholders' assurance needs are considered in determining the key assurance stakeholders' needs.

The Global Fund assurance framework covers the following key assurance stakeholders:

Key Assurance Stakeholders	External Stakeholders	
<i>Covered by the framework</i>	<i>Not covered by the framework, but assurance needs considered in relation to each key assurance stakeholder</i>	
<ul style="list-style-type: none"> ▪ Global Fund Board and sub-committees <ul style="list-style-type: none"> ▪ Ethics ▪ Finance and Audit ▪ Policy and Strategy ▪ Portfolio Committee ▪ Performance Assessment Committee ▪ Global Fund Secretariat <ul style="list-style-type: none"> ▪ Executive management 	<ul style="list-style-type: none"> ▪ Board constituencies ▪ Government and governmental bodies ▪ Programme participants i.e. CCMs, PRs, SRs ▪ Partner organisations ▪ Regulatory bodies 	<ul style="list-style-type: none"> ▪ NGOs ▪ Communities and their representatives ▪ Special Interest Groups ▪ Staff / employee representatives

5. Assurance Provider

Any person, group of persons or organisation that provides assurance to satisfy the assurance needs of a key assurance stakeholder.

Assurance providers can be either external or internal to the Global Fund. Assurance providers can also be assurance stakeholders. For example Board sub-committees provide assurance to the Board on the activities within their terms of reference (i.e. act as assurance providers), but in turn require assurance on matters reported to them (i.e. are key assurance stakeholders). The Global Fund Assurance Framework covers the following Assurance Providers:

Internal to Global Fund		External to Global Fund
<ul style="list-style-type: none"> ▪ Board and sub-committees <ul style="list-style-type: none"> ▪ Ethics ▪ Finance and Audit ▪ Policy and Strategy ▪ Portfolio ▪ Performance Assessment Committee ▪ Secretariat executive management team ▪ Operations including e.g. clusters / fund portfolio managers, finance, procurement ▪ Monitoring and evaluation / strategic information ▪ Donor / partner relations ▪ Communications 	<ul style="list-style-type: none"> ▪ Finance ▪ Legal ▪ Procurement / contracts ▪ Information systems ▪ Human resources ▪ Administrative support ▪ Whistle blowing programme ▪ Office of Inspector General 	<ul style="list-style-type: none"> ▪ External auditors ▪ External consultants / investigators ▪ Local Fund Agents ▪ Technical Review Panel ▪ Technical Evaluation Review Group

6. Assurance Map and Plan

The Assurance Map summarises, for each assurance area, the stakeholders needing assurance, the assurance provider and the type of assurance provided. The Assurance Map provides a record of what the Board has determined to be the appropriate assurance required to meet its assurance needs.

The Assurance Plan indicates, for OIG only, the generic activities undertaken to provide the required assurances.

The analysis underlying the development of the assurance map aims to establish and record how the Board fulfils its assurance needs and highlight any areas where the Board has insufficient or unreliable assurance. In particular the assurance map shows the combination of direct, assurance validation and independent assurance provided and any assurance gaps such as:

- areas *not* covered; or
- areas with insufficient or unreliable assurance.

The analysis takes account of the assurance provided by the Board to outside stakeholders in arriving at their assurance needs.

The assurance map and the assurance plan for the OIG are set out below.

7. Assurance Map

What assurance is needed	Who needs assurance								Who provides assurance		
	Board members	Board	F&A Committee	P&S Committee	Ethics Committee	Performance Ctte	Portfolio Ctte	Secretariat	Direct assurance	Assurance validation	Independent assurance
1. There are adequate and effective controls in place at the Secretariat	✓	✓	✓					✓	Secretariat		OIG
2. There are adequate counter fraud activities to detect and deter the risk of fraud or irregularity at the Secretariat	✓	✓	✓		✓			✓	Secretariat		OIG
3. All reported and detected incidents or irregularities at the Secretariat are properly and fully investigated	✓	✓	✓		✓			✓	Secretariat		OIG
4. There are adequate and effective controls in place at the country level	✓	✓	✓					✓	Program recipients FPMs / Clusters Procurement	Legal Finance M&E	OIG LFA

What assurance is needed	Who needs assurance								Who provides assurance		
	Board members	Board	F&A Committee	P&S Committee	Ethics Committee	Performance Ctte	Portfolio Ctte	Secretariat	Direct assurance	Assurance validation	Independent assurance
5. There are adequate counter fraud activities to detect and deter the risk of fraud or irregularities at the country level	✓	✓	✓		✓			✓	Program recipients FPMs / Clusters	Legal Finance	OIG LFA
6. All reported incidents or irregularities at the country level are properly and fully investigated	✓	✓	✓		✓			✓	Program recipients FPMs / Clusters	Legal Finance	OIG LFA
7. The Global Fund's business model for program delivery is fit for purpose	✓	✓	✓	✓				✓	Secretariat		Technical Evaluation Reference Group – Five Year Evaluation
8. Funding is directed to appropriate programmes	✓	✓	✓				✓	✓	FPMs / Cluster Legal Finance M&E Procurement	OIG	Technical Review Panel LFA OIG

What assurance is needed	Who needs assurance								Who provides assurance		
	Board members	Board	F&A Committee	P&S Committee	Ethics Committee	Performance Ctte	Portfolio Ctte	Secretariat	Direct assurance	Assurance validation	Independent assurance
9. Programmes are performing effectively and achieving objectives	✓	✓	✓			✓	✓	✓	Programme recipients FPMs / Clusters	LFA M& OIG	OIG
10. Donation and other income is fully and accurately accounted for	✓	✓	✓					✓	Secretariat	Finance	OIG External audit
11. Non grant expenditure is properly controlled and spent on appropriate items	✓	✓	✓					✓	Secretariat	Finance	OIG External audit
12. Proper and accurate financial accounts are prepared and audited	✓	✓	✓					✓	Secretariat	Finance	External audit
13. Internal projects undertaken by the Secretariat are delivered on time and according to plan	✓	✓	✓	✓				✓	Secretariat		OIG
14. Staff remuneration is authorised and appropriate	✓	✓	✓			✓		✓	Secretariat	Finance HR	WHO OIOS
15. Human resources risks are identified and managed	✓	✓	✓			✓		✓	Secretariat	HR	OIG

What assurance is needed	Who needs assurance								Who provides assurance		
	Board members	Board	F&A Committee	P&S Committee	Ethics Committee	Performance Ctte	Portfolio Ctte	Secretariat	Direct assurance	Assurance validation	Independent assurance
16. Staff performance is evaluated and issues identified are addressed	✓	✓				✓		✓	Secretariat	HR	OIG
17. Legal risks are identified and managed	✓	✓	✓					✓	Secretariat	Legal	OIG
18. Information used for internal and external reporting is relevant and reliable	✓	✓	✓					✓	Secretariat	External relations Finance	TERG OIG
19. Information used by the Board for decision-making is relevant and reliable	✓	✓	✓	✓	✓	✓	✓	✓	Secretariat TRP	Finance Legal HR External relations	OIG

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8. OIG Assurance Plan

What assurance is needed	What the OIG would do to provide this assurance	What the work of the OIG would involve
1. There are adequate and effective controls in place at the Secretariat	Carry out internal audits of Secretariat functions control processes or Completion of annual report under SAS70 or UK AAF 01/2006 Validation of assurance provided by Secretariat functions by carrying out effectiveness reviews of key Secretariat functions	Risk based internal auditing of core Secretariat control processes to assess their design adequacy and effectiveness to mitigate risks and achieve objectives. Assessments to establish whether key functions are fit for purpose by assessing their purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.
2. There are adequate counter fraud activities to detect and deter the risk of fraud or irregularity at the Secretariat	Implement and run an effective whistle blowing mechanism at the Secretariat Carry out inspections of transactions at the Secretariat	Monitoring the confidential telephone line. Unannounced inspections of a random sample of transactions to detect fraud.
3. All reported and detected incidents or irregularities at the Secretariat are properly and fully investigated	Conduct investigations of suspected fraud at the Secretariat	Investigating reported incidents or irregularities at the Secretariat.
4. There are adequate and effective controls in place at the country level	Carry out internal audits of country level control processes	Risk based internal auditing of core programme level control processes to assess their design adequacy and effectiveness to mitigate risks and achieve objectives.
5. There are adequate counter fraud activities to detect and deter the risk of fraud or irregularity at the country level	Implement and run an effective whistle blowing mechanism at the country level Carry out inspections of transactions at the country level	Monitoring the confidential telephone line. Unannounced inspections of programme recipient transactions to detect fraud (both principal and sub-recipients).
6. All reported incidents or irregularities at the country level are properly and fully investigated	Conduct investigations of suspected fraud at the country level	Investigating reported incidents or irregularities at the country level.
7. The Global Fund's business model for program delivery is fit for purpose		

What assurance is needed	What the OIG would do to provide this assurance	What the work of the OIG would involve
8. Funding is directed to appropriate programmes	<p>Validate the work of the Local Fund Agents and Secretariat grant assessment functions</p> <p>Carry out effectiveness reviews of Technical Review Panel</p>	<p>Validation of a random sample of LFA grant application assignments and Secretariat grant assessment functions to assess whether work performed is complete and accurate.</p> <p>Assessment of the TRP to establish whether it is fit for purpose by assessing its purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.</p>
9. Programmes are performing effectively and achieving objectives	<p>Carry out effectiveness reviews of Secretariat monitoring functions including LFAs</p> <p>Validate the work of the Secretariat monitoring functions and Local Fund Agents</p>	<p>Assessment of the Monitoring and Evaluation and LFA functions to establish whether they are fit for purpose by assessing its purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.</p> <p>Validation of a random sample of Secretariat monitoring and LFA Verification of Implementation assignments to assess whether work performed is complete and accurate.</p>
10. Donation and other Income is fully and accurately accounted for	Carry out internal audits of income control processes	Risk based internal auditing of income control processes to assess their design adequacy and effectiveness to mitigate risks and achieve objectives.
11. Non grant expenditure is properly controlled and spent on appropriate items	Carry out internal audits of non grant expenditure control processes	Risk based internal auditing of non grant expenditure control processes to assess their design adequacy and effectiveness to mitigate risks and achieve objectives.
12. Proper and accurate financial accounts are prepared and audited		
13. Internal projects undertaken by the Secretariat are delivered on time and according to plan	Carry out internal audits of projects undertaken by the Secretariat	Working closely with the project teams through the life time of the project to assess whether adequate and effective project management controls exist to ensure successful project implementation.
14. Staff remuneration is authorised and appropriate		
15. Human resources risks are identified and managed	Validation of assurance provided by Secretariat functions by carrying out effectiveness reviews of key Secretariat functions	Assessments to establish whether key functions are fit for purpose by assessing their purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.

What assurance is needed	What the OIG would do to provide this assurance	What the work of the OIG would involve
16. Staff performance issues are identified and addressed	Validation of assurance provided by Secretariat functions by carrying out effectiveness reviews of key Secretariat functions	Assessments to establish whether key functions are fit for purpose by assessing their purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.
17. Legal risks are identified and managed	Validation of assurance provided by Secretariat functions by carrying out effectiveness reviews of key Secretariat functions	Assessments to establish whether key functions are fit for purpose by assessing their purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.
18. Information used for internal and external reporting is relevant and reliable	Carry out internal audits of information and communication control processes on Validation of assurance provided by Secretariat functions by carrying out effectiveness reviews of key Secretariat functions	Risk based internal auditing of information and communication control processes to assess their design adequacy and effectiveness to mitigate risks and achieve objectives. Assessments to establish whether key functions are fit for purpose by assessing their purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.
19. Information used by the Board for decision-making is relevant and reliable	Carry out internal audits of information and communication control processes Validation of assurance provided by Secretariat functions by carrying out effectiveness reviews of key Secretariat functions	Risk based internal auditing of information and communication control processes to assess their design adequacy and effectiveness to mitigate risks and achieve objectives. Assessments to establish whether key functions are fit for purpose by assessing their purpose and remit, position and organisation, process and technology, people and knowledge and performance and communication.