

AUDIT AND ETHICS COMMITTEE
DECISIONS AND RECOMMENDATIONS TO THE BOARD

PURPOSE:

1. This report serves to inform the Board about the decisions taken by the Audit and Ethics Committee (AEC) since the November 2012 Board Meeting in accordance with its Charter.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

PART 1: INTRODUCTION

1.1 This report presents to the Board the decisions taken by the Audit and Ethics Committee (AEC) since November 2012 in accordance with its Charter ¹. Graham Joscelyne and Brian Brink serve as Chair and Vice-Chair of the Committee.

1.2 The Committee assembled virtually four times in 2013 (on 23 January, 27 February, 8 March and 28 March 2013). During these phone conferences, AEC Members discussed ongoing issues in preparation of the 4th AEC meeting.

1.3 The 4th Meeting of the AEC took place on 25 and 26 April 2013 at the Global Fund Secretariat in Geneva. The meeting agenda was structured around the following themes: (1) Office of the Inspector General (OIG) (2) risk oversight; (3) performance oversight; (4) the 2012 consolidated financial statements, audited by Ernst & Young (Audited Financial Statements); (5) ethics matters; and (6) AEC charter.

1.4 This report is divided as follows:

Part 2: Decisions taken by the AEC pursuant to its delegated authority

Item 1: Conflict of Interest principles for the Inspector General Ad Hoc Nominations Committee

Item 2: Approval of approaches for (i) the release of OIG reports in accordance with the Disclosure Policy for Release of OIG Reports and other applicable Board-approved policies; and (ii) communication to stakeholders in response to OIG reports.

Part 3: Matters addressed by the AEC as part of its oversight and advisory functions in accordance with its charter.

Part 4: Decisions recommended to the Board under separate cover.

¹ The AEC Charter and other core governance documents are available at the following link: <http://www.theglobalfund.org/en/about/structures/board/>

PART 2: DECISIONS TAKEN BY THE AEC PURSUANT TO ITS DELEGATED AUTHORITY

Item 1: Conflict of Interest principles for the Inspector General Ad Hoc Nominations Committee

On 9 April 2013, The Audit and Ethics Committee decided through electronic vote to issue the following decision:

The Audit and Ethics Committee:

1. Notes its responsibility to ensure that the next Inspector General does not enter his/her role with any conflict of interest.
2. Notes that it will adopt a framework for assessing conflicts, including screening criteria and declaration forms, which will be provided to the Inspector General Ad Hoc Nominations Committee and the Board.
3. Decides that this assessment framework will be based on the principles of independence and objectivity, as articulated under the International Professional Practices Framework (IPPF) that embodies both the International Standards for Internal Auditing and the Code of Ethics, to which the Office of the Inspector General must comply under the terms of its Charter.
4. Decides that, based on the IPPF, the AEC will presume that a candidate for Inspector General could not retain objectivity if overseeing assessment of operations for which he/she was previously responsible, which may include prior activities as a Secretariat employee.

Item 2: Approval of approaches for (i) the release of OIG reports in accordance with the Disclosure Policy for Release of OIG Reports and other applicable Board-approved policies; and (ii) communication to stakeholders in response to OIG reports.

On 23 January 2013, the Committee unanimously decided that a cover letter from the Executive Director should continue to be included in all OIG reports, noting the following rationale:

1. ED sign-off is an important part of authentication process and demonstrates OIG and Secretariat collaboration. This is rendered visible through the cover letter, not least considering certain readers may only skim-read the reports;
2. The formal Secretariat commitment and unified voice displayed through the ED's cover letter is of particular relevance given the public nature of OIG reports.

At its 4th meeting, on 25-26 April 2013; the AEC reviewed high-level principles for the revision of the OIG disclosure policy and tasked the OIG with the preparation of a revised policy to be approved at its next meeting.

PART 3: MATTERS ADDRESSED BY THE AEC AS PART OF ITS OVERSIGHT AND ADVISORY FUNCTIONS IN ACCORDANCE WITH ITS CHARTER.

3.1 Since the Board Meeting in November 2012 the AEC deliberated and received updates from the Secretariat on the following issues:

Oversight of the Office of the Inspector General

- i. Capacities of the OIG to address the investigations workload. The AEC decided to support and request the addition of 3 full-time-equivalent posts within the Office of the Inspector General Investigations Unit, to bring the total number of full-time-equivalent posts in the unit from 12 to 15. The budget-neutral increase contributes to building institutional knowledge into the OIG by retaining in-house consultants.

Ethics oversight

- i. Revisions to the Declaration of Interest policies of the Fund. This item will be further studied at the 5th AEC meeting.
- ii. Framework for Assessing Conflicts of Interest for Candidates for the Next Inspector General (IG). Approved by electronic vote and communicated to the Ad Hoc Nominations Committee.
- iii. Ethics clearance of Inspector General candidates prior to final interviews.
- iv. Ethics and Compliance Program for the Global Fund. The Committee supported and requested the creation of a dedicated position of Ethics Official, with the appropriate support staffing level.

Performance oversight

- i. Proposed Key Performance Indicators (KPI) framework. The AEC provide input to be added to that of the SIIC and the FOPC, to enable appropriate cross-cutting review. The Board will receive a proposed KPI framework from the Coordinating Group for approval at its Twenty Ninth Meeting.

Oversight of the external audit and finalization of the consolidated financial statements

- i. External Audit and Consolidated Financial Statements. The Committee reviewed management's preparation and delivery of the Consolidated Financial Statements. It also approved the external auditors scope of work for the 2012 external audit and reviewed progress during the audit. On completion, the AEC reviewed the Consolidated Financial Statements and management's assertions to the external auditors as well as the audit results and opinion and recommendations of the External Auditor, together with management responses and agreed actions plans and finally recommended approval of the Consolidated Financial Statements.
- ii. Control functions of the Secretariat. Noting the FOPC's oversight on human resources matters and operating expenses, the AEC conveyed its support for a review of the needs of the Finance team and other control functions of the organization (e.g., Legal and Compliance Department, Risk and OIG) to ensure sufficient resource levels and range of expertise in such areas.

Risk oversight

- i. The AEC reviewed progress by the Secretariat to develop the risk management function and integrate this into the business of the Fund. The AEC received input on the different components and activities around risk management conducted by the Secretariat through Q1 2013, including the Corporate Risk Register and progress made on the Operational Risk Management Framework. This agenda item was also part of SIIC and FOPC agendas to enable cross-cutting review as per committee charters.
- ii. Although it was expected that a recommendation would be made to the Twenty-Ninth Board Meeting on the Risk Management Framework, the Committee decided to leave more time to the development of the Risk Function before doing so at the next Board meeting.

AEC Charter reforms and AEC membership

- i. AEC Charter amendments. Discussion was adjourned until the 5th meeting of the Committee in order to seek input from constituents. In the interim, the AEC recommended the Board Chair take all measures necessary to appoint new AEC members to fill the two vacancies on the Committee.

PART 4: DECISIONS RECOMMENDED TO THE BOARD.

At its 4th meeting, the AEC registered in its Decision Point GF/AEC04/DP01 the Acceptance by the Audit and Ethics Committee of Documents and Responses Relating to the 2012 Consolidated Financial Statements. Accordingly, the Audit and Ethics Committee decided to recommend the Board authorizes the issuance of, and therefore approves, the Global Fund's 2012 Consolidated Financial Statements, which have been audited by Ernst & Young.

The Board subsequently moved to approve this decision (GF/B28/EDP21) by Electronic vote on 24 May 2013.

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