

GF/B31/16

Board Information

AUDIT AND ETHICS COMMITTEE
REPORT TO THE BOARD

Introduction

This report compiles decisions recommended to the Board by the Audit and Ethics Committee (“AEC”), and an overview of items discussed under the committee’s oversight since the last Board meeting.

Since the last Board meeting in November 2013, the AEC assembled once, in accordance with its Charter. Graham Joscelyne and Brian Brink serve as Chair and Vice-Chair of the committee respectively. In preparation for the AEC leadership transition, the 7th meeting was attended by the AEC Vice-Chair designate, Claude Rubinowicz, as an observer. Following this Thirty-First Board Meeting, Claude Rubinowicz will take the seat of Vice-Chair of the committee, as decided by the Board at its Thirtieth meeting.¹

The 7th AEC Meeting took place on 6-7 February 2014 at the Global Fund Secretariat in Geneva. The meeting agenda was structured around the following themes: (1) Office of the Inspector General – management, policies and operations; (2) Ethics; (3) Update on Key Financial Matters and External Audit; and (4) Risk. Confidential ethics matters were addressed in executive session.

This report is divided as follows:

- Part 1: Decisions Recommended to the Board.
- Part 2: Matters addressed by the AEC as part of its oversight and advisory functions in accordance with its charter.

¹ Board decision GF/B30/DPO8: Appointment of Committee Leadership:
<http://www.theglobalfund.org/Knowledge/Decisions/GF/B30/DPO8/>

PART 1: DECISIONS RECOMMENDED TO THE BOARD

Revision to the OIG Disclosure Policy and associated amendments to the OIG Charter

1.1 At its 7th meeting, the AEC reviewed and endorsed the OIG Communications Strategy, shared with the Board at this meeting as Annex 4 to document GF/B31/12. The AEC fully supports the excellent work undertaken to design and implement the Communications Strategy, and notes in particular the degree of comfort that such clearly defined stakeholder models will provide to both internal and external parties.

1.2 The OIG Communications Strategy underpins both the Whistle-blower Policy, approved at the Thirtieth Board Meeting,² and the Policy for Disclosure of OIG Reports (the “Disclosure Policy”). At the 7th AEC meeting, the committee reviewed the revised Disclosure Policy, developed following consultation with the Secretariat and through informal Board consultation. The AEC supports the move towards maximum transparency, as well as the approach outlined in the Policy for the management of rare and exceptional cases of restrictions. The final revised Disclosure Policy was shared with the AEC on 10 February 2014, and receives full committee support.

1.3 The revised policy recommended for Board adoption and the associated decision point can be referred to in document GF/B31/12.

PART 2: MATTERS ADDRESSED BY THE AEC AS PART OF ITS OVERSIGHT AND ADVISORY FUNCTIONS IN ACCORDANCE WITH ITS CHARTER.

2.1. At its 7th meeting, the AEC deliberated and received updates from the Secretariat and the Office of the Inspector General on the following issues:

Office of the Inspector General Oversight

2.2. The committee received an update on the activities of the OIG through presentation of the 2013 Annual Report. Committee discussions on OIG matters focused largely on the OIG Disclosure Policy and Communications Strategy as already outlined in Part 1 above. In addition, the committee formally met, for the first time, Katie Hodson, Director of Investigations. The committee welcomed the opportunity to receive an update on Ms Hodson’s vision for the Investigations Unit, and looks forward to an effective tenure.

2.3. The AEC reviewed the OIG Annual Report, provided comment and input, and approved electronically on 13 February 2014. The committee recommends this report to the Board, and has provided a cover statement endorsing its content, included in the relevant Board document (GF/B31/11).

Ethics

2.4. With a view to making progress towards designing a project leading to the development of an ethics and compliance framework for the Global Fund, the AEC has engaged in consultation with an external expert to articulate a methodology and terms of reference for a holistic framework for the Global Fund. The consultant presented an initial analysis and set of high-level recommendations to the committee at its 7th meeting, identifying the following areas:

² Board decision GF/B30/DP04: Revisions to the Whistle-blower Policy

Analysis:

- i. The extensive stakeholder reach of the Global Fund expands the breadth and reach of ethical risk, highlighting the need for a comprehensive framework.
- ii. At present, an ethics infrastructure exists in parts, with a number of codes of conduct in place, but the approach is currently fragmented.
- iii. The existence of the OIG and Sanctions Panel represent integral elements of an ethics and compliance framework.
- iv. Increased focus on the importance of ethics has been observed, along with a general ethical culture which is moving in the right direction, but the organization should now target consolidation and sustainability.
- v. The lack of ethical leadership and a unified organizational culture with a set of overarching values, principles and a code of conduct represents a challenge for the organization.
- vi. Inherent conflicts of interest and the lack of a code of conduct for Board Members represent an ethical challenge to the organization's good governance.
- vii. The landscape in which the Global Fund operates holds inherent ethical risks, the most significant of which is carrying out the organization's mission, free from corruption, and while upholding human rights.

Proposal:

- i. An ethics and compliance framework is proposed, drawing on a range of sources, including the *Global Ethics and Integrity Benchmarks* tool for helping organizations assess and measure their progress in making a formal and transparent commitment to ethics and integrity in the workplace.³
- ii. The proposal focuses on objectives and actions in the following eight areas:
 - a. Vision and Goals
 - b. Leadership
 - c. Infrastructure: Roles and Resources
 - d. Codes of Conduct: Policies and Procedures
 - e. Assessment
 - f. Organizational Culture
 - g. Communication, Training and Education
 - h. Ethical Risk Management

3.2. The AEC reflected upon the ethics and compliance framework from the perspective of health, based upon the fundamental premise of "first, do no harm" and secondly treating all as equal. The values-driven nature of ethics, the importance of working at a level of principles, cultural awareness, and an appeal to the moral imagination were all discussed by the committee in the context of creating an ethical footprint for the organization. More pragmatically, the committee highlighted the need for clarity surrounding assessment of inherent conflicts of interest, governance entity members' responsibility towards the Global Fund, and the importance of training and engagement to ensure buy-in by all stakeholders, internal and external.

3.3. In considering the effective implementation of an ethics program, the committee agreed that the Ethics function as it currently exists is under-resourced. The AEC therefore recommends the creation of a dedicated Ethics Official post, with an office that is well-resourced and staffed to provide the level of service needed to lead the Ethics function, educate, communicate, and advise on ethical issues, but also to support management as it implements an ethics and compliance framework.

³ Dubinsky & Richter: <http://qedconsulting.com/products/section2j.php>

Financial Accounts and Reporting

3.4. The committee received an informational presentation from the Finance Division regarding the update to financial systems and processes under the 'Finance Step-up' project. The committee expressed its satisfaction at the improvements made, resulting in streamlined and accelerated financial information workflows and credible, accurate data.

External Audit

3.5. Ernst & Young, the external auditor, provided a positive update to the AEC on the progress of the 2013 external audit, confirming that the audit closing date is on track for end-February 2014, and that there were no early warnings to be issued at present. The AEC will review and approve the 2013 consolidated financial statements at its 8th meeting in April 2014, before recommending to the Board for approval via electronic vote, scheduled for 22 April 2014.

Losses and Recoveries

3.6. The AEC reviewed and endorsed the second Losses and Recoveries Report to the Board. This document is submitted for Board information under separate cover (GF/B31/13). The Board may expect to receive such reports, reviewed by the AEC, on a regular basis. The committee brings to the attention of the Board the below analysis of Board Decision Point GF/B23/DP28, relating to the publication of the Losses and Recoveries Report to the Board.

3.7. In Decision Point GF/B23/DP28,⁴ the Board requests that the Secretariat and the OIG "jointly publish" a Losses and Recoveries Report. This Decision Point requires the report to contain background information and a table listing the data on losses and recoveries. For the Thirty-First Board Meeting, a Losses and Recoveries Report has been prepared by the Secretariat which explains the method and process for determining recoverable amounts and includes a table which details, among other items, (i) the amounts reported by the OIG as being misappropriated, unsupported, ineligible or other; (ii) management adjustments to the OIG reported figures; and (iii) the amounts deemed recoverable. The submission of this Report to the Board includes a cover note from the Inspector General regarding the OIG's assessment of the validity of certain data contained in the Report. In order to protect the independence of the Office of the Inspector General, the AEC supports the approach taken by the Secretariat and the OIG. Although this submission may divert from past practice, the AEC believes that it enhances the purpose of the original Board decision by appropriately allowing the Secretariat and the OIG to independently confirm the components of the recoveries process which are under each of their respective responsibilities while allowing for the Secretariat and the OIG to coordinate a joint correspondence to the Board

3.8. The AEC further supports the OIG and the Secretariat undertaking a review of the existing Losses and Recoveries Board Decision to determine whether recent operational improvements require the decision be modified. Potential modifications may include a clearer delineation of the respective responsibilities of the OIG and the Secretariat throughout the recoveries process, particularly with respect to the OIG's role in reporting amounts that may have been misused and the Secretariat's operational role in determining and pursuing recoverable amounts. The AEC will review any proposed modifications in order to make a recommendation to the Board.

⁴ Approved by the Board on 12 May 2011.

Risk Tolerance

3.9. Under the committee's responsibility to advise the Board on the appropriate tolerance to be exercised by the Global Fund in the management of fiduciary and ethical risks, and following a substantial update to the Board on risk management at its Twenty-Ninth Meeting, the AEC received an initial update from the Chief Risk Officer on the work of the Secretariat towards developing a proposal for concrete risk tolerance values that will be presented for discussion and approval to the Board and its committees during 2014. The update laid out general principles and outlined the next steps for the Secretariat in preparing these proposals, which will be developed following compilation of the 2013 grant risk report, and the 4th quarter 2013 corporate risk register. The Secretariat expects to be in a position to engage with the Board and its committees from 1 April 2014 on this item.

3.10. The AEC will focus on the issue of risk tolerance at its 9th meeting in July 2014, and will address the subject again at its 10th meeting in October, ahead of an expected Board-level discussion on risk management at the Thirty-Second Board Meeting.

Sanctions

3.12. Following the first meeting of the Sanctions Panel in January 2014, the committee received an update on the deliberations and outcomes of the first case referred to the Panel. The committee commends all parties involved for the effective and professional functioning of the body, and the positive outcome reached.⁵ The committee looks forward to being apprised of the guiding principles surrounding referrals to the Sanctions Panel.

⁵ Global Fund accepts recommendations of Sanctions Panel, 5 February 2014: [http://www.theglobalfund.org/en/mediacenter/announcements/2014-02-05 Global Fund Accepts Recommendations of Sanctions Panel/](http://www.theglobalfund.org/en/mediacenter/announcements/2014-02-05%20Global%20Fund%20Accepts%20Recommendations%20of%20Sanctions%20Panel/)