

# Thirty-Second Board Meeting Risk Management Policy

**THE RISK MANAGEMENT POLICY****Purpose:**

1. This document, “*Risk Management Policy (GF/B32/13)*”, presents: i) a standalone Risk Management Policy (the “Policy”); and ii) an accompanying Enterprise Risk Management Framework providing broader context for the interrelated tools and elements used to operationalize the Risk Management Policy.
2. This document has been discussed extensively with, and benefited from in-depth input from, the Audit and Ethics Committee (“AEC”) and the Finance and Operational Performance Committee (“FOPC”). Additionally, the Strategy, Investment and Impact Committee members were provided an opportunity to input into the Policy. The AEC has endorsed the Policy following which the FOPC has decided to recommend it to the Board for approval.

## EXECUTIVE SUMMARY

- 1 The Secretariat, in early 2013, initiated an update of the Risk Management Framework that was approved by the Board in 2009. An extensive consultative process has resulted in a new Risk Management Policy (the “Policy”) which is now being presented to the Board for approval in its November 2014 meeting. It will replace the current Risk Management Framework. The Policy will be updated when required so can be characterized as “Version 1”.
- 2 Accompanying the Policy in Annex 1 is a new Enterprise Risk Management Framework (the “Framework”) that describes at a high level how the Policy is put into practice. Annex 2 contains definitions of relevant terms. The Policy itself is included as Annex 3.
- 3 The Policy for the most part codifies already existing risk management practices that have been put in place, or significantly strengthened, over the past three years. Accordingly, its approval by the Board will not have a material impact on risk management practices.

## DECISION

### GF/B32/DP11: Approval of the Risk Management Policy

#### ***Decision Point: GF/B32/DP11: Approval of the Risk Management Policy***

1. ***The Board acknowledges multiple operational tools are utilized and updated by the Secretariat to execute the Global Fund’s approach to risk management, as outlined in the Enterprise Risk Management Framework set forth in Annex 1 to GF/B32/13.***
2. ***Accordingly, based on the recommendation of the Finance and Operational Performance Committee, the Board approves the Risk Management Policy, as set forth in Annex 3 to GF/B32/13 (the “Policy”).***
3. ***The Policy shall supersede the Risk Management Framework adopted by the Board in November 2009 at its Twentieth Meeting (GF/B20/DP15) and become effective as of the date of this decision.***

## THE GLOBAL FUND ENTERPRISE RISK MANAGEMENT FRAMEWORK

### INTRODUCTION

- 1 The Global Fund's mission is to fight AIDS, Tuberculosis, and Malaria in those countries where there is the greatest need. The Global Fund's operations involve multiple partnerships, challenging humanitarian and development contexts and extensive geographic scope. Risk is an everyday part of The Global Fund's activity. There is a clear need to balance mission risk, that is, the risk of not delivering the Global Fund's mission of the fight against the three diseases, with fiduciary risk.
- 2 The Global Fund aims to apply leading-practice enterprise risk management through a combination of the following inter-related elements:
  - a. The Global Fund **Risk Management Policy**
  - b. **Governance arrangements** around risk management
  - c. The **Risk Differentiation** to be applied
  - d. **Operational Risk Management** to achieve the Global Fund's strategic objectives
  - e. The organizational **Risk Register**
  - f. **Internal Control** applied to the Secretariat's processes
- 3 This Framework describes each of the elements and how they interrelate, providing a holistic view. Each element is more fully described in individual documents.
- 4 It is useful to start out by defining<sup>1</sup> Enterprise Risk Management as:
 

*A process, effected by the Global Fund Board, management and other personnel, applied in strategy setting and across the organization, designed to identify potential events that may affect the organization, and manage risk to be within our risk thresholds, to provide reasonable assurance regarding the achievement of objectives.*
- 5 This definition is adapted from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework, one of the most widely used frameworks for enterprise risk management. It explains that the underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders. All entities face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. Value is maximized when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploys resources in pursuit of the entity's objectives. Enterprise risk management, according to the COSO framework, encompasses:
  - a. Aligning risk differentiation and strategy – Management considers the entity's approach to risk differentiation in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks; and

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<sup>1</sup> Attached as Annex 2 is a glossary of the main terms used throughout this Enterprise Risk Management Framework and its elements.

- b. Enhancing risk response decisions – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance; and
  - c. Reducing operational surprises and losses – Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses; and
  - d. Identifying and managing multiple and cross-enterprise risks – Every enterprise faces a myriad of risks affecting different parts of the organization, and enterprise risk management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks; and
  - e. Seizing opportunities – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities; and
  - f. Improving deployment of capital – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.
- 6 These capabilities inherent in enterprise risk management help management achieve the entity’s performance targets and prevent loss of resources. Enterprise risk management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity’s reputation and associated consequences. In sum, enterprise risk management helps an entity get to where it wants to go and avoid pitfalls and surprises along the way. It allows management and the Board to make better, more “risk-intelligent”, strategic decisions.

## SECRETARIAT RISK MANAGEMENT PROCESSES

- 7 Risk management and internal control elements are embedded in processes throughout the Secretariat, for example in Finance, Grant Management and Legal and Compliance. Also, during the periodic development and evaluation of the organization’s multi-year strategy, risk considerations are explicitly addressed by ensuring a thorough understanding of the drivers of success so that the risks surrounding those drivers can be accurately and completely considered. And in the annual business planning and budgeting process, explicit attention is given to risk aspects in choosing between the different alternatives available to implement the multi-year strategy.
- 8 In addition, the Secretariat has implemented a set of dedicated risk management processes that are developed, implemented and maintained by management in consultation with the Risk Management Department, led by the Chief Risk Officer. They are briefly described below:
- a. **Operational Risk Management:** as the Fund’s core activity is to provide funding to help fight the three diseases, a significant proportion of the Secretariat’s resources is dedicated to the ongoing identification, assessment and mitigation of a comprehensive set of grant related risks. Beginning in 2011, a comprehensive methodology, referred to as Operational Risk Management (‘ORM’), has been developed and implemented. Pursuant to the ORM process, country teams document their assessment of the 19 risks that impact on a grant’s success, as well as how they are addressing them through action plans. These assessments and action plans are reviewed by the teams’ managers, and by an Operational Risk Committee that is co-chaired by the Head of Grant Management and the Chief Risk Officer. Outputs of the process include a visual Implementation Arrangements Map that shows the main implementers as well as the commodities and funds flows, down to the ultimate beneficiary level, as well as a ‘Heat Map’ that visually displays the risk levels for each of the 19 key risks. An example of such a heat map is shown as Figure 1 below. The information from the assessments is aggregated and periodically reported to the relevant managers so that they can take more targeted measures to help mitigate

risks optimally. It also provides the basis for the calculation of the Portfolio Risk Index, which is the Corporate KPI designed to measure and track the level of operational risk in the grant portfolio.

**Figure 1:** an example grant risk heat map; the colors denote the risk level in each of the 19 individual risks, grouped into 4 risk categories, with green indicating ‘low’ risk; yellow indicating ‘medium’; red ‘high’, and dark red ‘very high’;

| High Impact Operational Risk Profile               |  |  |   |
|--|--|--|---|
| 1. Programmatic & Performance Risks                | 2. Financial & Fiduciary Risks                       | 3. Health Services & Products Risks                          | 4. Governance, Oversight & Management Risks               |
| 1.1 Limited Program Relevance                      | 2.1 Low Absorption or Over-commitment                | 3.1 Treatment Disruptions                                    | 4.1 Inadequate CCM Governance & Oversight                 |
| 1.2 Inadequate M&E & Poor Data Quality             | 2.2 Poor Financial Efficiency                        | 3.2 Substandard Quality of Health Products                   | 4.2 P Inadequate PR Governance & Oversight                |
| 1.3 Not Achieving Grant Output Targets             | 2.3 Fraud, Corruption, or Theft of Global Fund Funds | 3.3 Poor Quality of Health Services                          | 4.3 Inadequate PR Reporting & Compliance                  |
| 1.4 Not Achieving Program Outcome & Impact Targets | 2.4 Theft or Diversion of Non-financial Assets       | 3.4 Inadequate Access and Promotion of Equity & Human Rights | 4.4 Inadequate Secretariat and LFA Management & Oversight |
| 1.5 Poor Aid Effectiveness & Sustainability        | 2.5 Market and Macroeconomic Losses                  |  |   |
|  | 2.6 Poor Financial Reporting                         |  |   |

In 2014, the Secretariat defined important improvements to the way assurance about grant performance is obtained through a project called “Combined Assurance”. These improvements will be incorporated in the ORM process and in the governance arrangements around risk management. Concretely, assurance planning and execution will be required to be formally documented; decisions on assurance will be subject to more management scrutiny; and regular reporting will be created and disseminated to enhance the governance over this important element of operational risk management. Also, differentiation in assurance approaches will be developed further than at present and the use of external assurance providers will be improved.

- b. **Risk Register:** the organizational Risk Register documents the organization’s main risks by describing each risk, the likelihood of its occurrence, the likely impact should it occur, the speed at which action would be required to respond to the risk, relevant internal and external developments, mitigation actions being undertaken, whether the risk has increased, decreased or remained stable since the last update of the register, and the level of residual risk (classified as either ‘high’, ‘medium’ or ‘low’) after mitigating actions are taken into account. The Register is reviewed by the Management Executive Committee on at least a quarterly basis and serves to help prioritize management action, monitor mitigation actions and facilitate accountability towards the Board.

- c. **Internal Control:** the Risk Management Department has initiated a process to each year based on agreed organizational priorities systematically assess the Secretariat's processes against a benchmark framework for internal control<sup>2</sup> with the goal to achieve compliance with this benchmark. This, in turn, should lead to better and more systematic risk management. Elements of the framework include control environment aspects (such as performance management including incentives; roles and responsibilities; and staff capacity); risk assessment; internal controls; and activities designed to monitor the effectiveness of the internal controls.
- 9 These main risk management processes are supported by organizational structures; established guidelines for Risk Differentiation and Key Risk Indicators (including, among other things, the Portfolio Risk Index and the measure of compliance with the COSO internal control framework, referred to above) and by regular monitoring and reporting routines.
- 10 The Risk Management Department performs three primary functions:
- a. Establishing and maintaining the dedicated risk management processes outlined above, setting standards and providing the necessary support to the organization in implementing them;
  - b. Monitoring compliance with these established processes and standards, by performing certain routine and ad-hoc verifications and checks, including in-country visits to augment information presented by management; and
  - c. Ensuring that the components of risk management and internal control (control environment, risk assessment, internal controls, monitoring, and information and communication) are present and functioning, and providing regular reporting to Senior Management and the Board on this.
- 11 The Risk Management Department is independent from the other divisions and departments, including those that manage grants and operational risks, and as such performs a 'second line of defense'<sup>3</sup> role (management forming the first line, and the Office of the Inspector General constituting the third line of defense). The Chief Risk Officer is a member of the senior management committees and also chairs the Recoveries Committee that oversees the Secretariat's efforts to recover misused grant funds.
- 12 One of the objectives of this Enterprise Risk Management Framework, and therefore of the Risk Management Department, is to ensure coordination of, and consistency in, risk management activities across the organization that can otherwise be too 'siloed', with duplication and gaps as a result. This is done through, among other things, achieving a level of consistency in process design and documentation; use of common terminology; transparent risk reporting across the organization and the formation of cross-Secretariat risk management teams.
- 13 Having a department dedicated exclusively to Risk Management, led by an executive-level Chief Risk Officer, is not yet standard practice among peer organizations. It is important to note that, although the Risk Management Department supports and enhances the management of risk, detailed risk management remains the responsibility of line management.

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<sup>2</sup> The Internal Control – Integrated Framework, COSO, May 2013.

<sup>3</sup> Please refer to Annex 2 for a definition of the 'three lines of defense' concept.

## **BOARD AND SECRETARIAT GOVERNANCE ARRANGEMENTS FOR RISK MANAGEMENT**

### **The Board and senior management**

- 14 The Board and senior management have a shared responsibility to nurture a risk aware culture that encourages prudent risk taking within the established risk thresholds that aligns with the organization's strategy. A strong culture is one in which decisions are made in a disciplined way, taking into account considerations of risk and reward transparently and on an informed basis. This decision-making culture should extend throughout the organization, from the largest strategic decisions to the most routine day-to-day ones.
- 15 As described in the Risk Management Policy, the Board is ultimately responsible to the Global Fund's stakeholders for overseeing the implementation of effective risk management. It does so by<sup>4</sup>:
  - a. Understanding the organization's risk philosophy and concurring with the approach to risk differentiation; and
  - b. Knowing the extent to which management has established effective risk management; and
  - c. Reviewing the portfolio of risk and considering it against the risk thresholds; and
  - d. Being informed about the most significant risks and whether management is responding appropriately.

[PLACEHOLDER FOR BOARD OVERSIGHT ARRANGEMENTS, TO BE INSERTED WHEN THE BOARD HAS DECIDED WHAT, IF ANY, ADJUSTMENTS IT WANTS TO MAKE FOLLOWING THE AD-HOC WORKING GROUP ON GOVERNANCE'S RECOMMENDATIONS TO THE NOVEMBER 2014 BOARD MEETING. RISK COMMUNICATION/ESCALATION CAN ONLY BE FINALIZED ONCE THE BOARD DECIDES ON RISK OVERSIGHT]

### **The Secretariat**

- 16 An executive-level Risk and Assurance Committee, chaired by the Executive Director and comprising all the members of the management executive team who share responsibility for creating and managing grants, oversees risk management. Additionally, Regional Risk and Assurance Committees review and approve grant related risk management assessments and risk mitigation plans.
- 17 At a divisional and departmental level, each management team is responsible for the identification, assessment, mitigation and monitoring of the risks inherent in their activities.
- 18 For each identified organizational risk there is a clear owner who is primarily accountable for the risk's ongoing assessment, mitigation and reporting, and who has the corresponding authority to direct the organization's resources to ensure optimal risk management. Because the Global Fund is a matrix organization, most risks are managed by at least two different departments and, as a result, it is crucial to maintain effective cross-departmental collaboration.
- 19 As mentioned before, the Risk Management Department performs a support and compliance role in facilitating coordinated risk management at all relevant levels, from strategy setting, business planning and budgeting, to risk management in individual

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<sup>4</sup> From "Effective Enterprise Risk Oversight – the Role of the Board of Directors", COSO, September 2009.



processes, and across the organization. This includes collaboration with partners and implementers as appropriate.

## **Risk Differentiation**

- 20 Risk differentiation aims to manage risk such that variation relative to the achievement of the organization's objectives stays within acceptable limits.
- 21 As explained in the Risk Management Policy, the purpose of setting guidelines for risk differentiation is to ensure that risks are not over or under managed, and that scarce resources are effectively utilized. Reducing risk involved in the pursuit of an objective usually involves incurring costs; the lower the risk threshold, the higher the cost will tend to be (short of avoiding the risk altogether by not undertaking the particular activity). Managing risk to a lower level than necessary therefore is inefficient. On the other side, exceeding risk thresholds exposes the organization to a greater than acceptable chance that key objectives will not be achieved.
- 22 Establishing concrete risk threshold levels is an important element of enterprise risk management. That said, it is also one of the more difficult tasks, especially for organizations that lack processes that have some reliable way of assessing actual risk levels.
- 23 With respect to grant related risk, thresholds are set at two levels:
  - a. **Averages** – setting targets for risk levels in the grant portfolio: at grant, disease portfolio, country and regional levels but also for individual risks across the entire portfolio; and
  - b. **Ranges** – outside which a particular risk exposure may still be accepted, but subject to a higher level of management scrutiny and approval and so long as the overall average risk level stays within the approved thresholds.
- 24 An important fundamental premise is that the Global Fund is willing to accept higher levels of risk in grants that are being implemented in environments that are inherently riskier (for example in fragile states), than in relatively lower risk settings. Therefore, use is made of an index that provides a reliable proxy of this 'contextual risk' level, per eligible country. This also helps in tracking the development of the overall risk level in the portfolio, by relating movements in the Portfolio Risk Index to those in the contextual risk index. In other words, if contextual risk increases we can expect to see a similar increase in the risk level in Global Fund grants, all other things being equal. Similarly, for risks that are inherently easier to manage, the Fund's threshold level will be lower than for risks that are more difficult to control, such as supply chain or sustainability related risks.
- 25 With respect to the specific risk of misuse of funds, the Global Fund has a 'zero-tolerance' policy, which means that the Global Fund does not tolerate corruption, fraud, misappropriation or abuse of any kind in relation to its grants.
- 26 With respect to Secretariat processes, risk threshold levels are defined in terms of the degree to which each individual process is compliant with the benchmark internal control framework, as a proxy for the quality of risk management.
- 27 Because risk is dynamic, guidelines for risk differentiation will be monitored and adjusted as appropriate, normally on at least an annual basis and in accordance with the framework for risk differentiation approved by the Board.

## GLOSSARY OF TERMS

|                        |  |
|------------------------|--|
| Assurance              | <ul style="list-style-type: none"> <li>– performing independent checks and verifications, to be able to:</li> <li>– identify and analyze the main risks to achieving strategic objectives</li> <li>– take appropriate risk mitigation measures in response to those risks</li> <li>– know whether the measures are effective</li> </ul>          |
| Risk                   | The effect of uncertainty on the achievement of the organization or program's objectives.  |
| Risk Management        | A process, effected by the Global Fund Board, management and other personnel, applied in strategy setting and across the organization, designed to identify potential events that may affect the organization, and manage risk to be within our risk thresholds, to provide reasonable assurance regarding the achievement of objectives.        |
| Three lines of defense | A generally accepted way to describe roles & responsibilities for risk management and internal control in an organization, where management control is the first line of defense, the various risk, control and compliance oversight functions established by management are the second line of defense, and independent assurance is the third. |

## **THE GLOBAL FUND RISK MANAGEMENT POLICY**

### **INTRODUCTION**

- 1 Risk can be defined as the effect of uncertainty on the achievement of an organization's objectives. Risk management is, therefore, the process of identifying and managing this uncertainty, or risk, with the goal of achieving objectives.
- 2 The Global Fund's mission is to fight AIDS, Tuberculosis, and Malaria in those countries where there is the greatest need. The Global Fund's operations involve multiple partnerships, challenging humanitarian and development contexts and extensive geographic scope. Risk is an everyday part of the Global Fund's activity. There is a clear need to balance mission risk, that is, the risk of not delivering the Global Fund's mission of the fight against the three diseases, with fiduciary risk.
- 3 Effective risk management is a key element of good governance and will provide reasonable, but not absolute, assurance that:
  - a. Significant risks are identified and monitored, enabling management to make informed decisions and take timely action;
  - b. Opportunities are maximized with confidence that risks will be managed; and
  - c. Objectives, as set out in the Global Fund's strategy, are achieved.
- 4 Multiple operational tools are utilized by the Secretariat to execute this policy, as outlined in the Enterprise Risk Management Framework. The Framework will be updated by the Secretariat when needed, and such updates will be shared with the Board and its Committees on a regular basis.

### **THE OBJECTIVES OF THE RISK MANAGEMENT POLICY AND PROCESS**

- 5 The Global Fund aims to make risk management integral to its culture, strategic planning, decision making and resource allocation. A coordinated approach allows management to proactively manage risk. This policy is intended to guide the organization's decision making on risk management to achieve optimal outcomes.

### **RISK MANAGEMENT PRINCIPLES**

- 6 The Board, management and other personnel must be able to manage risk proactively and take shared responsibility for risk management processes. Therefore, to be effective, risk management at The Global Fund follows these principles:
  - a. Risk management facilitates, rather than encumbers, the achievement of objectives;
  - b. Risk management is integral to normal organizational processes and decision making. It should use simple language, straightforward concepts and encourage common sense thinking; and
  - c. Risk management is calibrated and aligned with the Global Fund's external and internal contexts; and
  - d. Risk management needs to be coordinated between the different responsible entities so as to avoid gaps and redundancies; and
  - e. Risk Management is transparent and inclusive, allowing decision makers at all levels of the organization to participate and stakeholders to be represented; and
  - f. Risk management is a dynamic and ongoing process; and

- g. In making decisions about risk, the effect of those decisions on the ultimate goal, to achieve maximum impact on the three diseases, needs to be carefully balanced. The net effect of each decision to manage risk on that impact must be positive, i.e. the benefits should outweigh the costs.
- 7 These principles are based on the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## **RISK MANAGEMENT PROCESS**

- 8 The standard risk management process consists of four stages:
- a. Identify risks – identification of risk is best achieved by those with a detailed knowledge of defined objectives and operations.
  - b. Assess risks – this is the process for categorizing and assessing risk. Risks are evaluated by scoring them for impact and likelihood.
  - c. Risk Management action – actions are taken to manage risk. Identified risks are logged into a risk management plan along with agreed management actions. Generally speaking, risk can be accepted, hedged or mitigated in another way, or avoided.
  - d. Monitoring and Review - on going monitoring and assessment ensures risk management processes are functioning, and current and emerging risks are managed. Risk monitoring should be part of the organization's broader performance management processes and be clearly linked to performance indicators.

## **CATEGORIES OF RISK**

- 9 A system of classification is useful for ensuring key areas of risk are identified. The identified categories are:
- a. Strategic e.g. achievement of strategic objectives, partnerships, the organization's reputation; and
  - b. External e.g. donor policy, epidemic dynamics; and
  - c. Internal e.g. use of financial resources, systems, staff safety, legal liability and regulatory compliance issues, and attention to ethical behavior. These can be further divided into:
    - i. Grant management processes (including fiduciary risks such as money laundering and fraud); and
    - ii. Supporting processes.
- 10 Included in the Supporting processes risks are all of the **financial risks** related to liquidity, asset/liability management, foreign exchange and investments.
- 11 Grant related risks are the major source of operational risk, for which an extensive operational risk management process is applied.

## **RISK DIFFERENTIATION**

- 12 Guidelines for risk differentiation define how much risk the Global Fund is willing to accept in the pursuit of its objectives. Setting risk thresholds ensures that risks are not over or under managed, and that scarce resources are effectively utilized.
- 13 It is the Board that approves management's proposed framework for risk differentiation.
- 14 With respect to grant related risk, differentiation is done at two levels:
- a. Averages – setting targets for overall risk levels in the grant portfolio; and

- b. Ranges – outside which a particular risk exposure may still be accepted, but subject to a higher level of review and approval and so long as the overall average risk level stays within the approved thresholds.
- 15 With respect to supporting processes, risk levels are defined in terms of the degree to which each individual process is compliant with the COSO internal control framework, as a proxy for the quality of risk management.
- 16 With respect to the specific risk of misuse of funds, the Global Fund has a ‘zero-tolerance’ policy which means that the Global Fund does not tolerate corruption, fraud, misappropriation or abuse of any kind in relation to its grants. For all involved, Ethics and Integrity have a direct bearing on this risk. Providing training for staff to recognize risks, raise concerns and seek advice to mitigate risks is essential.
- 17 Because risk is dynamic, guidelines for risk differentiation will be monitored and adjusted as appropriate.

## **ORGANIZATIONAL RISK REGISTER**

- 18 Critical risks are detailed in the organizational risk register. This register states the risk, the level of risk, actions for managing the risk, lead risk owner and date for review. It serves as the repository of the most important risks that impact on the organization’s ability to achieve its objectives. It allows senior management and the Board to monitor these risks, both individually and in the aggregate, and be assured that appropriate mitigation actions are being taken.

## **POLICIES AND PROCEDURES**

- 19 The Global Fund aims to manage risks by ensuring appropriate policies and procedures are documented and kept up to date to protect the mission, people, funds, information, relationships and reputation.

## **ROLES AND RESPONSIBILITIES**

### **The Board<sup>5</sup>**

- 20 The Board is ultimately responsible to the Global Fund’s stakeholders for overseeing the implementation of effective risk management. The Board is responsible for:
- a. Understanding the organization’s risk philosophy and approving the framework for risk differentiation; and
  - b. Knowing the extent to which management has established effective risk management; and
  - c. Reviewing the portfolio of risk and considering it against the approved risk thresholds; and
  - d. Being informed about the most significant risks and whether management is responding appropriately.
- 21 The Board is provided with information that allows it to discharge its responsibilities as described in the preceding paragraph. The Board receives assurance on this information from assurance providers that include the external auditor, the Office of the Inspector General, the Chief Risk Officer, and the Head of the Legal and Compliance Department. The Technical Review Panel and the Technical Evaluation Reference Group provide relevant technical review and evaluation.

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<sup>5</sup> From “Effective Enterprise Risk Oversight – the Role of the Board of Directors”, COSO, September 2009

22 The Committees of the Board advise the Board and provide guidance to the Secretariat on risk management matters that fall within their area of oversight.

### **The Secretariat**

- 23 Primary responsibility for day to day risk management rests with the Executive Director.
- 24 The Executive Director delegates responsibility for risk management through a management structure designed to ensure effective leadership, accountability and decision making. It is the role of senior management to promote a risk aware culture, integrate risk management into overall management frameworks, ensure risks are systematically assessed and appropriate risk management actions are in place. Risk management is a responsibility of all staff in the organization.
- 25 With respect to the creation and oversight over grants, the primary responsibility for risk management for the Secretariat rests with the management and other staff of the several divisions and departments that jointly form the country teams. The Secretariat for this purpose makes use of the services of Local Fund Agents, who carry out a variety of activities aimed at overseeing, verifying and reporting on grant performance.
- 26 The Local Fund Agent is an important part of the Global Fund's fiduciary arrangements. However, it is not an "agent" in the true sense of the word and is not empowered to represent the Global Fund's views or make decisions regarding grants. The Local Fund Agent works closely with the Country Team to perform work before the Global Fund signs a grant agreement with the Principal Recipient as well as during the ongoing grant management and with respect to grant closure.
- 27 The Legal Counsel has a specific role in the management of legal, regulatory, and reputation risk.
- 28 The Global Fund has a Risk Management function, led by the Chief Risk Officer, whose responsibilities include to:
- a. Formulate and keep up to date the risk management policy; and
  - b. Coordinate and facilitate the development and operation of risk management processes throughout the Secretariat; and
  - c. Facilitate preparation of the organizational risk register and evaluate the risks in relation to strategy and work plans; and
  - d. Coordinate regular risk reporting to Senior Management and the Board; and
  - e. Verify that risk management processes are functioning (compliance function); and
  - f. Contribute to the organization's Ethics related activities.

These activities result in assurance that is provided to the Board.

### **Office of the Inspector General**

- 29 The mission of the Office of the Inspector General is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls or processes in place to manage the key risks impacting the Global Fund's programs and operations, including the quality of such controls and processes.
- 30 All systems, processes, operations, functions and activities within the Global Fund and the programs it funds (including those in place or carried out by its program recipients, partners, suppliers and service providers) are subject to the Office of the Inspector General's review, evaluation, and oversight. The Office of the Inspector General may also act in an advisory role to further the Global Fund's mission and objectives.

## **Implementers**

- 31 The implementers are responsible for delivering programmatic results with the funds provided. They are the key drivers for the achievement of the Global Fund's mission and have the primary responsibility to manage risks in the grants they manage. Implementers have an obligation to operate internal control systems to ensure that (i) funds are efficiently and effectively directed to achieving programmatic results and reaching people in need and (ii) programmatic and financial data are accurate, timely and complete. These control systems, that need to also provide the appropriate levels of assurance, are subject to regular review by external bodies, such as the external auditor, the Secretariat Country Team, the Local Fund Agent and the Office of the Inspector General, throughout the grant life cycle. Where sub-recipients are involved, the principal recipient has the responsibility to manage the sub-recipients.

## **Country Coordinating Mechanisms**

- 32 Country Coordinating Mechanisms are central to the Global Fund's commitment to local ownership and participatory decision-making. These country-level multi-stakeholder partnerships develop and submit grant proposals to the Global Fund based on priority needs at the national level. After grant approval, they oversee progress during implementation. Country Coordinating Mechanisms include representatives from both the public and private sectors, including governments, multilateral or bilateral agencies, non-governmental organizations, academic institutions, private businesses and people living with the diseases. For each grant, the Country Coordinating Mechanism nominates one or more public or private organizations to serve as Principal Recipients.
- 33 The Country Coordinating Mechanisms perform an important oversight and monitoring function of the grant recipients' performance. Their role in risk management is to detect weaknesses in performance or control systems and to stimulate remedial action.

## **Partners**

- 34 The Global Fund works closely with partners and relies on them to help achieve its mission. This includes a role in risk management. Partners fulfil this role by providing essential technical assistance to implementers in proposal development, the preparation of implementation plans, assistance on programmatic matters and reporting and a wide variety of other capacity building measures. Partners also serve as a critical source of information and feedback on both strategic and operational risks across all aspects of operations as well as advice and recommendations on measures to mitigate these risks. This information, feedback and advice are provided through various means, including through the four non-voting Board constituencies, but also on a day-to-day level through interaction with implementer and Secretariat staff. The Global Fund recognizes that this partner input is essential to the successful and efficient implementation of sound risk management.