

Thirty-Second Board Meeting

Proposed changes to The Global Fund Risk and Assurance processes

GF/B32/15

Montreux, Switzerland

20-21 November 2014

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The role of Risk and Assurance at The Global Fund

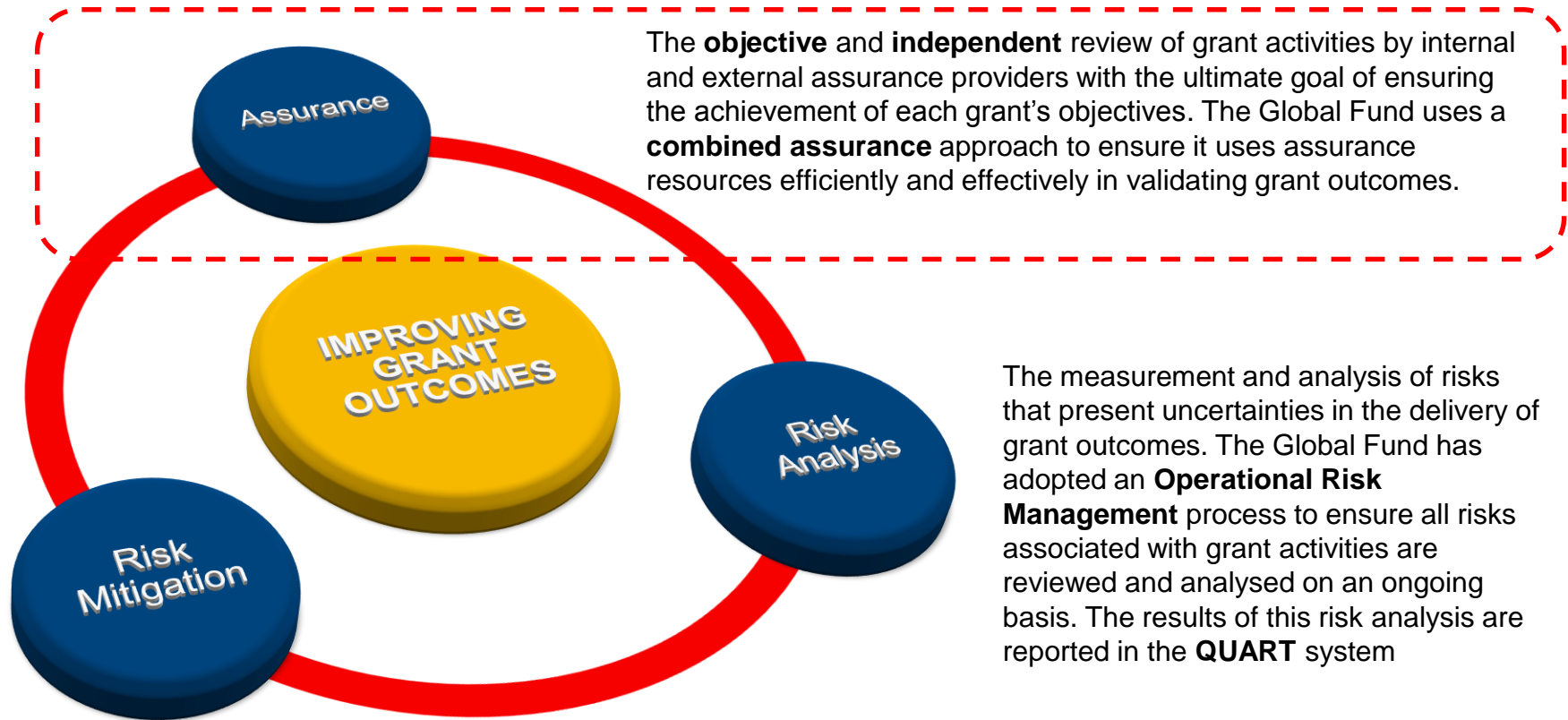
The Global Fund's business model involves **no implementing capabilities**. It therefore has to rely solely on its ability to **obtain assurance** and subsequently **manage the risks** identified on grants to ensure that implementing activities are aligned to the delivery of **grant outcomes**.

To this extent, risk and assurance are at the core of assuring all stakeholders that the money donated is being used efficiently and effectively in defeating the global burden from the three diseases.

In doing this, the organisation has set itself **strategic objectives**, with associated KPI's to assess whether this has been achieved. The **Risk Management Policy** provides the principles on which The Global Fund should manage the risks associated with the delivery of these KPI's and hence assures itself that they will be met.

Risk management is therefore **not a separate team or process** within The Global Fund, it should be considered as **integral to the delivery of grant success** and requires alignment across all the key grant focused divisions to operate effectively.

The Global Fund Risk and Assurance Process



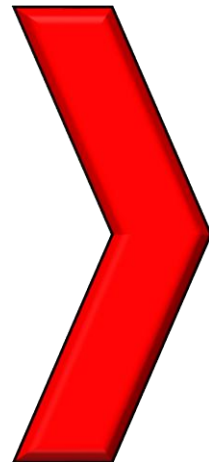
The **management response** to risks held outside of tolerance to mitigate any potential impact on the delivery of grant outcomes. The risk mitigation activity is critical to ensure **ongoing improvements** in grant outcomes. The risk and assurance framework will ensure that critical risk mitigation activities across the portfolio are tracked and monitored at an **executive** level.

Requirement for Change

The Global Fund has focused heavily on improving its operational risk management processes during the last few years. The next stage in developing this process is to ensure that the information from our core assurance providers is reliable, timely and exhaustive in verifying that underlying risks are appropriately understood and monitored.

The Combined Assurance project undertook a thorough review of existing assurance mechanisms via individual country reviews and through working groups led by risk specialists to identify the following core drivers for change:

- 20 individual country reviews to determine extent and quality of assurance.
- 4 workstreams each focused on core risk areas of Finance, PSM, Program Quality and Data Quality and Governance

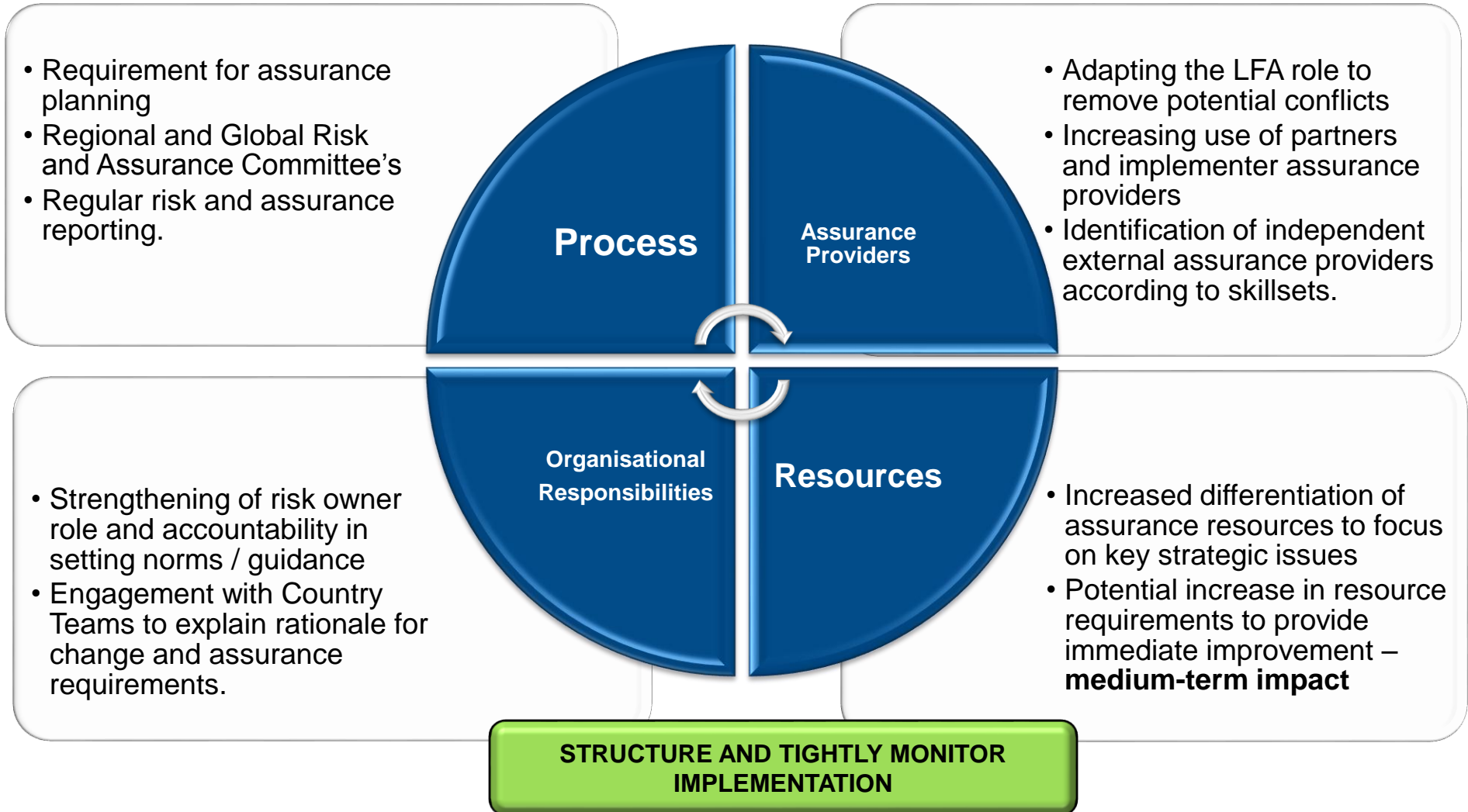


Low coverage and utilization of data quality and program quality assurance reviews

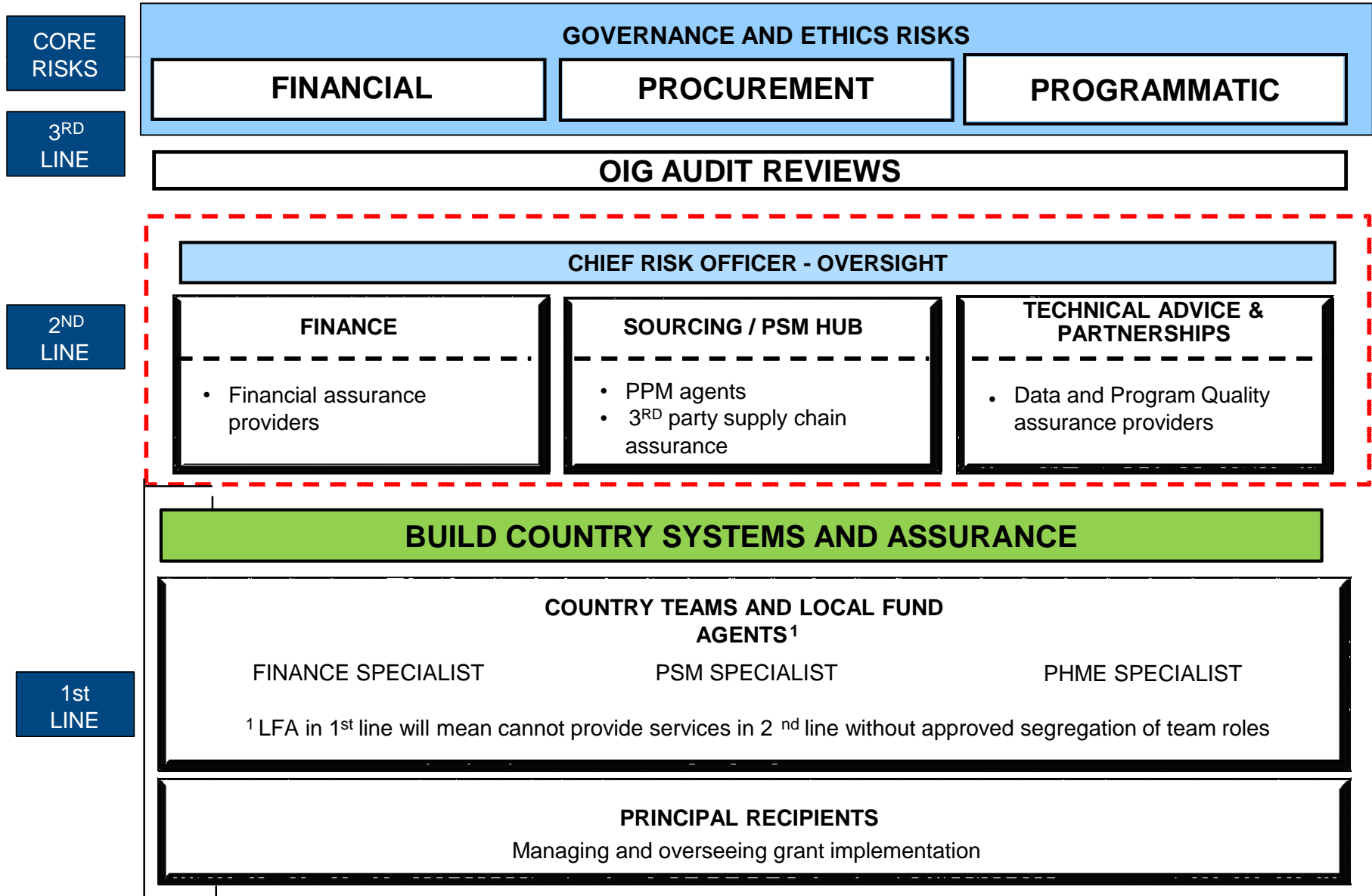
Requirement for improved co-ordination of financial assurance to remove duplication

Lack of clear guidance for Country Teams on assurance planning and level of assurance to be obtained

Overview of Changes Proposed



The Proposed Risk and Assurance Map

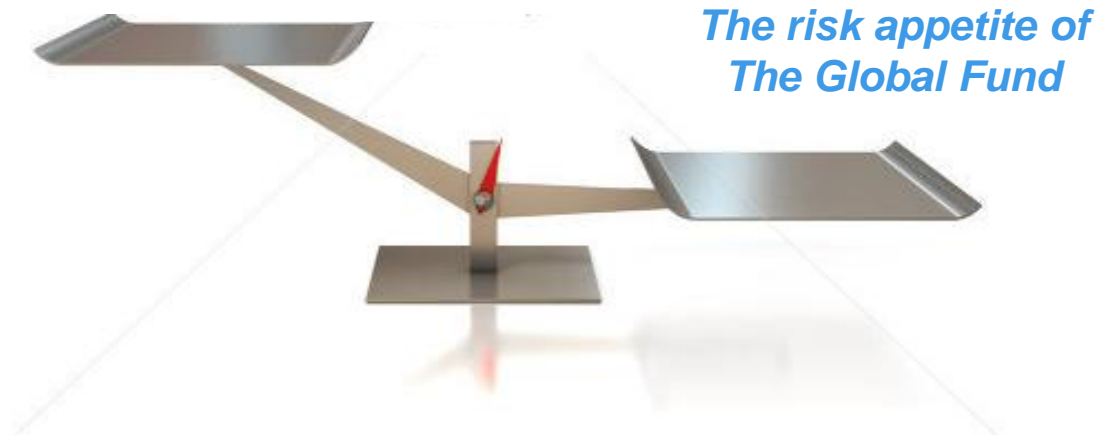


Objectives of the Risk and Assurance Process

Ultimately the outcome of the Risk and Assurance process will be the delivery of the core strategic objectives of The Global Fund.

However, the success of the framework can also be measured in relation to:

The level of risk carried by The Global Fund in relation to achieving its strategic objectives

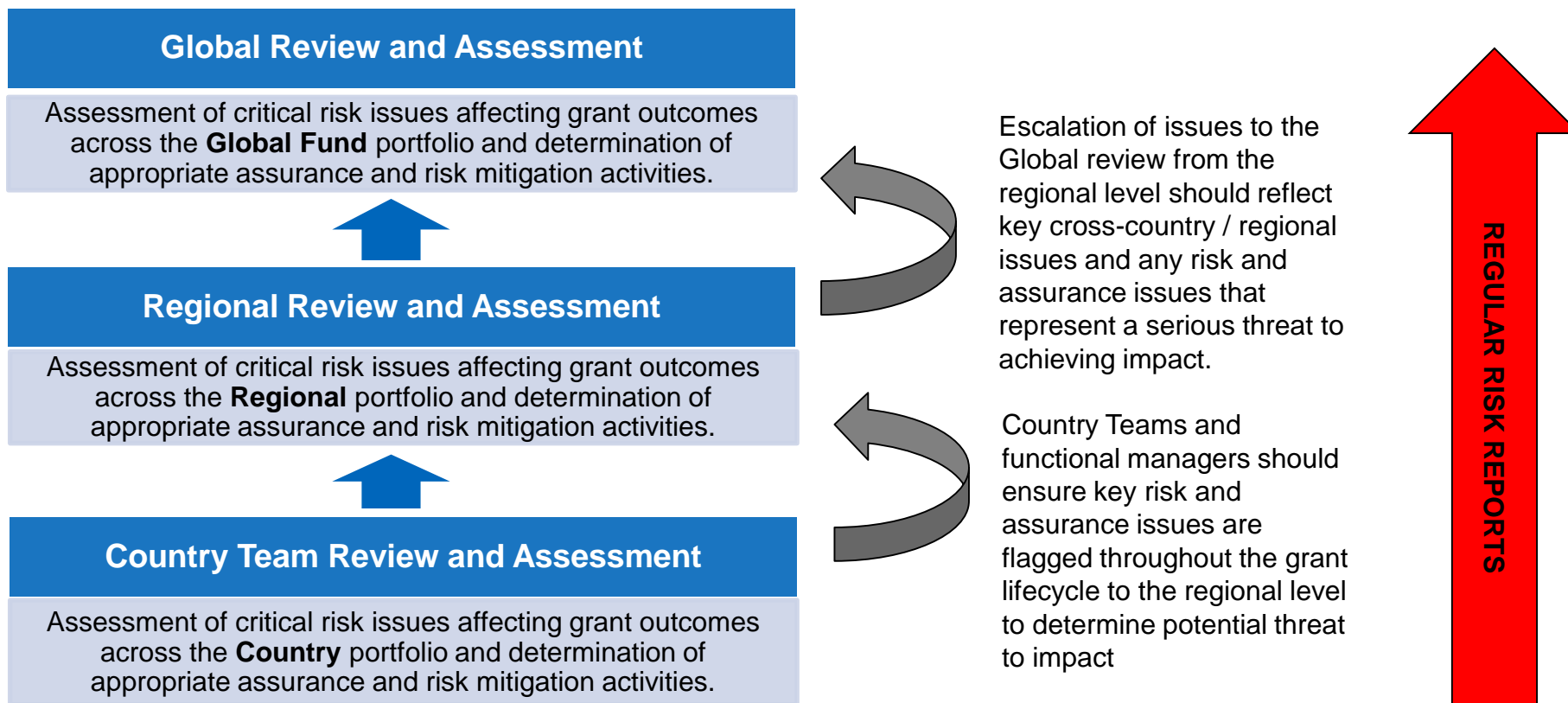


This should be **measured on an ongoing basis** to demonstrate that The Global Fund is managing its risks to a level that key stakeholders are comfortable with.



The Governance and Reporting Framework

The Risk and Assurance process will be core to managing risks within the grant portfolio and will be integral in ensuring that there is a clear, identified process for Country Teams to escalate key issues that could affect grant outcomes and hence strategic impact.





The Assurance Planning Process

Grant making processes

Program targets and budget

Program Scorecard and Detailed Budget



Implementation arrangements

Implementation Map



Key risks to outcomes

CAT, QUART



Mitigating activities

Workplan, performance framework



Level of assurance

Assurance plan

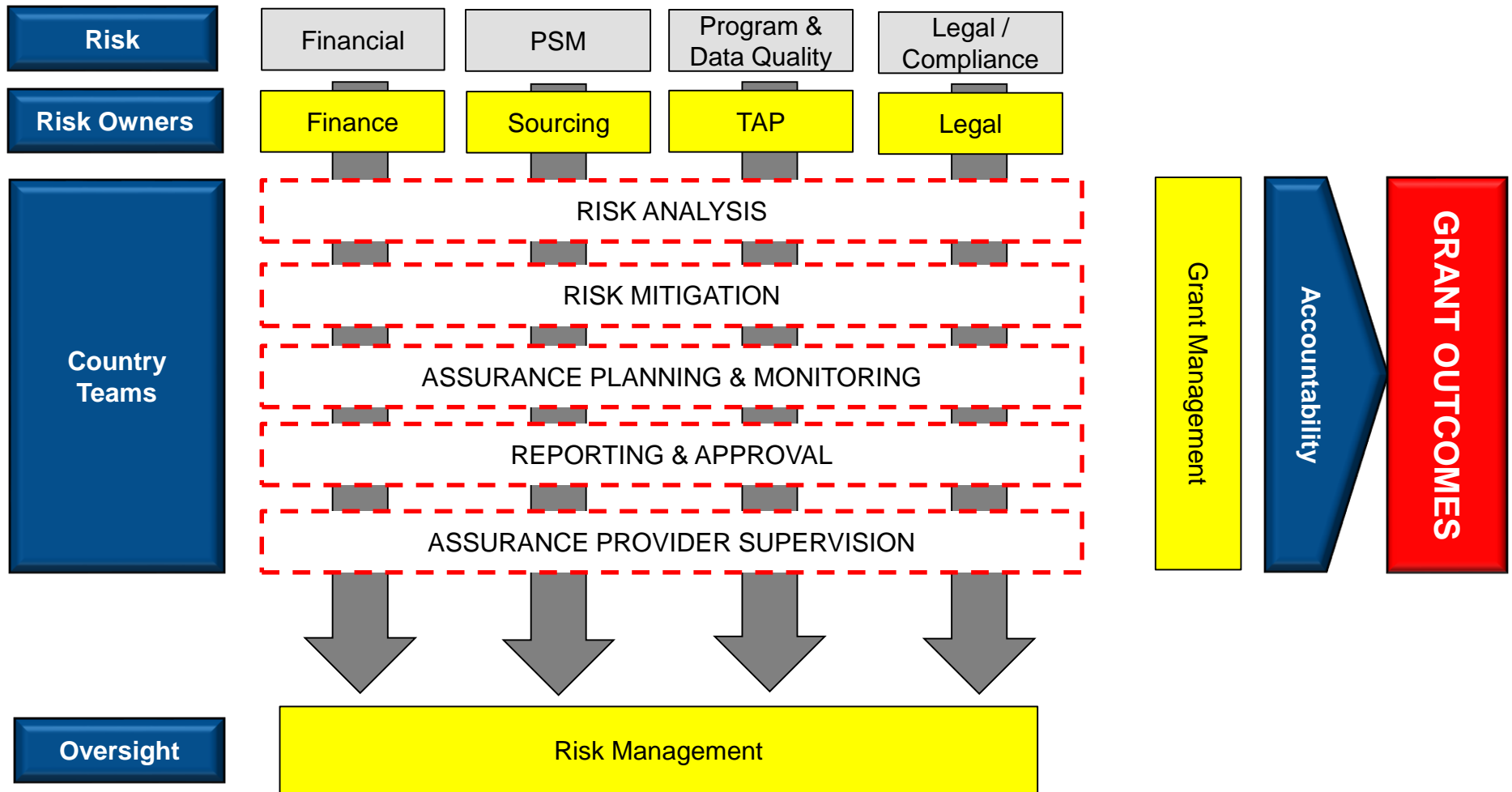
New Requirement

Key assurance issues

- Does the planned investment represent an appropriate intervention and value for money?
- Do we understand how the grant activities will be implemented in relation to supervision, finance, procurement and program services?
- What are the key risks and capacity gaps in the implementation arrangements that can prevent grant outcomes being achieved?
- What mitigating activities do we need to have put in place within the grant implementation to manage risks and capacity issues identified?
- **What is the level of assurance required on these grant activities to maintain our view of grant outcomes?**



Organizational Responsibilities





Accountability Framework

Country Teams

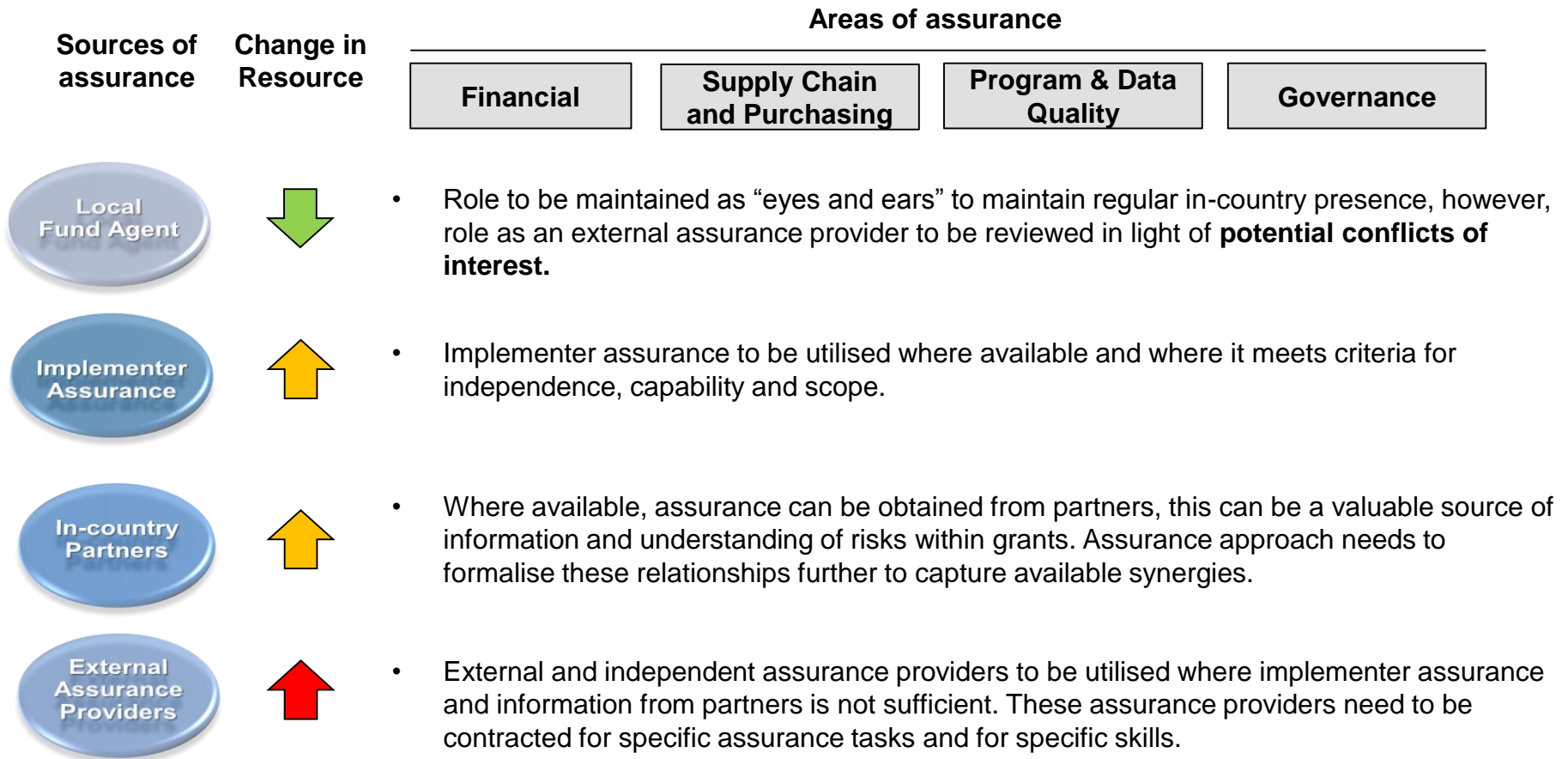
- Responsible for grant delivery and hence operational management of the risks within country.
- Make key operational decisions relating to risk and assurance, including:
 - Assurance Planning
 - Risk Analysis
 - Risk Mitigation
- Individual Country Team members responsible for escalation where key risk and assurance issues arise.

The Country Team role is core to consistent decision-making within countries, however, risk owners need to ensure there is an appropriate level of challenge to deliver reliable and consistent assurance across the portfolio.

Risk Owners

- Provide risk policy and guidance for key issues within grants.
- Review and challenge assurance plans and findings to ensure country team responses are appropriate.
- Highlight escalation issues for discussion within the Risk and Assurance Framework
- Provide guidance and approval for proposed assurance providers within country assurance plans.

Assurance Providers



Current model of maintaining the LFA as core assurance provider will require a substantial change for the organisation and hence it is proposed that this is rolled-out on a pilot basis to ensure no weakening in level of assurance obtained. Onward communication to current LFA's to be aligned with rollout.

Financial Assurance: Areas for Assurance and anticipated changes



CRITICAL AREAS FOR ASSURANCE

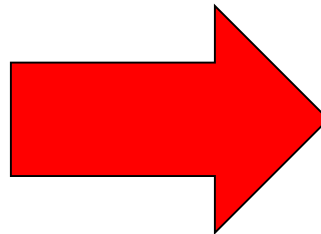
Financial Reporting

System of Internal Controls

Expenditure and VFM

Asset Verification

Fraud



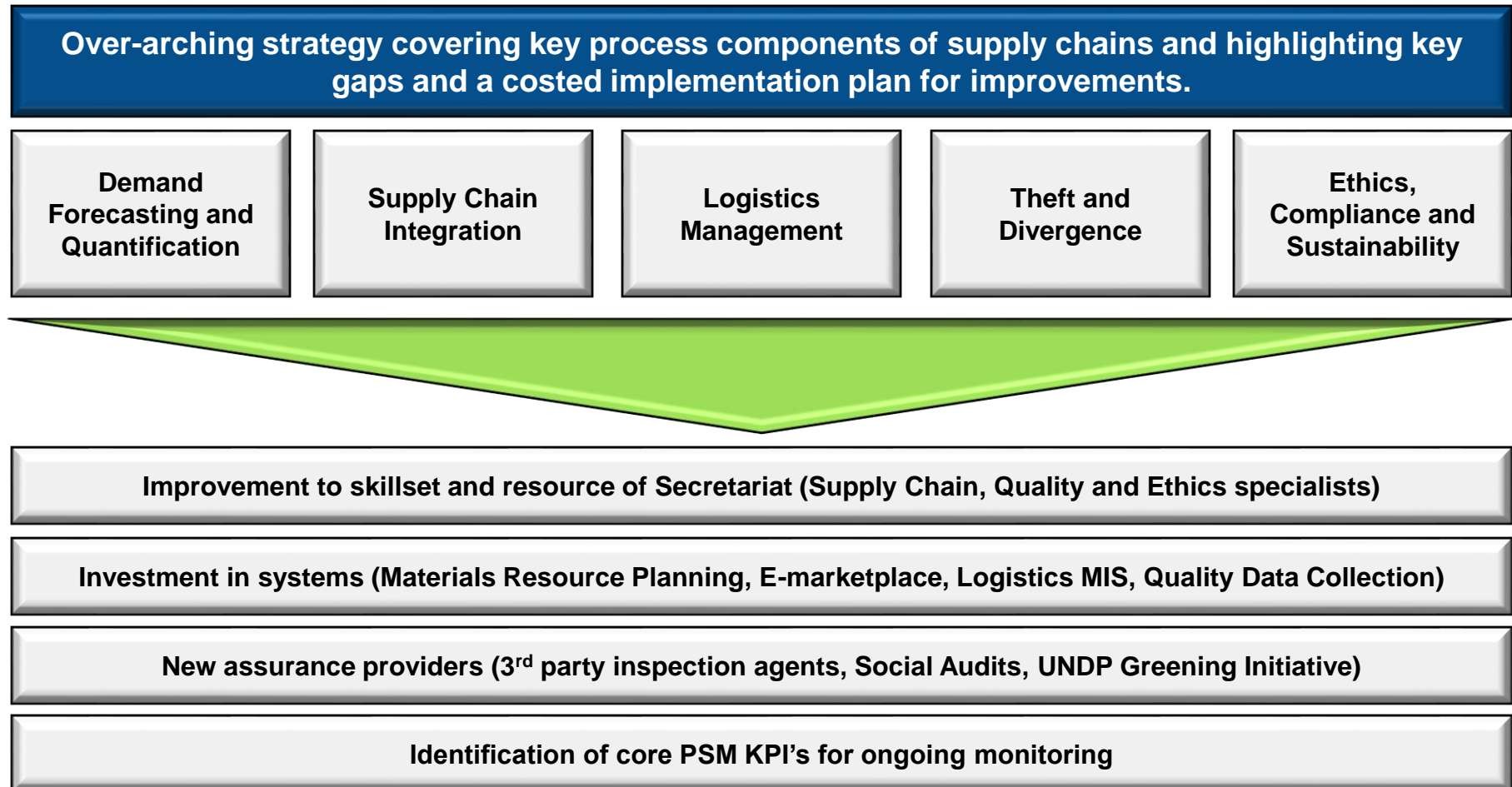
Identified areas for change:

1. **Co-ordination** of assurance provision to remove duplication and provide consistency in approach.
2. **Focus** on delivering assurance over **internal control** systems
3. **Increase** in work performed on **asset verification** in high risk countries
4. **Differentiation** in approach between countries

Procurement and Supply Chain Management Assurance: Strategic Review



Output of strategic review will be critical in determining where additional and focussed assurance will be required. Key elements of strategic review will be as follows:



Data and Program Quality assurance: Areas for assurance and anticipated changes

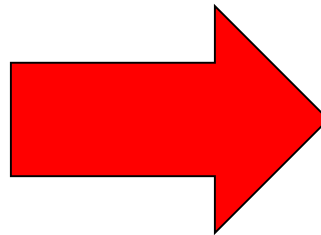


CRITICAL AREAS FOR ASSURANCE

M&E and data systems

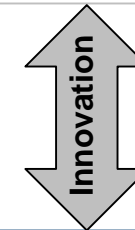
Alignment of national technical policies/guidelines with international recommendations

Service delivery quality



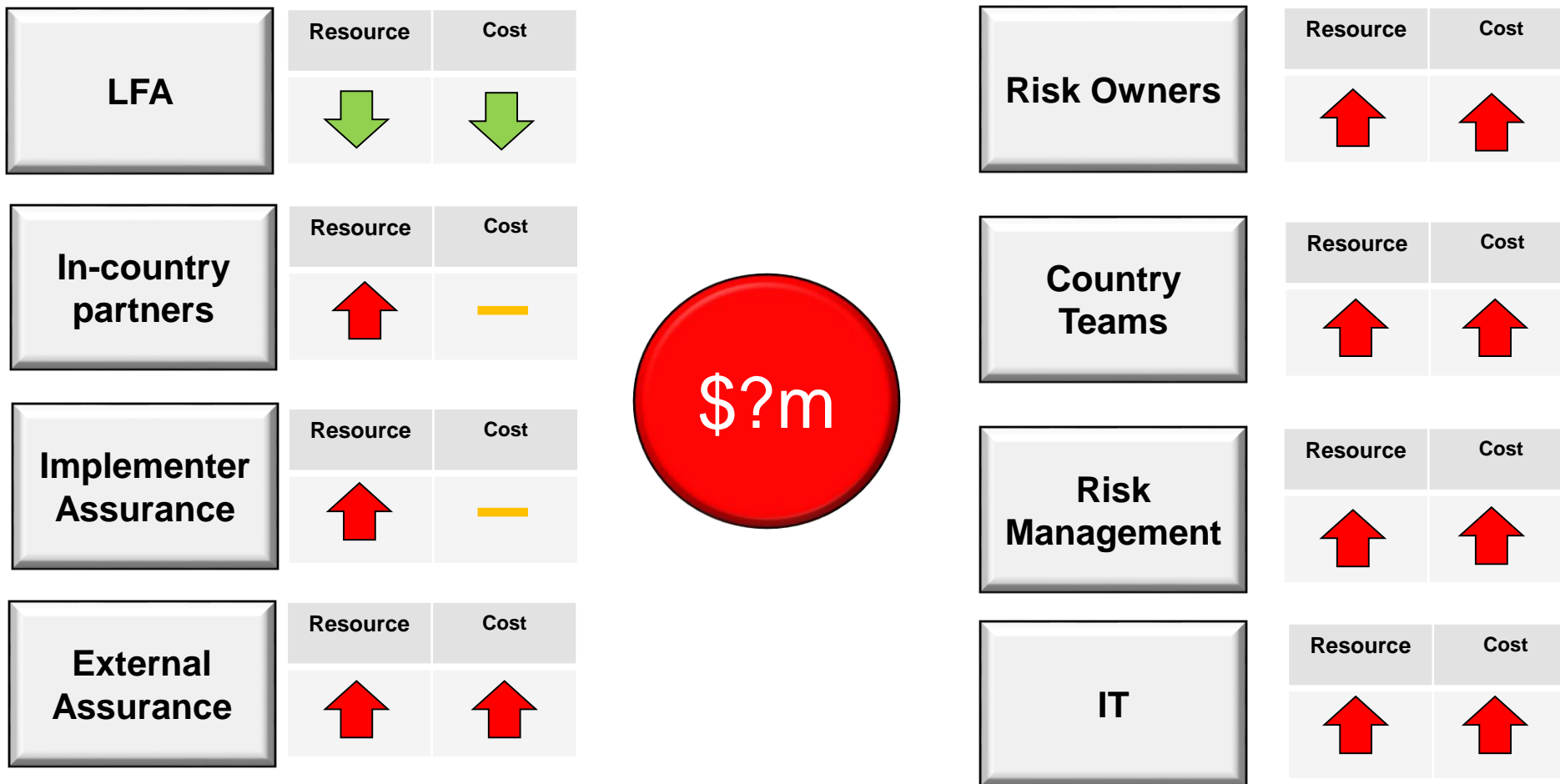
Identified areas for change:

1. **Co-ordination and harmonization** of assurance provision to remove duplication and provide consistency in approach
2. **Increased coverage** of site assessments for more representative sampling
3. **Differentiation** in approach across portfolios
4. **Assurance providers** - flexibility according to portfolio differentiation



Program Quality Hub

Potential Resource Impact for The Global Fund



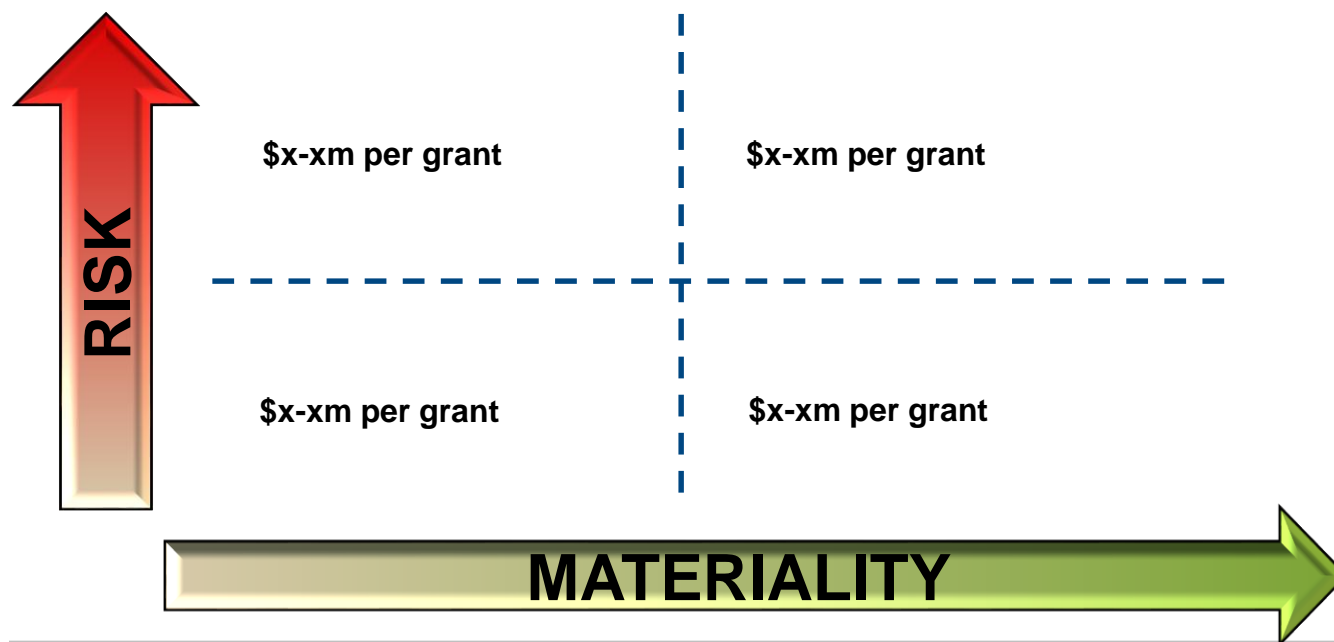
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Differentiation Principles

The Global Fund commits to c.\$180m of annual assurance costs (including Country Team costs) on grant activity. To ensure this resource is focused on the core strategic risks within the grant portfolio it is essential to provide a level of differentiation in the level and type of assurance activity we commission on each grant.

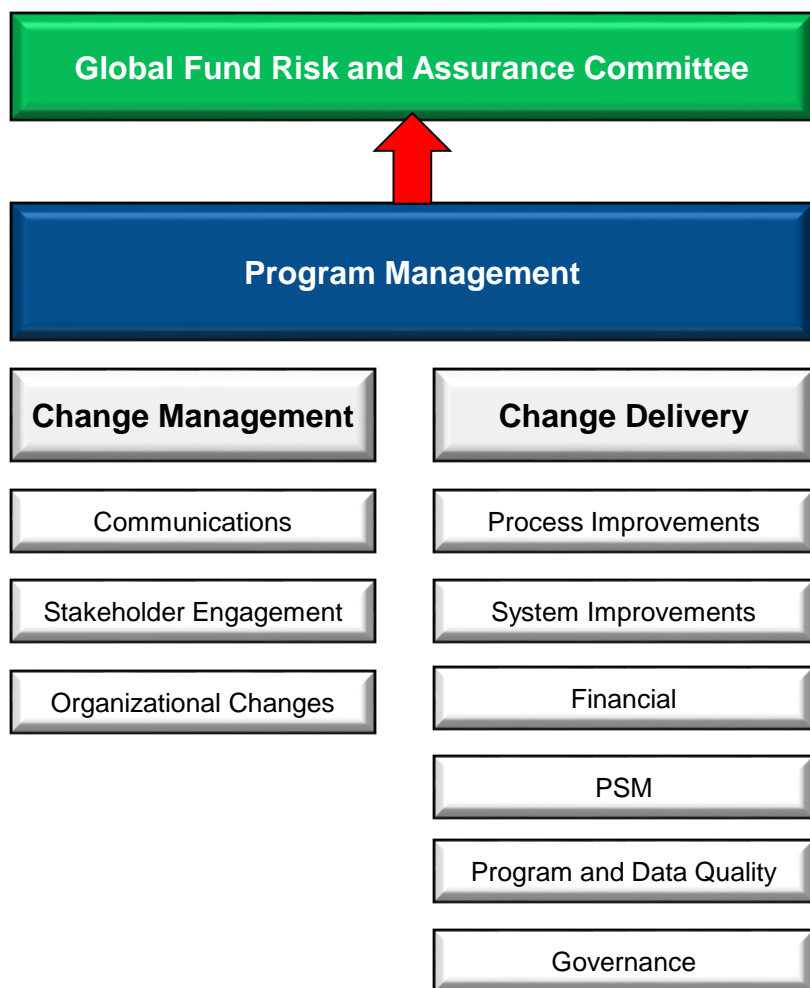
The basis of differentiation will be both the risk and the materiality (defined either in impact or \$m) that each grant provides. Using our current view of assurance costs we would expect the following ranges for costs in the risk / materiality matrix:



The matrix will act as a guidance in allocating assurance resources with any exceptions to be specifically approved by the Global Fund Risk and Assurance Committee.



Overview of the Proposed Change Program



Critical Roles

Sponsor: Chief Risk Officer

Program Working Group: External Risk and Assurance Consultant + Senior Management (Risk, GMD, Finance, Sourcing, TAP and HR)

Program Manager: External Risk and Assurance Consultant

Program Management Team: External Risk and Assurance consulting team + Risk Management resource

Other Technical Support:

- Communications – Internal Communications
- Stakeholder engagement – External Consultant + GMD
- Organizational changes – Human Resources
- Process improvements – External Consultant + Risk
- System improvements – External Consultant + Risk + IT
- Financial – Program Finance
- PSM – Sourcing and GMD
- Program and Data Quality – TAP
- Governance and Ethics – GMD and Legal



High Level Timeline for Transformation

