

# Thirty-Second Board Meeting

# Audit and Ethics Committee

# Report to the Board

**The Global Fund Thirty-Second Board Meeting****GF/B32/25****Board Information****AUDIT AND ETHICS COMMITTEE  
DECISIONS AND RECOMMENDATIONS TO THE BOARD****Purpose:**

1. This report serves to inform the Board of the decisions taken by the Audit and Ethics Committee (“AEC”) since the Thirty-First Board Meeting in accordance with its charter.

## Introduction

1. This report compiles decisions recommended to the Board by the Audit and Ethics Committee (“AEC”) at this Thirty-Second Board Meeting, decisions taken by the committee pursuant to its delegated authority, decisions recommended to the Board for electronic decision between the Thirty-First and the Thirty-Second Board Meetings, and an overview of key items discussed under the committee’s oversight since the last Board meeting.
2. Since the Thirty-First Board meeting in March 2014, the AEC assembled three times in person, and held two formal conference calls, in accordance with its Charter. Graham Joscelyne and Claude Rubinowicz serve as Chair and Vice-Chair of the committee respectively. The Chair and Vice-Chair of the Finance and Operational Performance Committee (“FOPC”) were invited to participate in certain AEC meetings and conference calls as observers, so as to facilitate committee collaboration on cross-cutting issues including financial matters and risk management.
3. The meetings took place as follows:
  - a. 8<sup>th</sup> AEC Meeting: 10-11 April 2014 at the Global Fund Secretariat in Geneva.
  - b. 9<sup>th</sup> AEC Meeting: 25-26 June 2014 at the Movempick Hotel in Geneva, preceded by an induction program delivered to members of all three committees of the Board.
  - c. 10<sup>th</sup> AEC Meeting: 8-9 October 2014 at the Global Fund Secretariat in Geneva.
  - d. Inter-sessional conference calls were held on 15 September and 21 October 2014.
4. Committee agendas follow the AEC work plan and are structured around the following key oversight responsibilities:
  - a. External Audit and Financial Reporting Matters
  - b. Office of the Inspector General
  - c. Risk Management
  - d. Losses and Recoveries
  - e. Ethics
  - f. Legal Matters including the Sanctions Panel and Privileges and Immunities
  - g. Confidential ethics matters discussed in executive session
5. For an exhaustive account of committee deliberations, governance officials are invited to read the Committee Member Reports of AEC Meetings, available on the BoardEffect platform.
6. In addition, the AEC presented its End of Term Report 2012-2014 to the Board in May 2014, providing a full account of AEC activities and reflections during the first term of the committee.<sup>1</sup> Henceforth, the AEC will produce an Annual Report for submission to the Board in the first quarter of the calendar year, in addition to the standard Reports to the Board ahead of each regularly scheduled Board Meeting.
7. This report is divided as follows:
  - Part 1: Decisions recommended to the Board
  - Part 2: Decisions taken by AEC pursuant to its delegated authority

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<sup>1</sup> Document GF/B31/ER09

- Part 3: Matters addressed by AEC as part of its oversight and advisory functions in accordance with its charter
- Part 4: Decisions recommended to the Board and approved electronically between Board Meetings

## **PART 1: DECISIONS RECOMMENDED TO THE BOARD**

### **Ethics and Integrity Framework: First Stage Policy Proposals**

8. At the Thirty-First Board Meeting, the Board endorsed a proposal to proceed with the development of a holistic Ethics and Integrity Framework for the Global Fund, intended to address the currently fragmented approach to ethics within the organization.<sup>2</sup>
9. Since the committee's constitution, and in accordance with its mandate, the AEC has paid particular attention to the Global Fund's ethics-related policies and procedures, repeatedly calling for increased resources to be allocated to ensure management of ethics-related issues and the promotion of ethics and integrity across the Global Fund landscape.
10. Following the Thirty-First Board Meeting, the AEC has overseen the progress of the Ethics and Integrity Initiative. The AEC Vice-Chair serves as Chair of the Ethics Steering Committee, established in June 2014 at the request of the Board Leadership. The independent AEC ethics expert is also a member of the Ethics Steering Committee, while the Chair of the AEC is a permanent observer. Collaborating closely with an internal Secretariat Working Group under the leadership of Legal Counsel, the Ethics Steering Committee has guided the work of an independent expert consultant to develop a set of policy proposals for the Global Fund, namely, an Ethics and Integrity Framework, a Code of Conduct for Governance Officials, and a proposal for a dedicated ethics function for the Global Fund.
11. The AEC presents a recommendation to the Board to adopt the policy proposals developed during this first stage of the consultancy. The full background, rationale, materials and decision point can be consulted in Board document GF/B32/18.

### **Privileges and Immunities of the Global Fund**

12. At its 8<sup>th</sup> Meeting in April 2014, and following discussions on the matter at previous committee meetings, the AEC called on the Secretariat to develop a coordinated risk-based strategy to pursue the acquisition of privileges and immunities ("P&I") for the Global Fund. Moreover, recognizing the resource constraints that have limited the active pursuit and negotiation of P&I agreements in recent years, the AEC emphasizes the need for the Secretariat to provide the resources necessary to achieve this objective.
13. The committee recognizes the risks to Global Fund resources, assets and employees associated with the lack of P&I, including taxation, placing limitations on efficient delivery of life-saving commodities, and security risks to individuals.
14. The AEC reaffirms its longstanding and continuing support for increased proactivity in negotiating P&I agreements, recognizes the importance of full Board support for this initiative and the critical role of both the Board and its committees, and calls for adequate resources to be allocated to this work stream. On this basis, jointly with the FOPC, the AEC recommends a decision point to the Board for approval at its Thirty-Second Meeting, as laid out in document GF/B32/19.

### **Communication on Status of Recoveries**

15. In the AEC Report to the Board submitted ahead of the Thirty-First Board Meeting,<sup>3</sup> the AEC brought to the attention of the Board an analysis of Board Decision Point

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<sup>2</sup> BM31\_ White Paper : Developing a Holistic Ethics Framework for the Global Fund (internal Board document)

<sup>3</sup> Document GF/B31/16: AEC Report to the Board

GF/B23/DP28, relating to the publication of the Losses and Recoveries Report to the Board.

16. In Decision Point GF/B23/DP28, the Board requests that the Secretariat and the OIG “jointly publish” a Losses and Recoveries Report. Noting the need for OIG independence as assurance provider on all Secretariat activities including the recoveries process, the AEC encouraged the OIG and the Secretariat to review the existing Losses and Recoveries Board Decision so as to determine whether recent operational improvements required the decision be modified.
17. At its 10<sup>th</sup> Meeting, the committee reviewed a proposed revision to the arrangements for the communication on status of recoveries to the Board. The proposal takes into account procedural changes and refinements implemented since 2011, provides clearer delineation of the respective responsibilities of the OIG and the Secretariat throughout the recoveries process, and enables transparent communication regarding non-compliant expenditures and related recoveries efforts, whilst upholding OIG independence.
18. The full rationale for the proposal is presented in Board document GF/B31/17. On this basis, the AEC recommends a decision point to the Board for approval at its Thirty-Second Meeting.

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

19. At its 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> meetings, and through inter-sessional decision-making, the AEC deliberated and took decisions on the following matters.

### **Procedure for Retention and Dissemination of Confidential Material**

20. At the 2<sup>nd</sup> AEC Meeting in August 2012, the AEC adopted a Procedure for Retention and Dissemination of Confidential Information (“Confidential Information Procedure”). At the request of the AEC Leadership, the Global Fund Legal Counsel proposed amendments to the Confidential Information Procedure to elaborate upon the obligations of AEC members with respect to the confidentiality of sensitive AEC deliberations and work products. Following discussion of the proposed amendments at the 8<sup>th</sup> AEC Meeting, the amended Procedure was approved via electronic decision point on 24 April 2014.

***GF/AEC08/EDP01: Amended Audit and Ethics Committee Procedure for Retention and Dissemination of Confidential Information***

***The Audit and Ethics Committee approves the amended Audit and Ethics Committee Procedure for Retention and Dissemination of Confidential Information attached as Annex 1 to GF/AEC08/10 Revision 1.***

### **2014 External Audit Plan**

21. The committee carried out a preliminary review of the 2014 External Audit Plan at its 9<sup>th</sup> Meeting in June 2014. At this meeting, the AEC heard from Ernst&Young (“EY”), the External Auditor, and noted that the planned audit approach for 2014 included the introduction of a controls strategy focusing on the new grant accounting processes

resulting from the implementation of the Step-Up Project, IT general controls, and payroll operations.

22. Pending Board approval of the appointment of EY as External Auditor for the 2014 external audit, the AEC informally endorsed the 2014 Audit Plan in session, and subsequently approved the Plan via electronic decision point on 1 August 2014.

***GF/AEC09/EDP01 – Approval of the External Audit Plan***

***The Audit and Ethics Committee (the “AEC”) approves the 2014 external audit plan, as set forth in GF/AEC09/03 and as reviewed by the committee at the 9th AEC Meeting on 25-26 June 2014.***

**2014 Interim Financial Report**

23. Under Board decision point GF/B31/EDP17, the Board delegated to the AEC the responsibility to review and authorize the publication of interim condensed consolidated financial statements prepared by the Secretariat, noting the AEC’s responsibility to oversee financial accounting and reporting matters.
24. The AEC held a conference call on 15 September 2014 to review and approve, for the first time, the publication of the 2014 Interim Financial Report and the 2014 Interim Condensed Consolidated Financial Statements, and the External Auditor’s Limited Review Report. The AEC sought confirmation from the External Auditor on their acceptance of the management representations applied by the Secretariat in the preparation of the 2014 Interim Condensed Consolidated Financial Statements, held a discussion with and sought further information and clarification from the Secretariat and the External Auditor on their views and opinions, and considered the key accounting issues highlighted by management for specific review during the second half-year and that will be subject to further validation during the annual audit by the External Auditor. The committee approved the following decision point:

***Decision Point GF/AEC09/EDP02: Approval of the 2014 Interim Financial Report***

***The Audit and Ethics Committee authorizes the issuance of, and therefore approves, the Global Fund’s 2014 Interim Financial Report, which includes the 2014 Interim Condensed Consolidated Financial Statements that have been reviewed by Ernst & Young Ltd, as set forth in Annex 1 to GF/AEC09/ER01 – Revision 1.***

25. Following the AEC’s approval of the 2014 Interim Financial Report and 2014 Interim Condensed Consolidated Financial Statements, Ernst & Young reviewed management’s Letter of Representation and confirmed there were no subsequent events that required adjustment of or disclosure in the 2014 Interim Financial Statements, before issuing their unqualified Review Report. The 2014 Interim Financial Report was shared with the Board on 29 September 2014 via Electronic Report GF/B31/ER25, and subsequently published on the Global Fund web site.

26. The preparation of interim financial statements represents a noteworthy improvement in financial reporting and transparency, and receives the full support of the AEC.

### **OIG 2014 Operating Expenses Budget**

27. As agreed at the 7<sup>th</sup> AEC Meeting, to allow sufficient time for thorough review of the OIG's 2014 budgetary requirements, the OIG returned to the AEC at its 8<sup>th</sup> Meeting with an adjusted, realistic 2014 operating expenses budget proposal, reduced from US\$ 20.5 million as approved within the overall 2014 OPEX budget, to US\$17,151,782. The budget was adjusted through both a top-down and bottom-up review, based on the approved 2014 work plans. The AEC approved the following decision point for recommendation to the FOPC.

#### ***GF/AEC08/DP05 Recommendation of the OIG's 2014 Operating Expenses Budget***

***The Audit and Ethics Committee (the "AEC") notes its:***

- i. Prior approval of the Office of the Inspector General's (the "OIG") Audit Unit 2014 Work Plan and Investigations Unit 2014 Work Plan under GF/AEC06/DP03 and GF/AEC06/DP04, respectively; and***
- ii. Recommendation to the Finance and Operational Performance Committee (the "FOPC") to include as the OIG's 2014 operating expenses budget (the "2014 OIG Budget") the same amount as 2013, subject to adjustments upon further review, under GF/AEC06/DP05.***

***Accordingly, the AEC agrees to recommend to the FOPC the updated 2014 OIG Budget, as set forth in Annex A to GF/AEC08/05 in the amount of USD 17,151,782, to replace the amount included in the overall 2014 operating expenses budget adopted by the Board under GF/B31/DP04.***

### **OIG 2014 Key Performance Indicators**

28. The committee reviewed the proposed 2014 key performance indicators ("KPIs") for the OIG at the 8<sup>th</sup> AEC Meeting, noting their linkage to the six OIG 2014 priorities defined in the OIG's 2013 Annual Report.<sup>4</sup> Following refinement of the KPIs in response to AEC inputs, the committee approved the KPIs via electronic decision point on 2 May 2014.

#### ***GF/AEC08/EDP02 – Approval of OIG 2014 Key Performance Indicators***

***The Audit and Ethics Committee approves the 2014 Key Performance Indicators for the Office of the Inspector General as presented in GF/AEC08/06 Revision 1.***

### **OIG 2015 Budget**

29. At the 10<sup>th</sup> AEC Meeting in October 2014, the AEC reviewed the proposed OIG 2015 operating expenses budget. Noting their comfort with a budget based on full staffing

<sup>4</sup> 2013 Annual Report of the Office of the Inspector General, Document GF/B31/11.



complement and realistic audit and investigations work plans, the AEC recommended the 2015 OIG Budget to the FOPC through approval of the following decision point.

***GF/AEC10/DPO3 – Recommendation of the OIG’s 2015 Operating Expenses Budget***

***The Audit and Ethics Committee recommends to the Finance and Operational Performance Committee the 2015 OIG Budget, as set forth in GF/AEC10/05 revision 1, in the amount of US\$16,438,509 for inclusion in the overall 2015 operating expenses budget for recommendation to the Board at its Thirty-Second Meeting.***

**OIG 2015 Key Performance Indicators**

30. The AEC reviewed the 2015 KPIs for the OIG, noting that they are derived from the 2014 KPIs approved by the AEC at its 8<sup>th</sup> meeting in April 2014, thus allowing year-on-year comparison. The KPIs are qualitative and quantitative, and focus on the strategic capacity of the OIG and achievement of mission goals. The committee approved the KPIs through approval of the following decision point.

***GF/AEC10/DPO4 – Approval of the OIG’s 2015 Key Performance Indicators***

***The Audit and Ethics Committee approves the 2015 Key Performance Indicators for the Office of the Inspector General as presented in GF/AEC10/04.***

**OIG 2015 Audit Work Plan**

31. The AEC reviewed the proposed OIG 2015 Audit Work Plan at its 10<sup>th</sup> Meeting, noting the collaboration with and data sharing by the Risk Department to compile a risk-based audit plan. The committee called on the OIG to undertake further broader consultation on the 2015 Audit Work Plan with stakeholders, including the Board Leadership. The committee subsequently reviewed a revised work plan, which presented a comprehensive view as to how the work plan had been developed. The AEC recognised and endorsed the Audit Unit’s approach, noting the appropriateness of the balance between work within the Secretariat and in country, and supporting the clear emphasis on quality. At an inter-sessional conference call on 21 October 2014, the AEC approved the following decision point.

***GF/AEC10/EDPO1 – Approval of the OIG’s 2015 Audit Work Plan***

***The Audit and Ethics Committee approves the 2015 Audit Work Plan of the Office of the Inspector General as presented in GF/AEC10/03a revision 1.***

**OIG 2015 Investigations Work Plan**

32. The committee reviewed the 2015 Investigations Work Plan at its 10<sup>th</sup> Meeting, supporting the organization of work around six clear key themes: knowledge resource, intelligence capacity, carry-forward cases, complaint-led investigations, human rights and continuous improvement. The AEC endorsed the direction of the Investigations Unit, the Unit’s approach to both proactive work as well as its work in reaction to

allegations, and approved the following decision point at an inter-sessional conference call on 21 October 2014.

***GF/AEC10/EDPo2 – Approval of the OIG’s 2015 Investigations Work Plan***

***The Audit and Ethics Committee approves the 2015 Investigations Work Plan for the Office of the Inspector General as presented in GF/AEC10/03b revision 1.***

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

33. In addition to the matters discussed in parts 1, 2 and 4 of this report, at its 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> meetings, 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**

34. In line with AEC standard practice, the OIG presented a standing update on operational and management matters at the 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> AEC Meetings. Discussions focused on the OIG’s progress against approved 2014 KPIs and work plans for the Audit and Investigations Units, investigations legacy cases, staffing matters, and expenditure against the approved 2014 operating expenses budget. At the 10<sup>th</sup> AEC meeting, the committee provided input to inform the OIG’s progress report presented to the Board at this Thirty-Second Board Meeting, which can be referred to in document GF/B32/06. In addition, the committee formally confirmed their comfort with the quality of OIG work, the strategy towards legacy cases, the approach to human resource matters, and the quality of interaction with stakeholders, including the Secretariat.
35. In accordance with the OIG’s Stakeholder Engagement Model, the AEC plays a key role in reviewing all audit and investigation reports prior to their release to the Board and publication on the OIG web site.

**Implementation of OIG Recommendations and Agreed Actions**

36. Following the commitment to the Board at the Thirty-First Board Meeting, the AEC has provided guidance to the OIG and the Secretariat to introduce formalized reporting on the status of implementation by the Secretariat of OIG recommendations and agreed actions. A report is submitted to the Board ahead of the Thirty-Second Meeting to this effect (GF/B32/07), presenting a status update on progress made in closing out audit and investigations recommendations and agreed actions. In addition, the report provides a summary of the five key control areas identified in early 2014 for Secretariat attention, namely: Recoveries, the Assurance Framework, the Accountability Framework, Grant Closures, and Document Retention and Record Management.

**Risk Management Matters**

37. The Chief Risk Officer reports to the AEC at every committee meeting, providing routine updates on the activities of the Risk Department, including operational risk management and the Corporate Risk Register, with particular emphasis on the risks associated with the work of the other functions the AEC oversees. In particular, throughout 2014, the committee has been closely involved in the development of the Risk Management Policy and accompanying Enterprise Risk Management Framework,

and the proposal for applying risk differentiation in Global Fund grant management processes, described below.

38. The committee received a comprehensive and informative update on disaster recovery in the context of business continuity risk management at the 10<sup>th</sup> AEC Meeting, and confirms its support for the progress made by the IT Department in implementing improved disaster recovery and business continuity strategies.

### **Risk Management Policy**

39. Since mid-2013, the AEC has worked closely with the Chief Risk Officer to guide the development of a Risk Management Policy for the Global Fund. The committee reviewed and provided inputs to draft versions of the Policy at its 8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> Meetings, and through electronic correspondence between sessions. In addition, the AEC has commented on the Enterprise Risk Management Framework, which contextualizes the Policy and describes how it is to be put into practice. Following multiple iterations and opportunities for review, the AEC endorsed the current version of the Policy for transmittal to the FOPC in October 2014, for the FOPC's subsequent approval and recommendation to the Board, as presented in document GF/B32/13.
40. The AEC notes that the Board should consider the Risk Management Policy presented for approval at this Thirty-Second Meeting as "Version 1" or the first stage in a continuous process of improving risk management and oversight thereof within the Global Fund model.

### **Applying Risk Differentiation**

41. At the 10<sup>th</sup> AEC Meeting, the AEC reviewed the proposed key principles, methodology, objectives and processes for applying risk differentiation to Global Fund grant management. The AEC notes that the proposal was submitted to all three standing Board committees, and confirms its support for the collaborative approach to this cross-cutting issue of key significance. The proposal on applying risk differentiation is presented by the FOPC in document GF/B32/14.

### **Risk and Assurance Framework**

42. At the 9<sup>th</sup> and 10<sup>th</sup> AEC Meetings, the committee received informational updates on the proposed changes to the Global Fund's risk and assurance processes relating to grant management, including an overview of the initiative's objectives, the changes proposed, implementation responsibilities and the anticipated timeline for implementation. The AEC looks forward to being kept apprised of progress in this important area.

### **Losses and Recoveries**

43. The AEC reviewed and endorsed the third Losses and Recoveries Report to the Board at its 10<sup>th</sup> Meeting. This document is submitted for Board information under separate cover (GF/B32/16). The Board may expect to receive such reports, reviewed by the AEC, on a regular basis, subject to the proposed revised arrangements for communication on status of recoveries as discussed above and presented to the Board in document GF/B32/17.

### **Sanctions Panel**

44. At the 9<sup>th</sup> AEC Meeting, the committee received a briefing on the Operational Policy Note guiding referrals to the Sanctions Panel, and an update on the revised Sanctions Procedures. At the committee's 10<sup>th</sup> Meeting, the AEC received an update on the status

of compliance with the sanctions imposed on suppliers Vestergaard Frandsen and Sumitomo Chemical Singapore in January 2014.

45. Ahead of the 10<sup>th</sup> AEC Meeting, the Chair of the Sanctions Panel submitted a formal and confidential report to the AEC. The committee notes that the appointment of Sanctions Panel members for a two-year term may prove restrictive in terms of maintaining institutional memory and continuity, particularly in the context of the onboarding requirements for members not familiar with the Global Fund.

### **Inspector General Ad Hoc Nominations Committee**

46. The AEC Chair and Vice-Chair have participated in the nomination of independent members to the new Inspector General Ad Hoc Nominations Committee (“IG AHNC”). Wendy Harrison, Ethics Expert and independent AEC member, serves for a second time on the IG AHNC, having participated in the selection process leading to the recruitment of Martin O’Malley in 2013.
47. At the 10<sup>th</sup> AEC Meeting, Jan Paehler, Chair of the Inspector General Ad Hoc Nominations Committee, joined the AEC meeting to discuss the framework for assessing conflicts of interest for candidates for the next Inspector General. The committee reviewed the documents approved by the AEC at its 4<sup>th</sup> meeting in April 2013, and considered a number of proposed edits to the Declaration of Interest Form and Cover Letter for candidates.

### **Committee Matters**

48. At every meeting of the AEC, members consider the Agenda and are required to state whether or not they have any conflicts of interest with their work on the AEC in general, or the Agenda specifically. When such real or perceived conflicts arise, AEC members recuse themselves for any discussion or voting on these topics.
49. The AEC informs the Board of its intention to complete its annual self-assessment in or around June 2015, covering the first year of the current membership’s term. As done previously, the committee will report to the Board on the results of this self-assessment through the AEC 2014 Annual Report.
50. In addition to an annual self-assessment, the committee routinely reviews its ways of working, performance and progress at the end of every scheduled meeting.

## **PART 4: DECISIONS RECOMMENDED TO THE BOARD AND APPROVED ELECTRONICALLY BETWEEN BOARD MEETINGS**

### **2013 External Audit**

51. At its 8th Meeting, the AEC reviewed the final drafts of the 2013 Annual Financial Report, including the 2013 Consolidated Financial Statements; the 2013 Statutory Financial Statements; the 2013 Audit Reports on the consolidated and statutory financial statements, which included the External Auditor's conclusion it was in a position to sign an unqualified audit opinion for both sets of financial statements; and the responses by the Secretariat, Office of the Inspector General and External Auditor to additional questions and discussions.
52. On this basis, the AEC recommended the following two decision points to the Board, which were subsequently approved on 25 April 2014 via electronic vote.

***Decision Point GF/B31/EDP03: Approval of the 2013 Statutory Financial Statements***

***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2013 Statutory Financial Statements, which have been audited by Ernst & Young Ltd, as set forth in GF/B31/ERO2 Annex 2.***

***Decision Point GF/B31/EDP02: Approval of the 2013 Annual Financial Report***

***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2013 Annual Financial Report, which includes the 2013 Consolidated Financial Statements that have been audited by Ernst & Young Ltd, as set forth in GF/B31/ERO2 Annex 1.***

### **2014 External Audit**

53. At the 9<sup>th</sup> AEC Meeting, the committee reviewed a recommendation from the Secretariat to reappoint EY as the External Auditor for the 2014 external audit. The committee considered the applicable legislation and good practice regarding external auditor rotation requirements; reconfirmed that EY is not currently, and has never been, engaged as a Local Fund Agent; reconfirmed the arrangements agreed at the 3<sup>rd</sup> AEC Meeting regarding the provision of non-audit services to the Secretariat by EY;<sup>5</sup> considered the External Auditor's performance; and noted the intention to review the arrangements for rotation of the External Auditor in early 2015.
54. On this basis, the AEC recommended the following decision point to the Board, which was subsequently approved on 21 July 2014 via electronic vote.

<sup>5</sup> Approval of fees for non-audit services follow the parameters agreed by the AEC at its 3rd Meeting whereby the Secretariat may engage the external auditor for non-audit services if the fee for such services is within 25% of the audit fee for the relevant fiscal year. Any non-audit services requiring a fee that exceeds 25% of the audit fee would require prior approval by the Chair and Vice-Chair of the AEC.

***Decision Point GF/B31/EDP16: Appointment of the External Auditor***

***The Board authorizes the appointment of Ernst & Young Ltd as the Global Fund's external auditor for the 2014 fiscal year.***

***The maximum budget implication of this decision is already included in the Global Fund's 2014 operating expenses budget.***

**2014 Interim Financial Report**

55. As described in Part 2 above, in 2014, for the first time, the Secretariat prepared, and EY conducted a limited review of, the Interim Condensed Consolidated Financial Statements for the first six months of the 2014 fiscal year. This additional step facilitates the year-end closing of the financial accounts for the audit of the annual financial statements. The process of preparing and reviewing the accounts for the first six months of the fiscal year will become a regular part of the Global Fund's financial reporting practices. On this basis, the AEC recommended that the Board acknowledge the AEC's authority to review and authorize the publication of the interim condensed consolidated financial statements given the AEC's general oversight over financial accounting and reporting matters.
56. On 21 July 2014, the Board approved the following decision point on the recommendation of the AEC.

***Decision Point GF/B31/EDP17: Interim Condensed Consolidated Financial Statements***

***The Board notes the Audit and Ethics Committee's (the "AEC") responsibility to oversee financial accounting and reporting matters and requests that, following a limited review by the Global Fund's external auditor, the AEC reviews and authorizes the publication of interim condensed consolidated financial statements which have been prepared by the Secretariat.***

## Audit and Ethics Committee Summary of Decision Points

### 8th AEC Meeting Decision Points

DP ref.	Theme
GF/AEC08/DP01	Approval of the Agenda
GF/AEC08/DP02	Approval of the Report of the 7 <sup>th</sup> AEC Meeting
GF/AEC08/DP03	Approval of the AEC End of Term Report
GF/AEC08/DP04	2013 Annual Financial Report (recommendation to the Board)
GF/AEC08/DP05	Recommendation of the OIG's 2014 Operating Expenses Budget (recommendation to the FOPC)

### Electronic Decision Points taken between 8<sup>th</sup> and 9<sup>th</sup> AEC Meetings

GF/AEC08/EDP01	Amended Audit and Ethics Committee Procedure for Retention and Dissemination of Confidential Information
GF/AEC08/EDP02	Approval of OIG 2014 Key Performance Indicators

### 9th AEC Meeting Decision Points

DP ref.	Theme
GF/AEC09/DP01	Approval of the Agenda
GF/AEC09/DP02	Approval of the Report of the 8 <sup>th</sup> AEC Meeting
GF/AEC09/DP03	Appointment of the External Auditor (recommendation to the Board)

### Electronic Decision Points taken between 9<sup>th</sup> and 10<sup>th</sup> AEC Meetings

GF/AEC09/EDP01	Approval of the 2014 External Audit Plan
GF/AEC09/EDP02	Approval of the 2014 Interim Financial Report

## 10th AEC Meeting Decision Points

DP ref.	Theme
GF/AEC10/DP01	Approval of the Agenda
GF/ AEC10/DP02	Approval of the Report of the 9 <sup>th</sup> AEC Meeting
GF/ AEC10/DP03	Recommendation of the OIG's 2015 Operating Expenses Budget (recommendation to the FOPC)
GF/ AEC10/DP04	Approval of the OIG's 2015 Key Performance Indicators
GF/ AEC10/DP05	Privileges and Immunities (recommendation to the Board) (see document GF/B32/19)
GF/ AEC10/DP06	Communication on Status of Recoveries (recommendation to the Board) (see document GF/B32/17)

## Electronic Decision Points taken between 10<sup>th</sup> and 11<sup>th</sup> AEC Meetings

GF/AEC10/EDP01	Approval of the OIG's 2015 Audit Work Plan
GF/AEC10/EDP02	Approval of the OIG's 2015 Investigations Work Plan
GF/AEC10/EDP03	Ethics and Integrity Initiative: First Stage Policy Proposals (recommendation to the Board) (see document GF/B32/18)