

March 2016 - Update for the Board

I. Update from the Board Leadership

The highlight of governance activities in March were joint committee meetings with very charged agendas, in preparation for the Board meeting in April. The Board Leadership is grateful to the committee chairs for their hard work over the past two years and for their commitment to ensure a smooth handover to the new committee leadership. Also, the Board Leadership expresses its gratitude to the incoming committee leadership for having made the time available, at rather short notice, to join the committee meetings.

Having all three standing committees meet at the same time and share certain sessions required some logistical acrobatics, but it reduced repetitive sessions for the Management Executive Committee and, even more importantly, in our view, enhanced governance oversight on cross-cutting matters. Committee members generally appreciated the possibility to get to know the views, opinions, concerns, perceptions of the members of other committees. A lesson learned was that joint sessions should be organized as the first sessions in the morning, rather than interrupting other committee sessions that ran overtime in the afternoon.

The cross-cutting session on risk did not work out as planned, for a variety of reasons. The take-home message is that risk considerations are still not embedded in committee activities – rather, risk is seen as a standalone process while committees are focused on their own 'business'. There is certainly more work to be done to increase the Board's ability to properly analyze and discuss risk, and to work jointly with the secretariat to ensure that risk considerations are fully embedded into the core business. One way of doing that would be to conduct an in-depth discussion of OIG reports' findings and look for root causes of those. The Board Leadership will invite the Inspector General to attend the next CG meeting following the 35th Board meeting, in order to discuss the relevant follow-up actions.

Despite the efforts to focus the committee attention to the core business, agendas were still stretched with many updates from the Secretariat on various topics. Also, the updates often took the form of PowerPoint presentations, leaving little time for questions from the committee members and in-depth discussion. As a governance body, we have to invest more effort into looking beyond the information presented by the Secretariat, cross-checking the facts presented, and applying a deeper analysis of reasons behind non-achievement of certain KPIs and Agreed Management Actions (AMAs).

From the logistics perspective, it was possible to accommodate all committee meetings within the Global Fund offices, with some help from the neighboring office buildings. For similar undertakings in the future, and as committee meetings can now include observers, conference center premises will have to be used. This will inevitably further increase the costs of governance.

Update from the Committees

01 Coordinating Group

On 23 March, the CG had a virtual meeting to discuss the Board meeting agenda and security considerations, feedback and lessons learned on the joint committee meetings, contents of the CG report to the Board, and handover procedures from out-going committee leadership to the incoming chairs and vice-chairs. Minutes of the CG meeting will be shortly available on *BoardEffect*.

02 Audit and Ethics Committee

During its last meeting, the AEC recommended the Board approval of the 2015 Annual Financial Report and 2015 Statutory Financial Statements (GF/AEC14/DP03) and the appointment of the external auditor for an initial three year term beginning with the 2016 fiscal year (GF/AEC14/DP04). In reviewing the Annual Financial Report, the AEC noted an improvement in quality and overall presentation of the financial statements. With respect to the selection and appointment of the external auditor, this recommendation was the conclusion of an extensive and robust competitive bidding process in close dialogue with the Secretariat, overseen by the AEC, as communicated to the Board at the 33rd Board Meeting in March 2015 (GF/B32/23).

Regarding internal audit matters, the committee received and discussed the OIG's 2015 Opinion on internal controls, governance and risk management processes at the Global Fund, supplemented by an informative Secretariat response. In addition, the AEC provided input on the OIG 2015 Annual Report, received operational updates on OIG activities, and approved the OIG 2016 KPIs (GF/AEC14/DP05), the revised OIG Stakeholder Engagement Models (GF/AEC14/DP06) and the new OIG Audit Rating Scale (GF/AEC14/DP07). The OIG Annual Opinion and Annual Report will both be submitted to the 35th Board Meeting.

Considering the cross-cutting nature of risk management oversight, the Risk Management Report was presented at a joint session with the FOPC and the SIIC. Key commentary from members of the three committees during the session included: (1) the cross-cutting nature of ethics-related risk and the importance of embedding management of ethics-related risk across the organization's risk management activities; (2) support for and interest in further information on the role of the Enterprise Risk Committee; and (3) the role of the Board in supporting and ensuring an effective risk management.

In preparation for the 35th Board Meeting, the AEC reviewed the Recoveries Report, Status Update on Implementation of OIG Agreed Management Actions and Ethics Official Annual Report. On the latter, the AEC was pleased to hear of developments in the context of the Ethics and Integrity Framework, such as an ongoing work to prepare for the arrival of the Ethics Officer in May, and efforts to enhance the Global Fund's codes of conduct with social and environmental principles. The AEC expressed its appreciation for progress made to date.

03 Strategy, Investment and Impact Committee

During its 17th, and last SIIC in-person meeting, the Committee reviewed the proposed Allocation Methodology 2017-2019; the Strategy Narrative 2017-2022, as well as three new policies - the Challenging Operating Environments; Sustainability, Transition and Co-Financing; and Eligibility Policies. All were approved by the Committee for recommendation for Board approval at the 35th Meeting in Abidjan from 26-27 April 2016. A series of consultation calls to be scheduled during the weeks of 11 and 18 April 2016 will provide Board Constituencies with an opportunity to gain any final clarifications on the SIIC recommendations in advance of the 35th Board Meeting. Further details will be circulated by the Office of Board Affairs in the coming days.

During the meeting, the Committee was also updated on the development of the Key Performance Indicator Framework; the 2016 Replenishment Campaign; the work of the TERG and the TRP; risk management at the Global Fund; the funding model; and procurement. A session with representatives from WHO's Global Programmes on TB and Malaria provided an opportunity for an initial discussion on risk related to drug resistance, and this will be further developed over the coming months.

This successful culmination of the work of the Committee over the past two years is clear evidence of the willingness of all Committee members to discuss, debate and reach agreement on areas critical to the continuation of the Global Fund's work in countries, despite varying viewpoints. It is also an explicit recognition of the value of the broad consultative approach taken by the Secretariat over the past two years in garnering input from stakeholders, working groups, Board constituencies, civil society and others to the development of the Strategy and the Allocation Methodology.

04 Finance and Operational Performance Committee

The FOPC held its last in-person meeting of 2014-2016 term from 7-8 March in Geneva. Several cross-cutting matters, such as the KPIs and risk management, were discussed in joint sessions with the SIIC and AEC. The FOPC made three decisions: (i) available funding totaling USD 700 million will be re-optimized towards priority uses of funds originating from the 2014 – 2016 allocation period; (ii) approved the proposed changes to the Global Fund salary structure reflected in the Amended and Restated Human Resources Policy Framework; and (iii) approved the opening of a bank account in Serbia to facilitate the enforcement of a final arbitral award issued by an arbitral tribunal.

In addition, the FOPC received updates on core financial data and developments covering OPEX, grants and contributions, the latest Mid-term plan, ALM and Provident Fund results by the end of 2015. The Trustee presented the Global Fund Trust Fund Report outlining the investment performance as of 31 December 2015. Other treasury related discussions touched on the plans to develop a policy to address economic foreign exchange exposure ahead of the 5th Replenishment Conference. The Inspector General also briefed the committee about key findings from audits in 2015, the latest OIG Opinion, status of Agreed Management Actions, the 2016 Audit Plan and overall OIG resources. Lastly, the FOPC received a revised Constituency Funding Policy for its review; a follow up call on this agenda item will take place ahead of the April Board Meeting to provide final inputs.

Following the FOPC meeting, the FOPC and AEC Chairs offered a call to the Communications Focal Points to brief them on the key outcomes of their respective meetings focusing on the items that will be presented at the Board next month. A comprehensive report on the 17th FOPC meeting will be available to the Board in the coming days.

05 Transitional Governance Committee

The TGC had its last meeting on 31 March – 1 April, with the following agenda: (i) to discuss Board composition, including results of the survey conducted among Board members to evaluate the appetite for any of the options proposed in the report of the Graduate Institute; (ii) to reflect on CCM matters based on the outcomes of the OIG audit of the CCMs, with a particular focus on the place of CCMs in the Global Fund governance structure; (iii) to finalize the competency based reviews of the nominations for committee members, and to reflect on lessons learned to improve the process for the next round of reviews; (iv) to complete the 2015 Board and Committee performance assessments by reviewing the Performance Improvement Plans adopted by the Coordinating Group, and to discuss upcoming performance assessment of the Board and Board Leadership; (v) to determine the outline of the TGC report to the Board; and (vi) to prepare for handover to the new Ethics and Governance Committee (EGC).

Besides the significant topics above, the TGC also received updates from the Office of Board Affairs on areas of work which fall under the oversight of the TGC, such as: Onboarding Program for new Board Members and Alternates; Institutional Memory Management; Implementer Engagement; Constituency Management Best Practices; and Legal Status and Governance Documents, including some proposed revisions to Board Operating Procedures.

The new leadership of the EGC joined the last meeting of the TGC, and took part in the discussions, which will facilitate a smooth transition. A paper will be presented to the Board on various elements of the TGC's work, with a focus on Board composition.

II. Other

06 Improved governance oversight

As of mid-April, Board members will have access to a special section in the Financial Dashboard available on *BoardEffect*, featuring a tab “Board overview at a glance”. This section was initiated by the Board Leadership to accommodate the needs of our busy governance members who need to have all relevant key financial figures of the Global Fund (pledges, commitments, disbursements, cash balances, OPEX variance analysis and progress with special initiatives) as a high-level overview.

The Secretariat's Finance and IT teams have done a brilliant job trying to understand governance members' needs, and the special section is still being worked on to incorporate some specific features, but the bulk of information will be available as of mid-April so all Board delegates can come very well prepared to the Board meeting in Abidjan.

07 OIG news update

The OIG published five reports in March:

1. In Angola, the OIG found fraud and collusion in the procurement of technology equipment and communications materials in a malaria grant in 2013. The investigators concluded that senior staff at the Ministry of Health deliberately diverted US\$4 million of grant funds into companies they owned or were closely affiliated with. The Global Fund has recovered close to US\$3 million and enforced new measures for the use of program funds by the Ministry of Health in Angola. Angolan authorities have arrested and indicted the officials and criminal proceedings related to this case are ongoing.
2. In a follow up audit of Global Fund internal controls, the OIG found that the organization has reformed significantly since 2012 and that internal controls have improved, particularly around financial management. However, progress has been ad hoc and fragmented, leaving gaps and exposing the Global Fund to potential misuse of funds. These gaps have been flagged in previous OIG audit and investigation reports. The Global Fund is taking steps to strengthen internal controls notably in procurement, for example, by developing a plan to reconcile Pooled Procurement Mechanism orders with deliveries in country.
3. An audit of the planning, implementation and monitoring processes of Global Fund strategy concluded that planning for the next strategic cycle, from 2017-2022, has greatly improved. However, significant issues exist in implementation and monitoring processes for the current 2012-2016 strategy. The Global Fund has recognized the existing problems from the current strategy and is putting in place corrective actions. A Project Management Office has recently been created to ensure that all initiatives across the organization are prioritized to support the achievement of the organization's strategy, have clear and time-bound deliverables, and are managed appropriately to ensure successful delivery. The Global Fund also plans to improve reporting to the Board and its committees on the results of funding to the Global Fund's top 20 countries.
4. An audit of the Key Performance Indicator (KPI) framework that monitors the Global Fund's current 2012-2016 strategy identified gaps in the way the information is used to make decisions. However, the overall KPI results reported were found to be largely correct and aligned with underlying performance data. Ongoing preparation of a new framework to measure progress against the new 2017-2022 Global Fund strategy is likely to further enhance and embed the use of KPI reports in decision-making. As part of the work towards the new framework, the Secretariat is improving the analysis, contextualization, qualitative and quantitative coverage, and interpretation of the KPI reports, while ensuring that data is available through additional, identifiable processes. Furthermore, the Secretariat has agreed to outline which divisions, teams, and managers are accountable for corporate performance against specific objectives.
5. An OIG investigation in Bangladesh found that a 2011 tender for medical equipment worth US\$311,637 involved collusion, falsified bid documents, shell companies, and price manipulation. The equipment was supplied by Bengal Scientific & Surgical to Bhuiyan International Corporation, a procurement agent that managed the tender on behalf of the National Tuberculosis Control Program (NTP), a Global Fund recipient of funds. The Global Fund has since reinforced significantly procurement practices and the agent is no longer in operation.

All ten reports published by the OIG this year so far are available [here](#).

Conclusion

We are greatly looking forward to a productive meeting in Abidjan. We appreciate your forbearance after the terrible events in March, and are confident that our Ivorian hosts will do all in their power to ensure a warm and safe welcome and stay in Abidjan for GF delegates.