



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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For Information

REPORT OF THE FINANCE AND AUDIT COMMITTEE REGARDING OIG MATTERS

OUTLINE: Due to the timing of the appointment of committee members, it was not possible for the Finance and Audit Committee (FAC) to constitute the Sub-Committee of the FAC on matters relating to the Office of the Inspector General (OIG). Instead, the full FAC considered OIG matters during the first day of its meeting on 8 March 2010. This report provides an update to the Board on OIG matters reviewed by the FAC and records the decision of the FAC in regard to oversight by the FAC of OIG matters going forward.

PART 1: INTRODUCTION

1.1 The Committee met on 8 March 2010 to consider the re-constitution of the FAC Sub-Committee on OIG matters, to review OIG reports issued since the last meeting in September 2010, and to receive, consider and comment on an update from the OIG on progress and an update from the Secretariat on the process for follow-up on OIG recommendations as well as the progress made by the Secretariat in such follow-up. At the request of the Committee's leadership, the Chair of the Ethics Committee participated in this part of the FAC meeting by telephone.

1.2 Part 2 of this report summarizes the Committee's considerations regarding oversight by the Committee of OIG matters. Part 3 summarizes the discussion of the OIG Progress Report and the conclusions of the Sub-Committee. Part 4 outlines the Committee's discussion regarding cross-cutting issues. Part 5 summarizes other miscellaneous OIG matters.

PART 2: FAC OVERSIGHT OF OIG MATTERS

Background

2.1 The Committee considered the rationale for establishing a FAC Sub-Committee for OIG matters, the lessons learned from the three previous meetings of the Sub-Committee and the FAC's decision at its 13th meeting to change the composition of the Sub-Committee.

2.2 It was noted that the Sub-Committee is a sub-committee of the FAC and therefore that when the terms of the previous FAC members expired, the terms of the members of the sub-Committee also expired. Due to the timing of the re-constitution of the standing committees of the Board, it was not possible to reconstitute the Sub-Committee prior to the 14th FAC meeting. Accordingly, the FAC leadership decided to schedule an extra day for the FAC meeting for the full FAC membership to consider OIG matters.

2.3 At its 13th meeting, the FAC had concluded that the Sub-Committee should be composed of six members balanced between donor and implementing groups: two from FAC and one from each of the Ethics Committee, the Policy and Strategy Committee, the Portfolio and Implementation Committee and the Market Dynamics Committee. The Sub-Committee should always be chaired by a FAC member. In addition, the Sub-Committee should consider inviting one or two senior experts with general audit and investigation experience to participate at the first Sub-Committee meeting in 2010 and review the need for expert advice on an on-going basis.

FAC Conclusions

2.4 The Committee concluded as follows:

i. The Committee considered the format of a full additional day of the FAC meeting for consideration of OIG matters to be an effective and useful method for exercising oversight of OIG matters. The Committee concluded that this format should be repeated in the future and that there is no need for a separate sub-committee for OIG matters.

ii. However, the Committee underlined the importance of having participation of members of other Committees in the oversight and review of OIG matters and to ensure better balance and representation from the implementing voting group. The Committee therefore decided that in future the FAC leadership will invite a member of each of the other committees to attend the sessions of the FAC meetings on OIG matters. The FAC leadership will also strive to ensure that there is adequate representation by committee members from the Board's implementing block.

iii. The Committee continues to consider it useful to have independent expert advice at its meetings regarding OIG matters. After reviewing the CVs of four potential experts submitted by the Inspector General, the Committee decided to ask one of these experts to attend its next meeting. The Committee will decide at a later date whether to invite additional experts to attend the meeting.

PART 3: OIG PROGRESS REPORT

Audits

3.1 The OIG audit plan for 2009 (GF/FAC11/13) provided for 11 country audits, six process reviews and two country audit follow-up reviews. The 2010 audit plan provides for 20 country audits and six Secretariat reviews. The OIG presented on the status of progress on the 2009 and 2010 audit plans. A summary of this status is set out in the OIG Progress Report (GF/FAC14/02).

3.2 The OIG's presentation to the Committee included a focus on cross-cutting issues arising in connection with more recent audits, building on those already identified in the September 2009 OIG "Lessons Learned" Report (TGF-OIG-09-002). The Committee considered the cross-cutting issues identified by the OIG and by members of the Committee. Part 4 of this report summarizes the discussion of these cross-cutting issues.

Investigations

3.3 The OIG presented in regard to a number of investigations that are on-going, including investigation work in Mauritania, Democratic Republic of Congo (DRC), Zambia and Mali. Detailed summaries of the current findings and status of these investigations is included in the OIG Progress Report. The Committee noted:

i. Mauritania: With regard to the grants managed by the Mauritania National AIDS Committee as Principal Recipient (which are currently suspended), the national authorities have been prompt to respond and engage with the OIG and Secretariat. Substantial funds amounting to approximately US\$ 1.7m have already been returned and a further US\$ 2.49m was expected to be received by the end of March. Three people have been arrested and a fourth in under warrant of arrest. With regard to grants managed by UNDP, UNDP Office of Audit and Investigations (OAI) promptly informed the OIG following its findings that there was widespread evidence of fabrication of expense reporting submitted by Sub-recipients going back five years. UNDP OAI has cooperated with the Global Fund's OIG, allowing the OIG access to records. In the next few weeks, the OAI and OIG will be engaging to determine the extent of the fabrication and the amounts lost.

ii. Mali: In February 2010 the OIG deployed a joint investigation/audit team to Mali to follow up on an audit conducted in September/October 2009. This follow-up review identified unjustified expenditure of US\$ 275,000 for which a repayment demand has already been made. However, there is initial evidence that the irregularities are systematic and may affect far greater amounts of expenditure. The OIG has met with national investigating authorities.

- iii. Zambia: In October 2009, the OIG audit found further evidence of fraud at the Ministry of Health. This evidence has been presented to the relevant ministries and handed on to the anti-corruption commission. The OIG has been disappointed by the level of engagement and communication with the national anti-corruption commission. The OIG has not been able to obtain details of the scope of the national investigation. The OIG has enlisted the assistance of European Commission representatives to help broker and will continue to put pressure on the national authorities to engage with the OIG. The lack of engagement and commitment by the national authorities raises questions about the ability of the Global Fund to continue to invest responsibly in countries where the national authorities are not prepared to take action when fraud is identified.
- iv. DRC: Evidence has been provided by the Inspector General as part of the UK criminal trial proceedings into procurement irregularities. Further evidence obtained during the recent audit will also be shared with the UK police.
- v. Uganda: This was a very large case of systemic fraud against Global Fund programs, which was the subject of a Judicial Commission of Inquiry in Uganda in 2005 but which saw no meaningful progress prior to the direct involvement of the Inspector General in 2008 at the request of the Board. In November 2009, the OIG coordinated the 4th joint investigation mission to Uganda in collaboration with the European Anti-Fraud Office (OLAF). During the course of these missions, which have taken place over the past 18 months, significant progress has been made on the investigation and prosecution of cases. Since the last FAC report, substantial additional recoveries have also resulted from this work.
- vi. Other: The IG informed the FAC of a serious allegation that is currently being investigated. The FAC asked if the Secretariat had a contingency plan in case the allegation was proven to be true. The Secretariat subsequently presented a draft contingency plan to the FAC.

3.4 OIG staff face a number of security risks when conducting audit and especially investigatory work, especially in view of the lack of privileges and immunities in all but three jurisdictions. The OIG has worked closely with the Global Fund's security contractors to ensure measures are taken to protect staff, including the use of satellite phones. In addition, the OIG is using encryption technology to safeguard evidence in country.

Restrictions

3.5 At the Nineteenth Board Meeting, the Board adopted a policy of requesting the Executive Director to take strong, immediate action in all circumstances where the Inspector General has determined that there is credible and substantive evidence of fraud, abuse, misappropriation or corruption involving Global Fund grants (GF/B19/DP25). The Executive Director and Inspector General were asked to report to the Board as soon as possible after a decision to impose restrictions via an appropriate mechanism. The mechanism decided upon is joint notification by the Executive Director and the Inspector General to the Board, unless there are confidentiality or other legal concerns regarding such full disclosure. In such cases, the joint notification will be made to the Board and FAC leadership, who will decide on the extent of disclosure based on the concerns identified by the OIG and Secretariat.

3.6 Since the Nineteenth Board Meeting, the Inspector General has identified four cases meeting the requirements of GF/B19/DP25: Mauritania, Mali, The Philippines and Zambia. Notices of the action taken in these four cases have been provided to the Board through the joint notification mechanism outlined above.

General OIG Administrative Update

3.7 The OIG has developed new tools to assist in its work, including new software. This software will allow the OIG and Secretariat to track follow-up on recommendations.

3.8 The OIG has been successful in recruiting for posts in the investigation unit, with eight new staff starting over the next 2-3 months. Recruitment for the audit unit has been more challenging and is on-going. In addition, the OIG has established a panel of investigation expert consultants, which allows the OIG to fulfill needs as and when they arise.

3.9 Expenditure in 2009 was approximately in line with the 2009 OIG budget (US\$ 6.4m against a budget of US\$ 6.6m). There was a significant shift in how funds were spent, with considerably more spent on professional fees as a result of needing to fill the gap while OIG recruitment was in progress.

Committee Considerations and Conclusions

3.10 The presentations generated discussions around the following key considerations:

i. Input or Output audits: The Committee noted that it was important to understand the function of the OIG. Should the focus of audits be limited on the pure “input” elements (i.e. identification of areas where the auditee has failed to comply with relevant rules and procedures) or should the audit consider “output” (i.e. identification of whether the purposes for which grant funds were made available were met without fraud or misappropriation). For example, it may be that an auditee has achieved exceptional programmatic performance, even though it did so in a way that was not planned or agreed in advance with the Global Fund. In such cases, the decision to be taken by the Secretariat can be very difficult and will depend on the facts of the case. Not all “misuse” of funds will amount to fraud or corruption - it depends on intent and motive which is difficult to substantiate. Nevertheless, repeated failure to comply with direct requirements may result in funds not being used to support the intended “output” - significant “budget padding” or wastage. One of the important objectives of the OIG’s audits is to give assurance that value for money has been achieved. In practice, the OIG looks at both input and output elements. A public health expert is included in the audit team for all audits. Each audit report has a section on monitoring and evaluation and service delivery.

ii. Effect of Suspensions on Program Implementation: The Secretariat has been studying the impact of the suspension of funding in these three cases on grant implementation and the delivery of services. So far, the results of such study have indicated that in Mauritania the impact was limited - service delivery continued. In the Philippines, the impact was more marked, such that while core essential treatment services continued, related services were affected (e.g. less CD4 counting) and non-core services were impacted. In Zambia, which is a complex situation with 23 grants and multiple donors, it is too early to say what the impact will be. In spite of the irregularities, there are 235,000 people on ARVs whose treatment needs to be continued. The Secretariat is committed to putting into place an appropriate implementation mechanism for the grants where there has been a suspension of funding, within three to six months of notice from the Inspector General of the abuse, fraud, corruption or misappropriation.

iii. Partnership and Minimizing Impact of Audit on Auditee: The OIG confirmed that working with partners is an integral part of the OIG's approach to audits. The OIG always debriefs the Country Coordinating Mechanism (CCM) and development partners at the beginning and conclusion of in-country audit field-work. A good example of this is in regard to Zambia, where other partners and donors were also affected by the issues that were the subject of the audit; the OIG debriefed all partners. Moreover, the OIG's reports are made public on the Global Fund website within three days of being issued to the Board. Other ways in which the OIG engages partners is (i) to work with national audit authorities (such as the Zambian national audit department during the OIG's review of the Zambian grants), (ii) in helping to identify areas for technical assistance (such as the logistics assistance identified for Tanzania which USAID supported) and (iii) to work in tandem with other partners in the conduct of audits or reviews (such as the collaboration and sharing of information between GAVI and the Global Fund OIG in relation to Uganda). The OIG also looks to negotiating memoranda of understanding with partners to increase cooperation. (It is currently negotiating an MOU with the World Bank). As a general rule, the Global Fund is much more open to sharing information than other organizations.

3.11 Based on the presentations and discussions, the Committee concluded as follows:

i. The Committee concurred with the OIG's assessment that, overall, the OIG had progressed well in meeting the OIG's commitments in the OIG priorities paper (GF/FAC11/13).

ii. The Committee was satisfied with the progress made with respect to investigations, with the level of communication provided by the OIG and with the actions taken in response by the Secretariat.

iii. The Committee was generally satisfied with the Secretariat's report on follow-up to OIG findings and recommendations (see GF/FAC14/03). The Committee noted that the process between the OIG and the Secretariat, as outlined in the Secretariat's report, appeared to have improved substantially. This paper will be presented separately at the Twenty First Board Meeting as it is in response to a Board decision point (GF/B20/DP21)

iv. The Committee appreciated the work of the OIG and the Secretariat and in particular commended the improvements made in reporting.

PART 4: CROSS-CUTTING ISSUES

UNDP

4.1 Two key issues have been identified across audits related to UNDP: (i) limited or complete lack of access to information and (ii) the creation of parallel systems, with limited focus on capacity building and no plans to transition to national systems.

Access and Information Sharing

4.2 The Committee has to date taken the lead in oversight of the Global Fund's relationship with UNDP as it relates to access. Most recently the Chair of the Global Fund Board wrote to the President of the UNDP Executive Board seeking access to audit reports in the same way as member states are provided access to UNDP audits. The response from the UNDP Board President was received in January 2010 and was discouraging.

4.3 This leaves the Global Fund in the following unsatisfactory situation:

i. While the OIG and UNDP OAI have a good working relationship and OAI has started to focus more on Global Fund grant specific audits, the OIG has no input on the scope of OAI audits.

ii. UNDP OAI has agreed with OIG to provide summaries of OAI's audit findings. So far, these summaries have been inadequate. Moreover, the OAI refused to grant access to the OIG of its working papers in the DRC case.

iii. In practice, the OIG has been granted access to UNDP Country Office documentation in some cases, but not in others. For example, the experience in Mauritania and Kyrgyzstan was good and documentation was made available. However, in spite of AOI giving the UNDP Country Office clearance to share documentation, no information was shared in the case of Uzbekistan.

iv. The OIG has been able to conduct audits "around" UNDP (i.e. OIG can audit Sub-recipients) and can therefore gain some understanding of the management by UNDP of grants in this way. However, this does not give a sufficient insight into the grant operations and management by UNDP.

4.4 It was also noted that the sharing of documentation with Local Fund Agents (LFAs) for the purposes of the standard process of verification of implementation (in particular, regarding expenditure reporting) has been variable. In some case, UNDP Country Offices are helpful and provide sufficient information drawn from their accounts (as agreed in the standard Grant Agreement terms), but in others access has been limited. This can cause difficulties, including delays in approving disbursements.

4.5 While recognizing that UNDP has gone some way to meet Global Fund requirements regarding access, the Inspector General confirmed that the current position does not allow the OIG to provide assurance to the Board in regard to grants managed by UNDP. On the other hand, in light of the UNDP Board President's letter, it seems unlikely that further action on the part of the Global Fund Board will achieve any further gains. At this point, the most effective step may be to engage UNDP's leadership to foster a culture of openness and transparency and greater country-level sharing of information with the Global Fund.

4.6 The Committee noted that there is significant risk of reputational damage to both organizations, but especially UNDP regarding the audit findings and the lack of access granted to the Global Fund. Lack of transparency is creating the wrong kind of dynamic and is not workable for the Global Fund grant model.

4.7 The Committee agreed with the approach suggested by the Inspector General and requested that the Executive Director engage with the UNDP Administrator on this issue. The Committee requested the OIG and the Secretariat to continue to update it on developments in this regard. The Committee acknowledged that if no improvements were forthcoming, stronger action may be necessary.

Parallel Systems

4.8 A core Global Fund principle is to use national systems where possible to manage and implement grants. (National systems include all local level implementers involved in the implementation of a national strategy and include both governmental and non-governmental entities).

4.9 In practice, Global Fund grants are often implemented by non-national systems. It is the responsibility of the CCM to select a Principal Recipient and in many cases, the CCM may choose a non-national system entity for a number of reasons, including a question of capacity or proven ability for coordination.

4.10 After eight years of operation, it would have been expected to see a shift from over-reliance on non-national systems to national systems as capacity building and transition to national systems took over. However, this shift has not materialized.

4.11 This section summarizes the Committee's discussions regarding the reasons for this failure to move to national systems. While the discussion in this section focuses on UNDP, as the Global Fund's single largest Principal Recipient and its key partner in implementation of more difficult grants, it is important to recall that some of the concerns outlined in this section also apply to other multi-lateral organizations or international NGOs.

4.12 Because of the Global Fund's core principle as outlined above, UNDP is often considered the Principal Recipient "of last resort". It is the Principal Recipient for most grants managed under the Additional Safeguard Policy and operates as Principal Recipient for grants in many environments that are challenging. UNDP's mandate is to help build national capacity while implementing the grants with a view to eventual transfer of grant management to national entities.

4.13 In practice, OIG audits have tended to show that UNDP establishes parallel structures that do little to help build national capacity (PMUs, fiduciary agents etc.). UNDP rarely has plans in place to transition to national entities.

4.14 The Secretariat is already following up on this issue and made this a priority for its relationship with UNDP. The Secretariat believes that the lack of focus on capacity building and transition to national entities has largely been the result of inertia. In cases such as DRC, parallel structures were the only option to implement large grants in a post-conflict country of DRC's size at the time of the first grants to DRC. However, this is no longer good enough. The Secretariat has requested UNDP to establish plans for transition to national entities (including capacity building action plans to ease transition) for all countries in which UNDP is the Principal Recipient. With the recent increased focus on this area, it is expected that we will start to see improvements in this area in the coming months.

Changes of Principal Recipient

4.15 When grants are suspended as a result of abuses or risks reported by the OIG, one common measure for future implementation is to change the Principal Recipient. Clarification was sought around the considerations and process for changing the Principal Recipient.

4.16 The Committee underlined the dangers of resorting to a change in Principal Recipient following an unfavorable OIG audit. The Committee drew a distinction between a Principal Recipient which has misapplied funds and a Principal Recipient that may be capable of delivering successful programmatic performance, but whose internal controls and processes are deficient. Consideration should be given to maintaining the principal recipient if there is a realistic possibility of strengthening the Principal's Recipient's weak controls (through technical assistance, use of fiduciary agents etc.) and retaining the benefit of the Principal Recipient's good programmatic performance. In the IG's view, such an approach would not be appropriate when a PR has misapplied funds.

4.17 The Secretariat clarified that the primary responsibility for a decision to change a Principal Recipient rests with the CCM.

Management Fees

4.18 There is an increasing concern about (i) the level of management fees, (ii) the lack of transparency around management fees and (iii) the layering of management fees through the grant structure (Principal Recipients, Sub-recipients etc.) The definition of management fees can be diverse, ranging from a blanket fee that covers all administrative costs to a general overhead fee that is supplemented by specific administrative cost charges. The Global Fund does not have a clear policy on management fees.

4.19 It was recognized that management fees are generally justifiable, especially for non-governmental organizations which are mainly project funded. However, there is a need to ensure transparency and efficiency in the charging of management fees. Blanket fees should be discouraged and fees should be differentiated.

4.20 The Secretariat has established a small senior working group to consider the policy on management fees and to consider the management fees charged by the major international organizations and NGOs.

Country Coordinating Mechanisms

4.21 Weaknesses in the functioning of CCMs is a common theme in OIG reports.

4.22 The Committee recognized that there is already a lot of work going on to address these issues, including the new CCM funding policy to increase funding to CCMs and the up-coming review and updating of the CCM guidelines. Many studies have been conducted and it is now time to move forward and take action to address the weaknesses identified.

Local Fund Agents

4.23 OIG reports have consistently identified variable performance by LFAs. The Committee asked whether these concerns are being addressed fully.

4.24 The Secretariat explained that a lot of work has been done and continues to be done in this area, starting with the LFA re-tendering in 2008/9. Additional measures include enhanced and systematic review of LFA performance, focused and more frequent LFA training, review and improvement of guidelines for LFAs (including instructions on LFAs taking a more risk-based approach to their reviews), willingness to replace LFAs where performance has been sub-standard etc. The Secretariat will be in a better position to report on whether these measures have been effective in improving performance towards the end of the year.

Management and Accountability of Sub-recipients

4.25 The Committee noted that weak oversight of Sub-recipients by Principal Recipients is identified in all audit reports, including the September 2009 “Lessons Learned” OIG Report.

4.26 The Global Fund model is that Principal Recipients are responsible for managing Sub-recipients and implementation by Sub-recipients. The Principal Recipients assess Sub-recipients capacity to implement the activities assigned to them and put into place a plan to manage Sub-recipients. The well-performing Principal Recipients recognize and manage Sub-recipient risks.

4.27 The Secretariat is fully aware of this long-running, complex issue. There are no straightforward solutions. In particular, it is not possible or desirable for the Secretariat to assess all Sub-recipients directly. The Secretariat already operates a risk-based approach to Sub-recipient assessments, by reviewing major Sub-recipients, including Sub-recipients where the Principal Recipient is a “pass-through” across the grant portfolio and by reviewing all major Sub-recipients for grants managed under the Additional Safeguard Policy. However, the Secretariat is not in favour of an approach that would require Global Fund assessment of all Sub-recipients. The Operational Policy Committee will be prioritizing this issue over the coming weeks and expects to reach its conclusions for addressing this issue by the end of June 2010. The Secretariat will then be better placed to report to the FAC at its next meeting. During a later discussion on risk management, a suggestion was made to request the Principal Recipients to prepare a risk management plan (could be voluntary as opposed to compulsory) with a particular focus on Sub-recipients and main suppliers.

Disease Specific Issues

4.28 The Committee expressed its appreciation for the disease specific elements contained in the OIG reports and considered that, at the higher aggregate level, the findings of the OIG on this element should be considered from a strategic perspective by the Policy and Strategy Committee and the Global Fund’s partners.

4.29 The Inspector General explained that a disease specific review is included in each audit report and that the next “lessons learned” report will draw on the cross-cutting issues relating to service delivery. This will be of particular usefulness to CCMs, especially in regard to future grant applications. It should also be fed into the work that is being done by the Secretariat’s Strategy, Policy and Evaluation Cluster.

4.30 The Committee endorsed the Inspector General’s approach and considers that inclusion in the next “lessons learned” report will create a good platform for discussion of this issue for the next FAC meeting.

Budget Padding

4.31 Budget “padding” appears to be prevalent across grants. This results in excess funding being unnecessarily committed to grants, when it could be deployed to fund more programs.

4.32 The measures to achieve efficiency gains in Rounds 8 and 9 are not expected to address this and may even be counter-productive (since applicants are incentivized to over-budget, knowing that their budgets will be subject to a reductions after approval).

4.33 It was noted that the Working Group on the Tension between Supply and Demand had specifically indicated that they did not believe that the efficiency measures should be carried forward into future rounds and that other measures should be sought, such as a greater focus on value for money in proposals.

4.34 It was further noted that this area is within the oversight of the Portfolio and Implementation Committee (PIC) and that the PIC had established a sub-committee to consider value for money measures as part of the PIC’s review and approval of Round 10 forms and guidelines.

4.35 Suggestions were made regarding increased and enhanced budget review at the TRP review stage and at the grant negotiation stage by LFAs. The Secretariat clarified that the TRP process does not normally include a detailed budget review. The TRP ensures that the proposal is technically sound and the budget is reasonable in the context of the proposal. For Rounds 8 and 9 the TRP has requested some independent budget reviews for large proposals. At the time of grant negotiation, the PRs and SRs have been selected and therefore a detailed line-by-line review of the budget(s) can be undertaken by the LFA and reviewed by the Secretariat.

Capacity Building Initiatives

4.36 OIG reports have shown that there is a tendency for measures that are intended to be temporary stop-gaps for addressing capacity weaknesses to become permanent. These stop-gap measures include, for example, establishing program management units where knowledge is lost as soon as the PMU is dissolved, using fiduciary agents, relying too heavily on development partners to implement rather than support capacity building measures (see UNDP discussion above). In some cases, this can be costly. There is a risk that the Global Fund Voluntary Pooled Procurement Mechanism ends up being an impediment to use of national systems - VPP should be used only up to the point when the national systems have sufficient capacity to conduct procurement directly.

4.37 There is a clear lack of focus on building the long-term capacity of national systems which needs to be more fully addressed through the Global Fund's policies and grant oversight.

4.38 The Committee identified two specific areas of concern.

i. First, it does not take much to turn a Principal Recipient with adequate capacity to one with inadequate capacity. The burden of numerous grant processes, which is multiplied by the need to train Sub-recipients on processes, can have the counter-productive result of stalling implementation and hampering capacity. It is imperative to simplify.

ii. Second, in spite of measures such as dual track financing, the Principal Recipient space is dominated by a few organizations. Over the years, there have been clear lessons learned on what it takes for community based organizations to undertake the role of Principal Recipient and what technical assistance is required. There is a need to determine what our expectations of Principal Recipients are and to communicate that better, so that appropriate technical assistance may be mobilized and a broader range of entities can become engaged as Principal Recipients.

Incentive Structures

4.39 The Committee raised the possibility that incentive structures could be considered to optimize grant implementation and management and address some of the cross-cutting issues and concerns identified.

4.40 It was suggested that the example of public/private finance and other initiatives should be considered, such as long-term concessions to private providers for public services which have incentives and penalties built into the concession.

4.41 The Committee challenged the Secretariat to consider this suggestion and report back.

Follow-Up Action

4.42 The Secretariat noted that for most of these cross-cutting issues, the Secretariat has already outlined the actions it is undertaking in its report on follow-up to the OIG findings and recommendations (see in particular Attachment 1 to GF/FAC14/03). For example, the Secretariat has outlined and initiated numerous actions - both operational and policy - to address weaknesses identified in the functioning of CCMs and LFAs. In some cases, action has already been initiated and the Secretariat will be in a better position to report on whether the actions taken have had the desired effect towards the end of the year.

4.43 The Committee requested the Secretariat and OIG to report back to the Committee at its autumn 2010 meeting on progress in relation to each of these cross-cutting items.

PART 5: OTHER MATTERS

Confidentiality

5.1 Confidentiality considerations are a standing item on the agenda for all FAC meetings. The Inspector General noted that, for this meeting, there were no concerns around confidentiality.

5.2 In response to the Committee's questions, the Secretariat clarified that, in accordance with the Global Fund's Documents Policy, Secretariat reports to Committees are considered internal deliberative documents. The default position is that such reports are not for general publication but may be shared by committee members with their constituencies. Should a stricter level of confidentiality need to be applied, this will be clearly noted on the report.

5.3 Follow-up Action: The Committee requested that greater clarity regarding the conditions of confidentiality should be included up-front on the Secretariat reports.

Disciplinary Procedures

5.4 The OIG pointed out that disciplinary procedures for Secretariat staff have not been finalized and that this presents risks for the organization. There is disagreement between the OIG and the Secretariat on the handling of cases of 'gross misconduct'. The position of HR is that certain allegations of gross misconduct should go to HR for appropriate action, rather than to the OIG. The OIG position is that all cases of gross misconduct should be referred to the OIG for an assessment of whether an OIG investigation is required - which would be the norm for such cases.

5.5 The Secretariat clarified that the disciplinary procedures would be presented to the EMT for review and approval within two weeks after the Committee meeting. EMT review would be followed by a staff consultation and then final approval by the Executive Director.

5.6 Follow-up Action: The Committee requested the Secretariat to report on the finalization of the disciplinary procedures.

Values and Integrity Initiative

5.7 Progress has been made in implementing the Values and Integrity Initiative presented to the Ethics Committee and FAC in October 2008. The Executive Management Team approved the Global Fund's new Code of Conduct for Suppliers in December 2009 and the Sanctions Procedure in January 2010. These are now being rolled out. The OIG is meeting with the UN Office of Drugs and Crime to discuss a strategy for promoting the Global Fund's Code of Conduct.

5.8 Follow-up Action: The OIG and Secretariat will report on progress in rolling out and implementing the new Code of Conduct and Sanctions Procedure at the FAC's autumn 2010 meeting.

Whistleblower Policies

5.9 Under the OIG Charter, the maintenance of an effective whistleblower policy is the responsibility of the OIG. The OIG has identified a number of weaknesses in the existing policies approved by the Board in 2007, including (i) the lack of a clear procedure for protection against retaliation and (ii) the content of these policies is now somewhat inconsistent with other Global Fund policies. The OIG intends to address this by consolidating the policies and working with the Secretariat to improve the procedures for protection against retaliation. The OIG has engaged with national and international agencies that have expertise in these types of policies, to incorporate best practice from other organizations. The OIG intends to present the revised draft of the consolidated policy to the Ethics Committee for its consideration and recommendation to the Board for approval.

5.10 Follow-up Action: The OIG and Secretariat will report on progress in addressing these weaknesses at the FAC's autumn 2010 meeting.

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