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 objective and independent review of grant activities by internal and external assurance providers with the ultimate goal of ensuring the achievement of each grant’s objectives. The Global Fund uses a combined assurance approach to ensure it uses assurance resources efficiently and effectively in validating grant outcomes.

The measurement and analysis of risks that present uncertainties in the delivery of grant outcomes. The Global Fund has adopted an Operational Risk Management process to ensure all risks associated with grant activities are reviewed and analysed on an ongoing basis. The results of this risk analysis are reported in the QUART system.

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

- Requirement for assurance planning
- Regional and Global Risk and Assurance Committee’s
- Regular risk and assurance reporting.

- Strengthening of risk owner role and accountability in setting norms / guidance
- Engagement with Country Teams to explain rationale for change and assurance requirements.

- Adapting the LFA role to remove potential conflicts
- Increasing use of partners and implementer assurance providers
- Identification of independent external assurance providers according to skillsets.

- Increased differentiation of assurance resources to focus on key strategic issues
- Potential increase in resource requirements to provide immediate improvement – medium-term impact

STRUCTURE AND TIGHTLY MONITOR IMPLEMENTATION
The Proposed Risk and Assurance Map

**Core Risks**

**Financial Core Risks**
- OIG Audit Reviews

**3rd Line**

**Technical Advice & Partnerships**
- Data and Program Quality assurance providers

**2nd Line**

**Chief Risk Officer - Oversight**
- Finance
  - Financial assurance providers
- Sourcing / PSM Hub
  - PPM agents
  - 3rd party supply chain assurance
- Technical Advice & Partnerships
  - Data and Program Quality assurance providers

**Build Country Systems and Assurance**

**Country Teams and Local Fund Agents**
- Finance Specialist
- PSM Specialist
- PHME Specialist

1 LFA in 1st line will mean cannot provide services in 2nd line without approved segregation of team roles

**Principal Recipients**
Managing and overseeing grant implementation
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.

- **Global Review and Assessment**
  - Assessment of critical risk issues affecting grant outcomes across the **Global Fund** portfolio and determination of appropriate assurance and risk mitigation activities.

- **Regional Review and Assessment**
  - Assessment of critical risk issues affecting grant outcomes across the **Regional** portfolio and determination of appropriate assurance and risk mitigation activities.

- **Country Team Review and Assessment**
  - Assessment of critical risk issues affecting grant outcomes across the **Country** portfolio and determination of appropriate assurance and risk mitigation activities.

Escalation of issues to the Global review from the regional level should reflect key cross-country / regional issues and any risk and assurance issues that represent a serious threat to achieving impact.

Country Teams and functional managers should ensure key risk and assurance issues are flagged throughout the grant lifecycle to the regional level to determine potential threat to 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

- Risk
- Risk Owners
- Country Teams
- Oversight

- Financial
  - Finance
- PSM
  - Sourcing
- Program & Data Quality
  - TAP
- Legal / Compliance
  - Legal

- Risk Management
- Grant Management
- Accountability
- GRANT OUTCOMES

- Risk Owners
  - PSM:
    - RISK ANALYSIS
    - RISK MITIGATION
    - ASSURANCE PLANNING & MONITORING
    - REPORTING & APPROVAL
    - ASSURANCE PROVIDER SUPERVISION
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.

**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.

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.
**Assurance Providers**

<table>
<thead>
<tr>
<th>Sources of assurance</th>
<th>Change in Resource</th>
<th>Areas of assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Fund Agent</td>
<td></td>
<td>Financial</td>
</tr>
<tr>
<td>Implementer Assurance</td>
<td></td>
<td>Supply Chain and Purchasing</td>
</tr>
<tr>
<td>In-country Partners</td>
<td></td>
<td>Program &amp; Data Quality</td>
</tr>
<tr>
<td>External Assurance Providers</td>
<td></td>
<td>Governance</td>
</tr>
</tbody>
</table>

- Role to be maintained as “eyes and ears” to maintain regular in-country presence, however, role as an external assurance provider to be reviewed in light of **potential conflicts of interest**.
- Implementer assurance to be utilised where available and where it meets criteria for independence, capability and scope.
- Where available, assurance can be obtained from partners, this can be a valuable source of information and understanding of risks within grants. Assurance approach needs to formalise these relationships further to capture available synergies.
- External and independent assurance providers to be utilised where implementer assurance and information from partners is not sufficient. These assurance providers need to be contracted for specific assurance tasks and for specific skills.

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:

**Over-arching strategy covering key process components of supply chains and highlighting key gaps and a costed implementation plan for improvements.**

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Forecasting and Quantification</td>
<td></td>
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<tr>
<td>Supply Chain Integration</td>
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<tr>
<td>Logistics Management</td>
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<tr>
<td>Theft and Divergence</td>
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<tr>
<td>Ethics, Compliance and Sustainability</td>
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</tbody>
</table>

**Improvement to skillset and resource of Secretariat (Supply Chain, Quality and Ethics specialists)**

**Investment in systems (Materials Resource Planning, E-marketplace, Logistics MIS, Quality Data Collection)**

**New assurance providers (3rd party inspection agents, Social Audits, UNDP Greening Initiative)**

**Identification of core PSM KPI’s for ongoing monitoring**
Data and Program Quality assurance: Areas for assurance and anticipated changes

CRITICAL AREAS FOR ASSURANCE

1. M&E and data systems
2. Alignment of national technical policies/guidelines with international recommendations
3. 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

<table>
<thead>
<tr>
<th>Resource</th>
<th>Cost</th>
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<tbody>
<tr>
<td>LFA</td>
<td>↓</td>
</tr>
<tr>
<td>In-country partners</td>
<td>↑</td>
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<tr>
<td>Implementer Assurance</td>
<td>↑</td>
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<tr>
<td>External Assurance</td>
<td>↑</td>
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<tr>
<td>Risk Owners</td>
<td>↑</td>
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<tr>
<td>Country Teams</td>
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<tr>
<td>Risk Management</td>
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<tr>
<td>IT</td>
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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:

- $x-xm per grant
- $x-xm per grant
- $x-xm per grant
- $x-xm per grant

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

<table>
<thead>
<tr>
<th>Period</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2014</td>
<td>GF RAC Intro</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>Ongoing Steering of Risk and Assurance Model</td>
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<tr>
<td></td>
<td>REG RAC Intro</td>
</tr>
<tr>
<td></td>
<td>Ongoing Steering of Country Assurance Approaches</td>
</tr>
<tr>
<td></td>
<td>Organisational Changes</td>
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<tr>
<td></td>
<td>Communication and Engagement with Country Teams</td>
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<tr>
<td>Q2 2015</td>
<td>Assurance Budget</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>Implementation</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>Design and Implementation of System Improvements</td>
</tr>
<tr>
<td></td>
<td>Ongoing Process and Reporting Improvements</td>
</tr>
</tbody>
</table>

**PILOT FOR NEW COMBINED ASSURANCE APPROACH**

Changes to the use and scope of assurance providers will develop through the assurance planning process and hence the introduction of proposed improvements will be aligned to the delivery of assurance plans. The introduction of new assurance providers and approaches may be phased with individual countries used as initial “pilot” to prove the effectiveness of the approach.