

B25/ER/11

For Decision

**APPOINTMENT OF INDEPENDENT MEMBERS
OF THE GLOBAL FUND'S AUDIT AND ETHICS COMMITTEE**

PURPOSE:

Purpose: For decision of the Board, this paper provides the Coordinating Group's recommendation to:

1. Increase the number of independent members of the Audit and Ethics Committee from four to five, bringing the total membership to eight persons;
2. Introduce into the Charter of the Audit and Ethics Committee a mechanism to resolve instances when the committee is unable to take a decision by consensus; and
3. Appoint five persons to fill the independent member roles on the Audit and Ethics Committee for a period of two years, including the appointment of one of those persons as Chair.

Part 1: Background

For Information

1. In September 2011¹, the Global Fund Board established an Audit and Ethics Committee ('AEC'), to give effect to recommendations from the Board-led Phase 1 governance reform initiative, and the Report of the High Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms ('HLP'). In making this decision, the Board:
 - a. adopted the HLP recommendation for a seven member committee comprised of four independent persons, and three persons nominated from voting constituencies of the Board; and
 - b. added to the committee's mandate the oversight of ethical risks and adopted the name "Audit and Ethics Committee".
 - c. requested that the three members affiliated with voting constituencies of the Board, once selected, commission an open and transparent process to identify the four independent members of that committee.
2. In November 2011², at the time of appointing the Vice Chair of the AEC and the two Board constituency affiliated members, the Board decided that the Coordinating Group would propose the four independent candidates identified to the Board for approval following the conclusion of the selection process.
3. The AEC Vice-Chair, Dr Brian Brink, formed a selection panel and undertake a broad and transparent process to identify proposed independent members of the AEC. This process was undertaken between December 2011 and March 2012, and involved the following key elements:
 - a. Agreeing to make a broad call for nominations, advertised in on-line international journals and other media;
 - b. Identifying and appointing three independent persons to join the three AEC constituency nominated members on a selection panel ('Selection Panel'); and
 - c. Establishing a process to pre-screen, assess, and recommend candidates for independent membership of the AEC having regard to the AEC Charter³, and the minimum competencies for Committee members set out in Table 3.b of Annex 1 to the Board and Committee Operating Procedures of the Global Fund⁴.
4. Across the application period, the Selection Panel assessed 152 applications for independent membership of the AEC according to the pre-agreed process.
5. The Vice-Chair of the AEC reported to the Coordinating Group on the Selection Panel's overall assessment of candidates and recommendations on independent members in its report entitled '*Report of the Selection Panel on Applications for Independent*

¹ Refer to GF/B24/DP3: http://www.theglobalfund.org/documents/board/24/BM24_DecisionPoints_Report_en/

² Refer to GF/B25/DP14: http://www.theglobalfund.org/documents/board/25/BM25_DecisionPoints_Report_en/

³ Charter: http://www.theglobalfund.org/documents/committees/Core_AuditsAndEthicsCommittee_Charter_en/

⁴ At: http://www.theglobalfund.org/documents/board/core/Board_GlobalFundBoard_OperatingProcedures_en/

Membership of the Global Fund's Audit and Ethics Committee dated 25 March 2012. A summary of the Selection Panel Report is available at **Annex 1** to this paper.

Part 2: Coordinating Group Recommendation

For Decision

6. The Coordinating Group met on 26 March to review the Selection Panel Report, and the underlying materials presented to the Coordinating Group by Dr Brink. These materials included an Information Note on the screening process and the resumes of the seven short-listed candidates. The Coordinating Group believed that the process conducted by the Selection Panel was robust, and that the consensus report of the Selection Panel presented clear recommendations and a sound basis for them.
7. The Coordinating Group therefore determined that it was in the best interests of the Global Fund to present to the Board the recommendations from the Selection Panel, without any amendment to the proposal, that the number of independent members should be increased to five, from the current four. The Coordinating Group noted that the original recommendation for 4 independent members of an “Audit” committee from the High Level Panel did not anticipate the additional Ethics requirements to be discharged by the AEC.
8. Consequently, five candidates are recommended for approval as independent members of the AEC as follows (in alphabetical order):
 - a. Gabor Amon (Forensic investigation competency)
 - b. Veronica Charlesworth (Financial audit competency)
 - c. Wendy Harrison (Ethics competency)
 - d. Graham Joscelyne (Financial audit competency)
 - e. Barry Metzger (Legal/dispute resolution competency)

Graham Joscelyne is recommended by the Selection Panel and the Coordinating Group to fill the position of independent Chair of the AEC. He has expressed his willingness to take on this responsibility and to make sufficient time available to discharge his duties as Chair. **Annex 2** to this electronic report attaches the resumes of each of the five persons.

9. Should the Board adopt the recommended increase in membership of the AEC to eight persons (five independent persons, and three constituency nominated persons), the Coordinating Group identified the need for a mechanism to resolve situations where consensus cannot be found.
10. The Coordinating Group took note that in situations of deadlock:
 - a. For the Strategy, Investment and Impact Committee – the Board Chair will have a deciding vote; and
 - b. For the Finance and Operational Performance Committee – the Board Vice-Chair will have a deciding vote.
11. The Coordinating Group also took note of the presence of independent members as a particular difference that set apart the Audit and Ethics Committee, and the two other standing committees of the Board.
12. In these circumstances, the Coordinating Group believed it was inappropriate that the Board Leadership had the deciding vote. Instead, they believed that to retain the spirit of the HLP recommendations, an independent person should have the deciding vote. The

Coordinating Group's recommendation to the Board is that if consensus cannot be reached on a decision, the independent Chair of the Audit and Ethics Committee should have that casting vote.

13. During its second meeting over 27 – 28 March 2012, the Finance and Operational Performance Committee ('FOPC') was requested by the Coordinating Group to consider and recommend to the Board, an appropriate honorarium for the independent members of the AEC. This was requested having regard to the FOPC's role in oversight of the financial management of Global Fund resources. It was believed important to consider this question in the broader context of remuneration across governance and advisory bodies.
14. The FOPC considered the current honorarium arrangements for the Technical Review Panel ('TRP') and the Technical Evaluation Reference Group ('TERG'), and information provided to the FOPC during its meeting on arrangements known in regard to the Audit Committee of the World Bank, a number of UN agencies, and GAVI. It was acknowledged that the information came to the FOPC late.
15. The FOPC believed it important to undertake a comprehensive review of the remuneration and honorarium arrangements across the governance and advisory bodies of the Global Fund. They agreed they will do this for the November Board meeting. On an interim basis, they agreed to recommend to the Board an honorarium for the balance of the 2012 calendar year that was equivalent to the TRP arrangements of US\$ 14,000 for the Chair, and US\$ 9,000 for other members. Further, that if the review and recommendations at the end of the year resulted in a determination that the full annual honorarium for independent members should be increased, that should be applied retroactively to the start of the AEC independent member terms.

Decision Point

B25/EDP/18: Appointment of Independent Members of the Audit and Ethics Committee

The Board notes that:

1. In September 2011, the Board decided (GF/B24/DP3, entitled "High Level Independent Review Panel") to form an Audit and Ethics Committee ("AEC") comprised of seven members, four of whom would be independent of any constituency of the Board.
2. In November 2011, the Board mandated the Coordinating Group (GF/B25/DP14, entitled "Appointment of Committee Leadership") to provide nominations to the Board to fill the four independent member seats on the AEC, with one of those seats being for the Chair of the AEC.
3. The Coordinating Group's 27 March 2012 "Electronic Report" to the Board on the nominations process (GF/B25/ER11) recommended that the Board increase the number of independent AEC members from four persons to five in order to ensure that the AEC will have an appropriate level of expertise in its financial audit function, in addition to

the three other necessary disciplines of forensic investigation, ethics, and legal and dispute resolution.

The Board:

4. Approves the increase in independent members of the AEC from four persons to five, to bring the full membership of the committee to eight.
5. Amends the Charter of the Audit and Ethics Committee and the Board and Committee Operating Procedures in the manner set forth below with immediate effect:
 - a. Amendments to the Charter of the Audit and Ethics Committee:
 - the word “*four*” is deleted in each of paragraphs 3.i, 6 and 7, and is replaced with “*five*”; and
 - a new paragraph is inserted immediately following paragraph 4, containing the following text:

“In instances in which the Committee is unable to take a decision, the AEC Chair shall, in consultation with the AEC Vice-Chair, exercise an additional vote in order to resolve such impasse.”
 - b. Amendments to the Board and Committee Operating Procedures:
 - Table 3.b of Annex 1 (“Expected Minimum Key Competencies and Responsibilities of Members of each of the Standing Committees of the Board”), is amended by striking out the whole of the text in bulleted item 1 in column three of that table (“Key Competencies of Audit and Ethics Committee Members”); and
 - replacing it with the following text:

“At least two voting members with financial audit experience, with professional accreditation in financial accounting (Committee Chair should be selected from amongst the independent members who hold professional accreditation in financial accounting)”.
 - The word “four” is deleted in paragraph 44.1.3 and is replaced with “five.”
6. Approves the appointment of the following individuals as independent members of the AEC to serve for two-year terms from the date of effect of this decision, or until the appointment of their respective successors:
 - Graham Joscelyne (Financial audit competency) as member and Chair of the AEC
 - Gabor Amon (Forensic investigation competency) as member of the AEC
 - Veronica Charlesworth (Financial audit competency) as member of the AEC
 - Wendy Harrison (Ethics competency) as member of the AEC
 - Barry Metzger (Legal/dispute resolution competency) as member of the AEC

7. Acknowledges that the Finance and Operational Performance Committee will bring to the November 2012 Board meeting a comprehensive remuneration and honorarium strategy across the Global Fund's governance and advisory entities, which will include a recommendation on the appropriate honorarium for independent members of the AEC having regard to their role and fiduciary obligations.
8. Approves an honorarium for the period April to December 2012 of US\$ 14,000 for the independent Chair of the AEC, and US\$ 9,000 for other independent members of the AEC. The Board notes that the FOPC's recommendations in November 2012 may include a recommendation to retroactively increase the honorarium of independent members of the AEC.
9. Requests the Audit and Ethics Committee to provide recommendations into the Phase 2 Governance Reform process on revised "Criteria for Independent Members of the Audit and Ethics Committee" that takes into account lessons learned during the process of constituting the committee.