



## Advisory Report

# The Global Fund's Integrity Due Diligence Processes

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GF-OIG-17-003  
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Geneva, Switzerland



Office of the Inspector General

## Introduction

The 2016 Audit Plan includes an audit of integrity due diligence processes at the Global Fund. Because of a project initiated to develop integrity due diligence in June 2016, the Global Fund Secretariat requested and the OIG agreed to refocus the audit as an advisory review.

This review assessed the adequacy of the Secretariat's current structures, systems and processes in mitigating integrity related risks that may arise from internal and third party stakeholders. The review is expected to guide the design and implementation of integrity due diligence.

The OIG's observations are presented in four parts in this report. Details of specific observations are detailed in the annexes. Six recommendations are proposed to guide the development and implementation of integrity due diligence at the Global Fund.

## Table of contents

<b>Introduction</b>	<b>1</b>
Part 1. The advisory review	
Background	3
Objectives, scope and approach	6
Executive summary	7
Part 2 Integrity due diligence in its infancy at the Global Fund	10
Part 3 Building blocks for effective integrity due diligence not in place	16
Part 4 No risk assessment to inform integrity due diligence processes	23
Part 5 Annexes	

1

Background, objectives and executive summary

2

Integrity due diligence in its infancy at the Global Fund

3

Building blocks for effective integrity due diligence not in place

4

No risk assessment to inform integrity due diligence processes

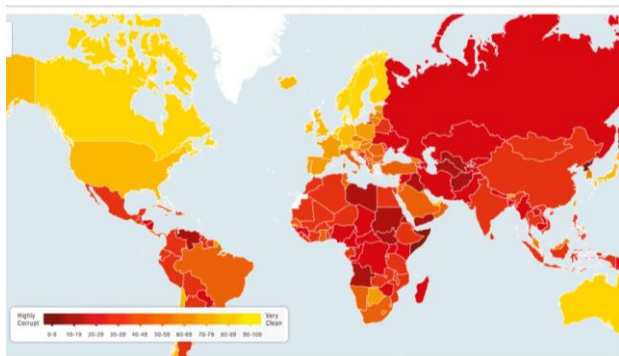
5

Annexes

# I Background (1/3)

## Environment

Many Global Fund recipients operate in environments characterized by weak governance, poor access to health services, crises and corruption – meaning that the systems of governance, risk management and internal controls within these countries are often placed under extreme pressure.



Corruption perception index Transparency International (2014)

The top 15 countries that account for 41% of the Global Fund's grant portfolio fall in the bottom third of Transparency International's corruption perception index.

## The Global Fund response

### Board commitment to ethics and integrity

"A strong ethics and integrity program engenders stakeholder trust in the Global Fund, and moreover safeguards resources dedicated to health through the creation of an integrated compliance and anti-corruption program, supported by communication, monitoring and oversight."

*The Global Fund Thirty-Second Board Meeting GF/B32/18 (November 2014)*

In response to the risks of fraud and corruption, the Board's strong commitment is demonstrated by:

- Its adoption of a zero tolerance to fraud and corruption<sup>1</sup> which communicates the Global Fund's strong resolve to fighting fraud and corruption.

1 - [www.theglobalfund.org/en/news/2016-04-29\\_Global\\_Fund\\_Statement\\_on\\_Anti-Corruption\\_Measures/1](http://www.theglobalfund.org/en/news/2016-04-29_Global_Fund_Statement_on_Anti-Corruption_Measures/1)

# I Background (2/3)

- Its institution of several initiatives to strengthen ethics and integrity including:



Conflict of interest/ codes of conduct (from 2003)



Ethics and integrity framework (2014)



Ethics and Governance committee (2016)\*



Ethics Officer (2016)\*\*

\* Formerly Audit and Ethics Committee

\*\* Formerly Ethics Official

- The Secretariat piloted the development of an integrity due diligence framework in 2013 but this was not completed due to lack of resources.

## At the Secretariat

Since 2013, the Secretariat's corporate risk register has identified fraud and unethical conduct as critical risks which, if materialized, would cause reputational damage to the Global Fund. Integrity due diligence has been identified as one of the mitigating actions for both risks.

## Integrity due diligence

### Evolution of integrity due diligence

The concept of “due diligence” has been an essential component of good governance that has been applied to diverse areas of risk faced by investors and corporations since the stock market crash of 1929.

Integrity due diligence has emerged over the last decade as part of due diligence processes deployed in response to increased regulations that address bribery and corruption; most notably the US Foreign Corrupt Practices Act 1977, the UK Bribery Act 2010, and provisions within the Wall Street Reform and Consumer Protection Act (Dodd Frank Act), amongst others.

Best practice and arguably the most stringent application of IDD is seen in the private sector: especially financial services, and sectors particularly vulnerable to bribery and corruption.

# I Background (3/3)

However, IDD has, in recent years, moved well beyond the private sector and is a firmly established part of what might be called the development sector's "governance toolkit".

## Definition of integrity due diligence

Integrity due diligence is the assessment of the threat/risk to the values, objectives and reputation of the Global Fund's integrity arising from its interactions with related third parties. Integrity due diligence (IDD) is about knowing your business partners through the independent gathering of information relating to third parties or other entities, individuals or situations proximate to the Global Fund

## Importance of integrity due diligence

When operating in markets where integrity risks are high, and may seriously impact the achievement of objectives, integrity due diligence is useful to decision-making processes as it provides information about those risks that may impede the organization's success.

Integrity due diligence is a tool within the organization's anti-corruption framework (under development at the time of the review). Through IDD, the Global Fund:

- Has a better understanding of its business partners and can leverage that knowledge in making decisions that best support it in meeting its business objectives.
- Can assess the threats these parties may pose to the integrity of the Global Fund, and in particular its values, objectives and reputation.
- Through disclosure processes, articulates its values to third parties with whom it interacts. This may act as a deterrent to unethical third parties, and also as a catalyst to third parties to address integrity challenges, where present, before making disclosures.

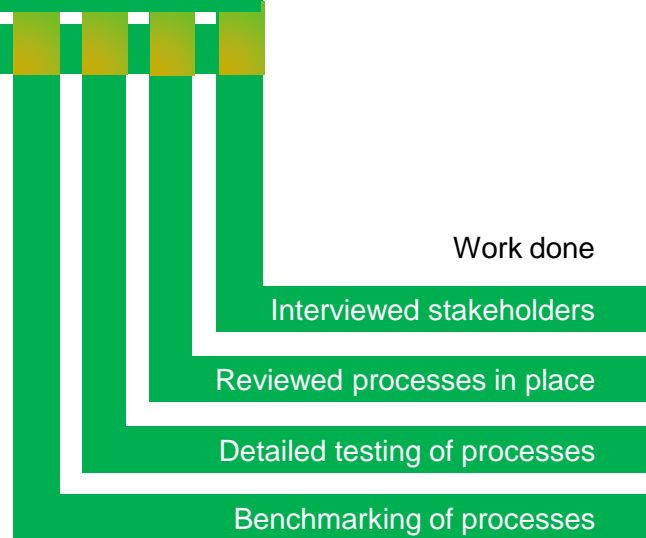
## II Objectives, scope and methodology

The OIG's assessment of the Secretariat's structures, systems and processes in mitigating integrity related risks was made against key attributes articulated by several regulatory bodies:



In light of a growing need for integrity due diligence, the Global Fund Secretariat initiated a project to develop and implement its integrity due diligence policies and processes, under the sponsorship of the newly appointed Ethics Officer.

As a result of this development, the Secretariat and the OIG agreed to refocus the audit as an advisory review, designed to support the Secretariat in identifying key root causes and action items to improve the governance, risk management, and control processes around integrity due diligence.



# Executive summary

Ethics and integrity are integral to the Global Fund's values; that not only safeguard Global Fund resources but also underpin stakeholder trust. The Secretariat relies on implementing partners to deliver its mandate, most of whom operate in the world's riskiest environments. By entering into a contractual relationship with any such third party, the Secretariat is exposed to integrity risks. While the organization is under no legal obligation to implement integrity due diligence due to its privileges and immunities, it has determined to implement integrity due diligence from a good governance and risk mitigation point of view.



IDD not  
prioritized  
by the  
Secretariat

The corporate risk register ranks fraud and unethical misconduct as high risk with integrity due diligence listed as the key mitigating action for these risks. That said, the Secretariat has in the past made limited progress in developing IDD processes. At the time of this review, the Secretariat had started developing an overarching anti-corruption framework, under the sponsorship of the Ethics Officer.

In the absence of an overarching anti-corruption framework as well as IDD at the corporate level, five departments have developed their own processes, albeit to different standards. Consequently, at the time of the review, IDD remained fragmented across the organization with no mechanisms in place to assess whether processes deployed by departments were fit for purpose, consistent across the organization and that there are no duplications and/or gaps among them.



# Executive summary



Building blocks for effective IDD not in place

The critical building blocks for effective IDD processes were not in place at the time of the review i.e.

- (i) A clarified structure as a foundation against which to develop IDD;
- (ii) Policies to guide IDD implementation;
- (iii) Training communication to create awareness as well as reinforce the need for IDD;
- (iv) Monitoring and review mechanisms drive embedding and ensure effectiveness of set processes; and
- (v) Incentives and disciplinary measures to drive compliance with laid down processes.

The project to develop an anti-corruption framework is expected to among other things put these key building blocks in place.

Due diligence processes not informed by risk assessments



The Secretariat has not undertaken a formal organization wide risk assessment to guide the level and extent of IDD processes. Consequently, IDD processes deployed may not be cost effective. Risk assessments would ensure that IDD adds value by identifying and focusing due diligence to the counterparties that pose the greatest risks to the organization.

Six recommendations are proposed to guide the development and implementation of integrity due diligence at the Global Fund.

1

Background, objectives and executive summary

2

Integrity due diligence in its infancy at the Global Fund

3

Building blocks for effective integrity due diligence

4

No risk assessment to inform integrity due diligence processes

5

Annexes

# Integrity due diligence in its infancy at the Global Fund

## Status of Integrity Due Diligence at the Global Fund Secretariat

### Integrity due diligence not prioritized

The Global Fund is not subject to external regulatory requirements related to IDD. This lack of external pressure may have contributed to the organization's failure to prioritize IDD. IDD as an initiative has been postponed a number of times due to resource constraints; the process to develop an IDD framework in 2013 by the Risk Department has not progressed. The Secretariat also has not defined IDD nor articulated a value proposition or incentives for the development of IDD.

### No overarching anti-corruption framework against which to develop IDD

To maximise effectiveness, IDD is typically performed within an overarching framework that brings together prevention, detection and response mechanisms to fight fraud. However, such a framework is not in place. In the absence of integrity due diligence within an overarching anti-corruption framework, the development of IDD has developed at different paces across the Secretariat as shown below.

Optimized

Actively managed

Embedded

Donors

Initiated

Sourcing  
Human Resources  
Governance officials

Ad hoc

CCMs

Secretariat

The maturity level of the Global Fund's overall IDD processes has been ranked ad hoc (using the maturity matrix under Annex i). This maturity level is due to the lack of an assessment of the integrity risk environment, which is a critical component of IDD.

Non-existent

# Integrity due diligence in its infancy at the Global Fund

## Due diligence forms undertaken at the Global Fund Secretariat

Self declaration of Col by governance officials

IDD at recruitment/ Self declarations of Col by staff

IDD on suppliers

IDD on private sector donors

PRs monitor Cols

IDD process have been developed and are complied with

**At the implementer level:** Limited provision for IDD is stipulated in the grant agreement. PRs are only required to implement conflict of interest processes and report identified issues. Anti-terrorism screenings on banks and grant signatories are undertaken at grant signing and before disbursements. With regard to CCMs, mandatory self declarations of conflicts of interest have not been completed by all members.

**At a governance level:** Governance officials operate in “conflict rich environment”:

- There has been a marked improvement, since 2014, in the identification, analysis and management of Col
- However, the submission rate of COI declarations by board members and governance officials, which has also improved, still sits at 84% and 79% respectively.
- Inaccuracies in declarations of conflicts of interest identified by Secretariat have not been followed up.
- Processes to manage identified risks have also been not been defined.

**At a corporate level (Staff)** Exceptions noted include:

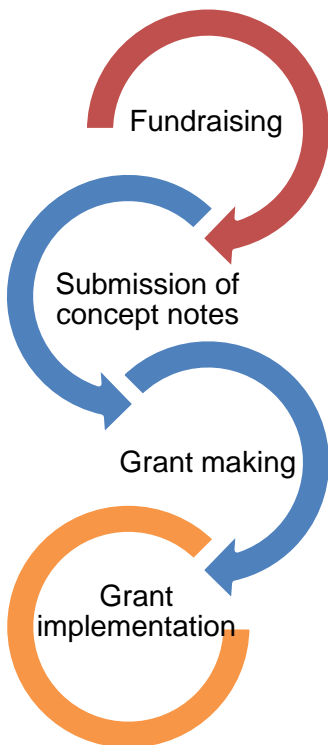
- Staff screening prior to recruitment is not differentiated by seniority, functional responsibilities, and other factors.
- Staff self declarations of conflicts of interest (grade D+) are completed but there is not a systematic and documented process for validation and analysis of submitted forms to inform decision making. However, declarations involving senior management have generally been escalated and reviewed with the Board committee in charge of ethics.

**At corporate level (suppliers):** For these suppliers IDD checks are only undertaken during contracting of suppliers and not monitored throughout the contract execution. No documentation is available to evidence the due diligence undertaken on corporate suppliers.

# Integrity due diligence in its infancy at the Global Fund

## Due diligence across the grant cycle

Details are under Annex 2



Area	Subject of checks	Status of IDD processes
Fundraising	Private sector donors (Public sector donors are not assessed because they are governments)	Processes are already in place and operational. This team's processes and templates can be used as guidance for other parts of the Secretariat that are just starting to put IDD in place.
Grant making preceded by country dialogue	Technical review panel	<ul style="list-style-type: none"> <li>Technical Review Panel has a strong conflict of interest regime in place.</li> <li>CCM declarations of interest are incomplete – 38% of CCM members have not declared conflicts of interest (OIG report on CCMs, 2016). Action plans are developed to address this, but without defined consequences for non-compliance.</li> </ul>
	Country Coordinating Mechanisms	
Grant implementation	Principal Recipients	Limited IDD processes are in place at the Secretariat and at country level as already mentioned. Any investment in IDD will pay the largest dividends in this area. IDD processes should be prioritized to mitigate the risks presented by implementer third parties. Consideration should be given to how IDD can best be integrated with other assessment processes already in place.
	Sub-recipients	
Cross cutting	Governance officials	Background checks are undertaken for all employees joining the GF. If this is an accurate reflection of the organization's risk appetite then governance officials should be subjected to greater scrutiny, on the basis that they may represent a higher level of inherent risk than staff.
	Secretariat staff	

# Integrity due diligence in its infancy at the Global Fund

## Why integrity due diligence should be prioritized in the Global Fund

Due to the lack of a value proposition for IDD, there is no consistent understanding and appreciation of IDD across the organization. This is a missed opportunity for the Secretariat to utilize IDD as:



A risk  
management  
tool

IDD increases the Secretariat's ability to proactively identify and mitigate integrity risks. IDD hereby acts as a deterrent to third parties.



A cost  
effective measure

Prevention can be cheaper than dealing with the fallout of major fraud scandals, and /or the growing cost of many low level frauds.

- Secretariat processes (especially through assurance work and capacity assessments) lean more towards detecting and responding to fraud than preventing it.
- An analysis of OIG investigations shows that individuals implicated in fraud and abuse often have conflicts of interest and/or a prior history of criminal or other un-ethical behavior (IDD would help in identifying such individuals). Some lessons learnt from recent country audit findings also make a case for strengthening Secretariat processes for IDD.



A good  
governance  
tool

IDD is a critical to "good governance" by key Global Fund donors. The lack of IDD processes can be construed to mean that the Global Fund is not fully aligned to its donors and this can affect stakeholder trust in the Fund.



A provider of  
intelligence

The inputs, data and intelligence collected as part of the IDD process helps the Secretariat better understand and where necessary better manage risks related to its third party stakeholders.

Capacity assessments undertaken at the beginning of grants can be strengthened when informed by the results from IDD.

# Recommendations

## Recommendation 1

The Secretariat should articulate its value proposition for integrity due diligence by defining the nature, scope and key elements of integrity due diligence. The definition should articulate what integrity due diligence means in the specific context of the Global Fund, what it will be expected to cover, elaborate its key benefits i.e. what is in it for the organization and rationalize why it should be prioritized in light of other more pressing priorities. This will drive consistent understanding, appreciation and approach across the organization. The proposition may be different across divisions but should be articulated and promoted, regardless.

## Recommendation 2

The Secretariat should develop an overarching anti-corruption framework as the mandate against which integrity due diligence will be undertaken within the organization.

The framework should:

- articulate the different preventive and detective mechanisms to counter fraud, and corruption;
- define roles and responsibilities for key stakeholders that will implement/oversee it;
- Aim to create synergies among the different but inter-dependent anti-corruption initiatives already in place and under development. These include the codes of conduct, whistle-blower and anti-retaliation policies, investigation processes, sanctions and disciplinary measures, financial disclosure polices etc.; and
- Include mechanisms for collection of intelligence through shared information with other International Financing Institutions.

1

Background, objectives and executive summary

2

Integrity due diligence in its infancy at the Global Fund

3

Building blocks for effective integrity due diligence not in place

4

No risk assessment to inform integrity due diligence processes

5

Annexes



# Building blocks for effective integrity due diligence not in place

No basis for successful implementation of integrity due diligence (1/2)

## Oversight and structure

The Board's ethics and integrity framework that addresses core values and concepts lacks underlying policies to ensure its operationalization. Secretariat structures to support the implementation of IDD have not been clarified. This would ensure that the Secretariat has an appropriate response to integrity risk. (see page 15 for details).

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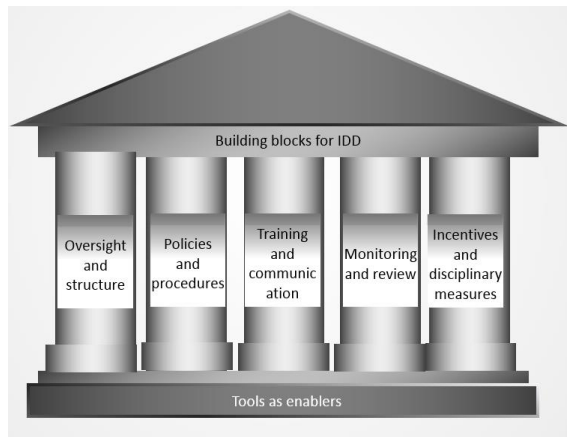
## Policies and procedures

Several codes of conduct lay out high level principles for stakeholders' conduct. However limited procedures to operationalize the codes of conduct and drive IDD implementation in the organization are in place.

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## Training and communication

The Secretariat lacks a training and communication strategy to educate and reinforce the importance of integrity due diligence within the Secretariat. Guidance that has been developed by departments is not adequately socialized.



## Incentives & disciplinary measures

The organization has a defined incentive and disciplinary regime to which the IDD process should be linked once developed. All staff should be informed about the consequences of abuse or disregard of any instituted IDD processes.

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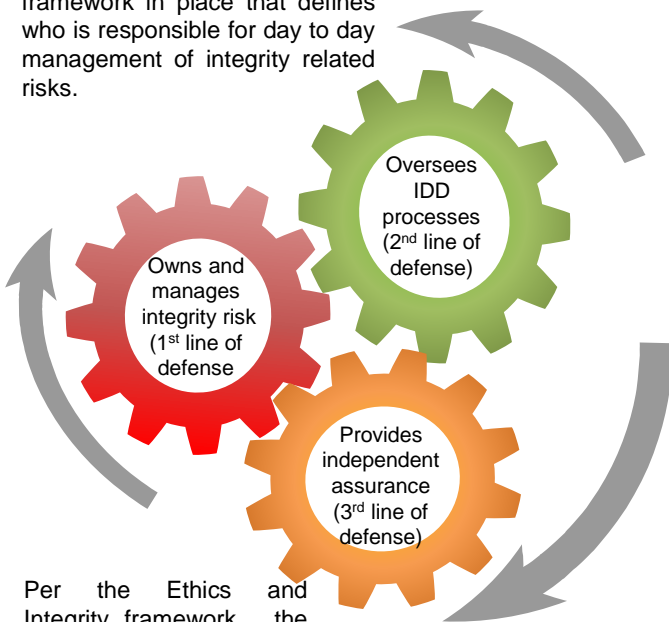
## Monitoring and review

The Secretariat lacks mechanisms to monitor IDD as a means of ensuring processes are implemented and embedded. Monitoring also ensures that IDD processes remain dynamic and able to react to changes in structure, scale, and the risk environment in which it sits.

# Building blocks for effective integrity due diligence not in place

## No basis for successful implementation of integrity due diligence - Oversight structure (2/2)

There is no accountability framework in place that defines who is responsible for day to day management of integrity related risks.



Per the Ethics and Integrity framework, the Ethics Officer and the OIG will provide assurance.

This oversight role involves:

- Developing IDD guidance and tools;
- Act as a center of excellence for IDD;
- Overseeing implementation of set processes;
- Monitoring adherence to IDD-related policies; and
- Undertaking independent checks to ensure consistency and objectivity throughout IDD processes employed.

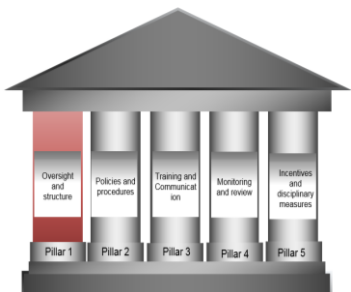
While the above roles are listed in the terms of reference of the Ethics Officer (per the Ethics and Integrity Framework), there is a possible conflict of interest since he is expected to also provide assurance on the very processes he sets up and monitors.

The OIG's noted that there are different practices with regard to where this oversight role can sit (details in Annex 3):

- Legal department especially in the private sector where IDD is done for regulatory compliance. The GF's legal department advises on regulatory compliance obligations and this would fall outside its current mandate.
- Standalone compliance department as seen in a couple of IFIs. The Global Fund integrates the legal, regulatory and policy compliance, and has not established a separate compliance monitoring unit.
- Risk department in most IFI organizations since IDD fits within their mandate to mitigate risks. The Risk Department took a lead in 2013 to develop IDD.
- Ethics Office in one instance (under a legal unit). Other IFIs have Integrity and Anti-corruption Units that oversee

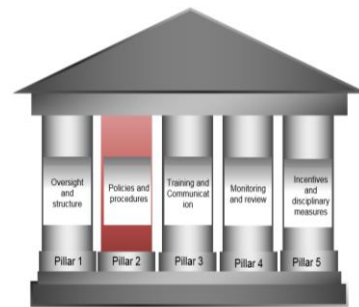
# Building blocks for effective integrity due diligence not in place

## Consequences on integrity due diligence (1/2)



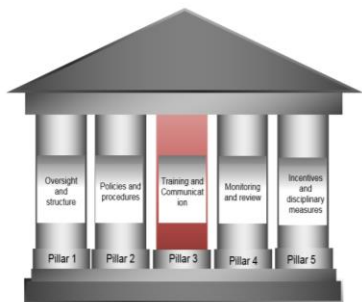
- **Roles and responsibilities are not defined** and there is a lack of clarity on who is responsible for development and once developed, who will be responsible for recommending, reviewing, approving and executing the agreed actions.
- **Inadequate prioritization as evidenced by limited resource allocation** towards the development and implementation of integrity due diligence processes. The reason given by the Risk Department for its failure to implement IDD in 2013 was inadequate resources.
- **Escalation procedures for effective management of risk** not consistently defined within divisions, and where necessary, upwards to an autonomous team that opines on the need for further work, risk mitigation steps or in extreme cases further escalation.

- **Limited knowledge** on what actions to take to identify corruption risk and, when red flags are identified, what processes to follow to resolve the issue (including escalation) once identified.
- **Disparate policies among the five departments** since they developed their own processes without the benefit of an overarching anti-corruption framework. Departmental policies have not been assessed for fitness for purpose, as well as to ensure consistency across the organization and that there are no duplications or gaps.



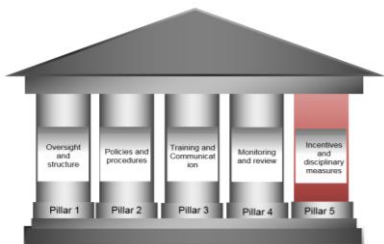
# Building blocks for effective integrity due diligence

## Consequences on integrity due diligence (2/2)

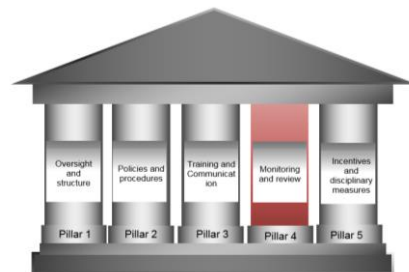


- **Limited staff awareness** on the importance of integrity due diligence, its benefits in supporting the organization achieve its strategic objectives and how to respond if confronted with an integrity issue.
- **Limited collective responsibility and commitment** of internal and third parties to anti-corruption programs (including IDD) created by the lack of awareness by stakeholders.
- **Limited knowledge** of third parties that Global Fund engages with for reference when making decisions.

- **Inconsistent implementation and embedding of processes** across the organization as was noted in the section on status of implementation of IDD by departments.



- **Instances of non-compliance noted** where policies have been established by departments e.g. as was noted with the declarations of conflicts of interest for governance officials and staff.



# Recommendations

## Recommendation 3

As a precursor to implementing integrity due diligence, the Secretariat should make decisions on the approach that is best suited for the organization. This covers two areas:

- i. The Secretariat should determine the maturity stage it would like to attain with regard to integrity due diligence. This will determine the solutions it will deploy going forward in initiating, implementing and embedding integrity due diligence and will have an impact on the resources needed.
- ii. The Secretariat should determine the approach (centralized or decentralized) that it will adopt in implementing integrity due diligence within the organization going forward. Once done, the Secretariat should then define the accountability framework for anti-corruption initiative that clarifies the roles and responsibilities of different departments in IDD.

## Recommendation 4

In order to ensure effective implementation of integrity due diligence processes, the Secretariat (Management Executive Committee) should designate an overall corporate manager at senior management level or department level to be the custodian of the anti-corruption policy and thereby be responsible for the implementation, monitoring and periodic review of the integrity due diligence work. Resources would have to be deployed for whichever option the Secretariat goes for.

# Recommendations

## Recommendation 5:

The Secretariat should define policies and procedures to guide the implementation of integrity due diligence within the Global Fund.

### Risk based

The processes should be built around the risks specific to the organization, the jurisdictions and sectors the organization is operating in, and the nature of the third parties it deals with.

01

### Align departments to new process

Having defined extent of work each department will undertake, the Secretariat should review its requirements against available tools and assess whether all are necessary.

02

### Develop and implement an awareness strategy

This will create awareness among stakeholders of what their obligations are. This should include having a training and communications plan for Global Fund staff and governance officials.

03

1

Background, objectives and executive summary

2

Integrity due diligence in its infancy at the Global Fund

3

Building blocks for effective integrity due diligence not in place

4

No risk assessment to inform integrity due diligence processes

5

Annexes

# Integrity due diligence processes not risk based

Processes deployed may not be cost effective

## Risk assessment

The Secretariat has not undertaken a formal organization wide risk assessment. Risk assessments ensures that integrity due diligence adds value by identifying and focusing due diligence to the areas and counterparties that pose the greatest risks to the organization.



Risk assessments help the Secretariat determine the:

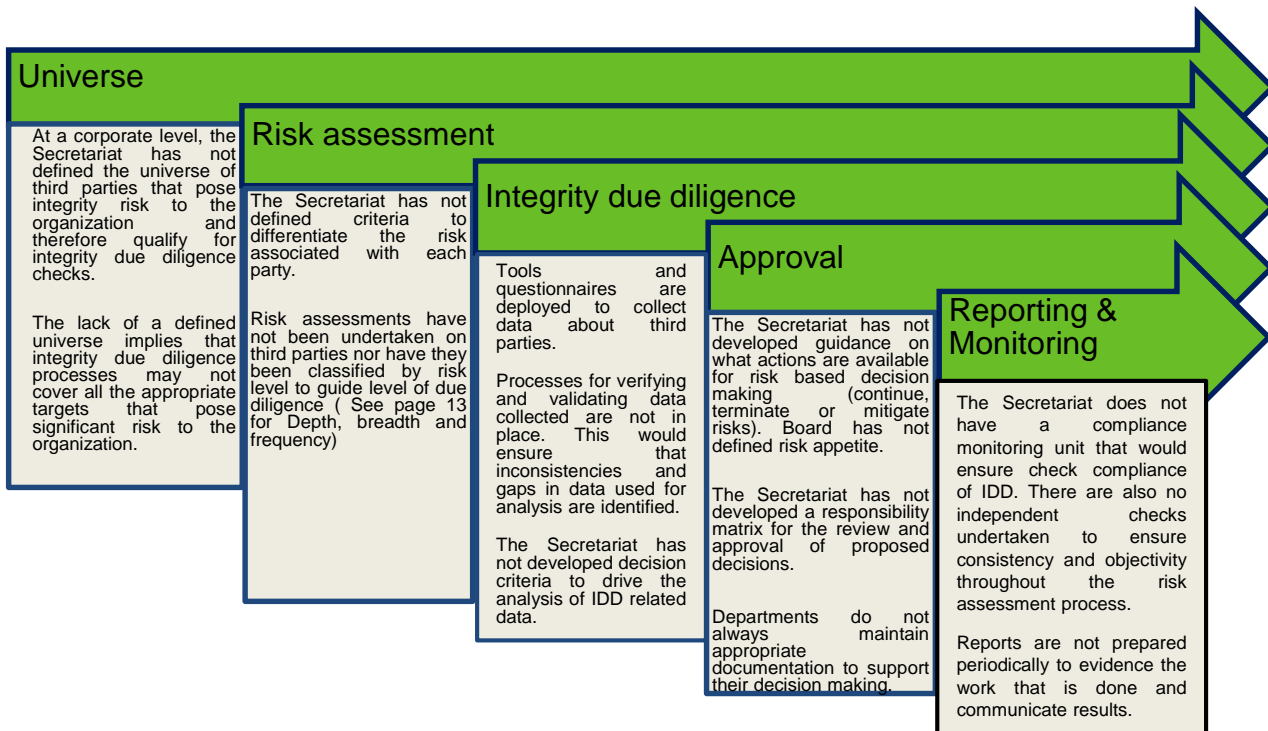
- **Breadth of integrity due diligence should be** i.e. how far the Secretariat should go. For example it would guide the determination whether only Principal Recipients should be the targets for IDD or whether this should be extended to lower levels e.g. sub recipients.
- **Depth, rigor or extent of due diligence** that should be employed for a given stakeholder. The different levels of rigor can be exempt, simplified, standard or enhanced depending on the assessed risk the target presents e.g. what rigor to employ to a UN principal recipient vs a national organization. (see annex 4 for options)
- **Frequency of integrity due diligence:** IDD has been mostly undertaken only at the start of the contractual relationship. Isolated cases of continuous IDD undertaken e.g. anti-terrorism checks before disbursements. Good practice however calls for IDD to be extended, on a risk basis, to continued scrutiny and screening, at regular intervals, throughout the contractual relationships.



# Risk based integrity due diligence process not in place

Processes deployed may not be cost effective

The Secretariat has not deployed a risk based integrity due diligence process at the corporate level. The diagram below maps Secretariat processes against a risk based due diligence process.



# Risk based integrity due diligence process not in place

## Consequences on integrity due diligence

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In the absence of an organization wide risk assessment:

- (i) IDD processes are deployed in functions that do not necessarily represent the areas with the highest integrity risks. In a resource constrained environment, this is not the most cost efficient of using available funds. For example:
  - All stakeholders interviewed perceived implementers as carrying the highest risk to the organization but IDD processes deployed in this area have been limited to mainly anti-terrorism screenings on banks and grant signatories at grant signing and before disbursements.
  - IDD on governance officials may be inadequate/ disproportionate when viewed in light of rapidly maturing IDD processes related to lower risk third parties to the organization e.g. staff given their substantially higher profile.
- (ii) The same level of due diligence is also undertaken regardless of the risk associated with targets. For example, due diligence processes have not been differentiated to take into account the increased risks presented by staff with a delegated management authority.

# Recommendations

## Recommendation 6

The Secretariat should develop a toolkit to guide the work related to setting up the integrity due diligence framework in the different Divisions. The toolkit should:

- i. Introduce the key concepts underpinning good integrity due diligence processes, and for linking these concepts to the value proposition for IDD in each division;
- ii. Include a focused methodology for (i) assessing key integrity risks posed by third parties in each division; (ii) reaching agreement on the appropriate level of integrity due diligence to be undertaken as a possible control; and (iii) assessing whether or not such a control is necessary, sufficient, and if not, what other approaches to risk management should be considered;
- iii. Templates for all relevant documentation required to communicate the integrity due diligence process in each division (templates should be consistent across all divisions); and
- iv. As part of the assessment and design of appropriate integrity due diligence, a summary of various systems and tools already available to the organization which can be deployed in the course of integrity due diligence.

1

Background, objectives and executive summary

2

Integrity due diligence in its infancy at the Global Fund

3

Building blocks for effective integrity due diligence not in place

4

No risk assessment to inform integrity due diligence processes

5

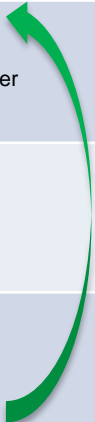
Annexes

# Annex 1: IDD at the Global Fund today

## Maturity of integrity due diligence

### Maturity matrix – where the Global Fund is vs where it wants to be (based on stakeholder interviews)

Optimized	Integrity due diligence is optimised to ensure that it contributes to decision-making at the organisation, so that operational and strategic objectives are met or exceeded, through best in class integrity risk management. Integrity due diligence is viewed as a value-add, over and above its core risk management objective.	
Actively managed	Integrity due diligence processes are actively managed and overseen with clear lines of accountability, policies and guidance. Decision making that is carried out before, during and after integrity due diligence is risk-based and proportionate, creating a mechanism which is robust and fit for purpose.	June 2018
Embedded	Integrity due diligence has been defined and is broadly embedded in everyday management practice However, there is insufficient supervision or management of these processes and/or integrity due diligence is not applied in a proportionate, risk-based and consistent fashion across the organisation. It is likely but uncertain that integrity due diligence will contribute to effective, risk-based decision-making in relation to integrity risks across the organisation.	December 2017
Initiated	Integrity due diligence processes have been defined through institutional policies approved by executive management and/or the Board. However, they are not applied consistently and are not fully embedded in everyday management practice. They are unlikely to ensure effective, risk-based decision making in relation to integrity risks across the organisation.	
Ad hoc	Integrity due diligence processes are documented in some parts of the organisation, as part of certain divisions' policies or guidelines. However, they have not been fully defined and/or are not approved by executive management or the Board. Processes are insufficient to ensure that the organization is able to make risk-based decisions on matters of integrity, and as such represent a vulnerability that may impact the organisation's ability to meet its objectives.	July 2016
Non-existent	Integrity due diligence processes are absent.	



## Annex 2: IDD at the Global Fund today

### Defining and prioritizing the universe for integrity due diligence (1/3)

Universe	Level of risk	Recommendation - What should GF do?
<p>Governance Officials</p>	<p><b>Yes.</b> because Governance officials operate in what might be termed a “conflict rich environment”. They also set the tone at the top</p> <p>Whilst the process for the identification, analysis and management of Col has been enhanced since 2014, significant improvements are still needed. IDD processes on governance officials are still relatively less mature in comparison to other third parties who may actually present a lower risk profile to the organization.</p> <p>IDD should therefore be a priority specifically in the management of conflicts of interest.</p>	<p>IDD process could be prioritized and remediated quickly and efficiently – i.e. through well sponsored intervention by the Ethics Officer – but the following should be borne in mind:</p> <ul style="list-style-type: none"> <li>▪ Adverse media checks are undertaken in to all employees joining TGF: if that is an accurate reflection of the organization’s risk appetite then Governance Officials should be subject to a greater degree of scrutiny.</li> <li>▪ Declaration (or better still, detailed disclosure) is an important point at which to educate and train on conflicts of interest. IDD should support that process, for example through identifying where conflicts have not been disclosed and using this as an opportunity to educate officials.</li> <li>▪ The “threat of IDD” can be a strong deterrent to unethical candidates: knowing that IDD may be undertaken can deter those who are aware that the findings will be negative. The Secretariat should therefore prioritize timing and messaging of the new process so that it allows candidates to opt out of a process before their candidacy is public knowledge, if possible.</li> <li>▪ The declaration forms can be reviewed to make them more reflective of the environment within which the Global Fund operates. Once completed, the Secretariat should analyze the information provided and take action where risks are identified.</li> </ul>
<p>Donors</p>	<p><b>No.</b> The processes in place are adequate. Once a risk assessment has been undertaken, the Secretariat can determine whether to adjust the processes deployed.</p>	<ul style="list-style-type: none"> <li>▪ This department has the most developed IDD processes in the Secretariat. It should be the first group of third parties to be assessed and should be considered the “benchmark” against which IDD in to other third parties can be judged.</li> <li>▪ A lot of the documentation is already in place that can be used as templates for guidance in other departments.</li> </ul>

# Annex 2: IDD at the Global Fund today

## Defining and prioritizing the universe for integrity due diligence (2/3)

Universe	Level of risk	Recommendation - What should GF do?
Grant Implementers	<p><b>Yes.</b> There is an obvious priority due to third party risks amongst implementer third parties and the ability of such risks to impact on the Global Fund's achievement of its objectives. Integrity due diligence processes are in their infancy in this division with anti-terrorism screenings on banks and grant signatories are</p> <p>Less obvious are the variety of controls that are already in place. In determining how to introduce integrity due diligence, it is important to first understand the information that is already collected and then assess what additional IDD processes can be introduced.</p> <p>A risk assessment should help streamline the extent of IDD that should be deployed to address different levels of integrity risk presented by targets.</p>	<ul style="list-style-type: none"> <li>▪ Discuss how integrity risk can best be integrated in to other assessment processes, and work out the true value of IDD to country teams (and how to pitch it to them). More than any other division, an integrated approach (adding value, alongside Risk) is going to pay the largest dividends.</li> </ul>
Employees	<p><b>No.</b> If anything, there may even be an opportunity to evaluate whether all current procedures are necessary. However, given that the cost is low, and the value high, so this is not an immediate priority.</p> <p>Consideration should be given to whether IDD measures are adequate for staff with delegated authority (managers) and for certain functions in the Secretariat.</p>	<p>The initiation phase should result in enhanced, but not dramatically different, procedures. This might include:</p> <ul style="list-style-type: none"> <li>▪ Differentiation according to the seniority and function of employees</li> <li>▪ Emphasizing ethics and values throughout process to which candidates are exposed, to avoid ill will.</li> <li>▪ Designing a remedial program that will subject existing employees to an appropriate level of IDD, over time.</li> <li>▪ However, given the low cost and high value of the current processes, this could be considered a low priority.</li> </ul>

## Annex 2: IDD at the Global Fund today

### Defining and prioritizing the universe for integrity due diligence (3/3)

Universe	Level of risk	Recommendation - What should GF do?
<p>Corporate Suppliers</p>	<p><b>Yes.</b> Overall, third party suppliers to the GF represent a broad universe of risk, with IDD being only a partial solution to identifying such risks.</p> <p>There are a few embedded IDD procedures in procurement, but there are strong advocates for it and a lot of individual effort from the department has been expended in the recent past.</p> <p>There are almost no third parties within the direct Spend (i.e. PPM) where IDD is both necessary and sufficient. Where significant risk exists, supply chain due diligence and site visits are arguably more relevant than IDD. There may be emerging integrity risks as the Global Fund's way of doing business changes e.g. the use of private sector for logistics</p> <p>For the indirect spend (i.e. Corporate procurement), the use of consultants (both organizations and individuals) is an obvious area of high inherent risk. The processes for IDD are emerging and they need to be enhanced to be relevant to assessed risks of relevant third parties.</p>	<ul style="list-style-type: none"> <li>▪ IDD is most relevant in the supplier ecosystem when used "in isolation" for consultants. Two likely risk factors to be prioritized here are political exposure and bribery and corruption risks; the hiring manager or department should be expected to provide a robust business case for each as part of the IDD process, with specific integrity risks addressed.</li> <li>▪ IDD is very likely to be assessed as being insufficient, and so the assessment is equally likely to evolve into the development of alternative mechanisms for supply chain risk management.</li> <li>▪ Given the advocacy for IDD (and alternatives, enhancements) in Sourcing, a project which is broader than the implementation of IDD could be prioritized and carried out in parallel to the work relating to more straightforward third parties.</li> </ul>



# Annex 3

## Options for ownership of third party integrity due diligence (1/2)

Option	Pros	Cons
<p><b>Legal and Compliance Department:</b> Typically in the private sector, organizations have their Legal and Compliance department taking responsibility for developing and overseeing IDD procedures. This is most obvious where (i) there are clear legal and regulatory reasons for doing IDD and (ii) the compliance function is sufficiently broad to capture organisational/ethical compliance in general.</p>	<ul style="list-style-type: none"> <li>▪ A strong focus on meeting legal and regulatory requirements for IDD is likely to result in a “minimalist” approach to IDD. Resources deployed on IDD would be kept as low as possible.</li> <li>▪ Should the organization decide to embed IDD even if not for legal or regulatory reasons, the Legal Department may not have appropriate resources and independent to analyze risks or subject matter expertise in overseeing IDD.</li> </ul>	<ul style="list-style-type: none"> <li>▪ In 2014, the Board decided to separate ethics and integrity matters from legal and compliance.</li> <li>▪ Legal department may not have the appropriate resources and independence to provide analysis (with regard to anti-corruption risks) or subject matter expertise in testing, verification and monitoring of operational teams’ due diligence.</li> </ul>
<p><b>Independent compliance function:</b> In a couple of IFIs, a centralized Business and Integrity Compliance team has been set up to ensure proportionate IDD is undertaken to a high standard amongst other responsibilities.</p>	<ul style="list-style-type: none"> <li>▪ The effectiveness and sustainability of IDD would necessitate a compliance function within the organization, with terms of reference that move beyond strict legal or regulatory compliance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ This only makes sense if the compliance function is cross cutting for the organization. In the absence of a much broader mandate, it may not be cost effective to set up a function just to oversee IDD. It would be effective to have resources deployed to manage and contribute to IDD, but probably with additional, valuable, responsibilities related to ethics and integrity.</li> </ul>

# Annex 3

## Options for ownership of third party integrity due diligence (2/2)

Option	Pros	Cons
<p><b>Ethics Department:</b> In some organizations, the ethics function or officer is the subordinate to other functions who have responsibility for aspects of an IDD program. This falls within an independent integrity and anti-corruption unit. It is therefore unusual to expect the Ethics officer or function, without a wider remit, to take on IDD in this way.</p>	<ul style="list-style-type: none"> <li>▪ In the Corporate risk registers, the ethics related risks is owned by this department.</li> <li>▪ This function is the subject matter expert on ethics and integrity with a mandate to ensure that ethics and integrity risks are effectively mitigated</li> </ul>	<ul style="list-style-type: none"> <li>▪ The fact that the Ethics function must provide assurance on the extent to which the Global Fund has fully and effectively implemented its ethics and integrity-related policies, codes and requirements, precludes the function from being involved in providing the oversight in the implementation of IDD. The terms of reference would need to be amended if this option was to be taken.</li> </ul>
<p><b>Risk department</b> This can be another 'natural home' for IDD. Several IFIs have IDD under the Risk Department.</p>	<ul style="list-style-type: none"> <li>▪ Overseeing IDD fits within the Risk Department's mandate to ensure that risks are effectively mitigated. This was also evidenced with its initiatives led the IDD project in 2013.</li> <li>▪ It can leverage on this role to lead the senior leadership in the execution of proper risk understanding and their ability to evaluate the possible implications of risk, including monitoring whether the decision has been made to accept or take risk beyond risk limits.</li> </ul>	<ul style="list-style-type: none"> <li>▪ It may undermine the Risk Management function in providing impartial, risk-based advice to teams where IDD is escalated in the case of significant issues.</li> </ul>

## Annex 4: Options for extent of IDD that can be undertaken

IDD	IDD Description	Possible Element
Exempt	Subject is exempt from IDD	N/A
Simplified	Typically, self-certification or declaration is required and very basic checks are undertaken (e.g. criminal records, terrorist financing)	Declaration, disclosure, sanctions records, watch list checks
Standard	Self-certification and/or declaration takes place, along with basic checks and a degree of public record research (e.g. adverse media checks)	Verification research, adverse media coverage, structured online information search, formal reference check
Enhanced	Detailed and comprehensive public record research is undertaken in to the subject, including regarding proximate areas of reputational risk (e.g. corporate footprint, sector exposure, political exposure etc.)	Detailed online research, corporate record retrieval (online), corporate record retrieval (manual)
Enhanced +	Based on decision, additional IDD (including intelligence-gathering) is undertaken	Lateral IDD, human intelligence (internal/external)

# Annex 5: Message from the Executive Director

The Global Fund prioritizes integrity, which is one of its core values. Integrity is the essential factor in all decision-making, governance, management of grants, hiring, procurement, auditing and other work at the Global Fund.

One critically important aspect of integrity is how the Global Fund safeguards investments with the goal of making every dollar count. We have zero tolerance for corruption or fraud and have many anti-corruption measures in place to prevent, detect and respond to it.

We conduct due diligence to assure ourselves of the capabilities of the organizations and people we work with. Within that, and as part of our anti-corruption efforts, we perform integrity due diligence (IDD) to enable us to know who we are dealing with, and avoid those with a reputation for corruption or unethical practices. For example, we check implementer and supplier details against sanctions 'watch-lists', we identify potential conflicts of interest, and we also perform thorough assessment of new private sector donors.

On the rare occasions that misspent funds are identified, the Global Fund pursues recoveries, so that no donor money is lost to fraud or ineligible expenses. In the most recent period for which accounting is available, the Global Fund had resolved more than 80 percent of the aggregate recoverable amount. Additionally, swift action is taken to address underlying weaknesses so that countries can prevent future risks.

The Office of the Inspector General (OIG) is a central and important part of preserving integrity, and the OIG conducts independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund.

The Office of the Inspector General's Advisory Report on Integrity Due Diligence recognizes the Secretariat's commitment to ethics and integrity, recognizes the substantial steps that have already been taken, and makes recommendations on further improvements. The OIG's primary suggestions relate to coordinating and systematizing IDD across the Global Fund Secretariat, and taking a more risk based approach so that we improve where we focus our efforts. These actions are planned in our ongoing continuous improvement activities.

The Global Fund operates with a high degree of transparency, and has been a consistent leader on transparency in global health. The 2016 AID Transparency Index ranked the Global Fund among the top five organizations and nations that are major donors of global aid for its transparency and accountability.

Integrity is a core value of the Global Fund, and IDD is an important part of making it real. We are grateful for the suggestions for improvements and will pursue them.