

Deloitte.

Report of actual findings of the
GGGI Assessment
Seoul/South Korea



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Report of actual findings regarding the GGGI - Seoul/South Korea assessment

Please find attached the final report for *the* GGGI - Seoul/South Korea assessment project.

REPORT OF FACTUAL FINDINGS

We have performed the procedures agreed with you in our call-of agreement dated 11 November 2013 which includes follow-up measures by Global Green Growth Institute (“GGGI”) over Board of Audit and Inspection of Korea’s (“BAI”) audit findings. Our engagement was undertaken in accordance with International Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by International Federation of Accountants (“IFAC”). The procedures were performed solely for the purposes of assisting Deloitte AS office in its reporting and are summarized as follows:

- (1) GGGI compensation regulations
 - a. Housing allowance
 - Confirm renewal of staff regulations has been appropriately approved at the Council
 - Review that revised staff regulations are adequately implemented by using sampling technique
 - b. Subsidy for child education expenses
 - Confirm renewal of staff regulations has been appropriately approved at the Council
 - Review that revised staff regulations are adequately implemented by using sampling technique
 - c. Allowance for participation of meeting
 - Inquire of any instances of payment
 - Review the G/L related to transportation, meeting and etc. for any exception
 - d. Seconded allowances
 - Review the status of development of the secondment policy
 - Confirm the new policy (if developed) has been reviewed and approved, any exception is managed according to the policy
- (2) Corporate vehicle management regulations
 - Confirm that the related regulation is setup and approved
 - Review that vehicle usage log is maintained appropriately
- (3) Corporate credit card regulation
 - Confirm that the corporate credit card guidelines are setup and approved
 - Obtain the corporate card usage status and review the usage has been adequately accounted for and be reconciled against the budget on a sample basis

- (4) GGGI procurement regulation
- Confirm procurement regulations & guidelines have been appropriately reviewed and approved at the Council
 - Review the status of hire of procurement officer
 - Confirm the standard contract form is used on a sample basis, for any exception, confirm that legal department reviewed and approved the exception
 - Review the procurement officer's monitoring activities and the track records of such activities
 - Review how M&E system works in GGGI
- (5) Business management method
- Inquire the current process of project management
 - Review the PMU organization and its control activities
 - Review the appropriateness of COP review by taking samples
 - Review the CRC's activities and the track records of such activities
 - Review how M&E system works in GGGI
- (6) Reinforcement of internal control system
- Review the hire process of internal auditor
 - Review the works and organization (the job description, recent activities and any internal audit reports) of internal auditor
 - Inquire the current stage of various policies development and its adoption in ERP (high level inquiries)

We report our procedures performed according to the work plan in appendix A.

Because the above procedures do not constitute an assurance engagement made in accordance with International Standards on Auditing, International Standards on Review Engagements, or International Standards on Assurance Engagements issued by the IFAC, we do not express any such assurance on the Financial Information.

Had we performed additional procedures or had we performed an assurance engagement of the GGGI's action plan on BAI's findings in accordance with International Standards on Auditing, International Standards on Review Engagements, or International Standards on Assurance Engagements issued by IFAC, other matters might have come to our attention that would have been reported to you.

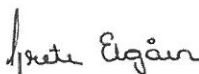
Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be filed with, or referred to (either in whole or in part) or otherwise quoted, circulated or used for any other purpose or to be distributed to any other parties. However, for the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties are specifically disclaimed. This report relates only to the matters specified above and does not extend to any other information, taken as a whole.

Please let me know if you have any questions.

This concludes the South Korea part of our GGGI assignment, which is one part of our call-off agreement dated November 11, 2013.

Thank you for the opportunity to support the Norwegian Ministry of Foreign Affairs (MFA) on this important assignment, and we look forward to working together on possible upcoming assignments.

Sincerely,
Deloitte AS



Grete Elgåen
Partner

Executive Summary

Main findings

1) Allowances & expenses

For the various allowances and expenses, our team could not find any issues for these areas. As far as we understand, BAI findings are mainly attributable to the pre-mature organization of KGGGI. In 2013 most of staff regulations and staff rules were revisited and approved and GGGI management & staff appear well aware of the importance of abiding by the rules. As GGGI has been in transition from old system to ERP, most of control processes are still heavily dependent on manual control processes, resulting in some human errors and mistakes.

2) Project management

The main issues of BAI reports were inappropriate management of GGP&I projects and outsourcing agreements. As we have been performing interviews and observing documentations, GGGI are now very strict in contracting the third party advisors by utilizing the bidding process. For effective project management, ODU (Organization and Delivery Unit) now has been actively involved in monitoring and evaluating the project. However, as ODU has been recently organized, it will take some time to be stabilized in the organization.

3) Hiring of important positions

GGGI has taken a leap forward in recent months regarding hiring for important positions, which will eventually result in the successful stabilization of GGGI. Based on the interviews and documentation, new hires appear to have a positive impact on GGGI.

Recommendation

- Financial performance of each country project along with the status of the project implementation needs to be monitored regularly.
- GGGI has put in a lot of efforts to set up an ERP system in recent months. Many control processes regarding project monitoring and evaluation are going to be integrated into this system. These control processes need to be reviewed to determine effective implementation.
- Also, an internal control function is now active. Donor countries may want to recommend GGGI to prepare regular internal audit reports issued to donor countries.

Conclusion

Based on our observation, we consider that the major concerns raised in the past have been followed up and going towards the right direction. However, as we only perform the follow-up status of major findings of BAI, we cannot determine the status of each individual country's project and budget status, weakness in financial reporting etc.

Appendix A

1) GGGI compensation regulations

a. Housing allowance

According to the BAI's report on its audit findings, housing allowances have been paid without clear standards and merely based on its monthly payment limit without ascertaining actual housing costs by copy of their lease agreement. In order to respond to this comment, GGGI renewed the Staff Regulations & Staff Rules.

We received the GGGI "Staff Regulations and Provisional Staff Rules" from [REDACTED], Deputy Director-General of Management & Administration ("DDG M&A") and confirmed that regulation was approved at the 2nd Council in Abu Dhabi and promulgated by the Director-General on April 1, 2013. During the interview with Senior Human Resources Coordinator, [REDACTED] according to the Staff Rules 4.3 Housing allowance, staff members in the Executive and Professional categories holding a fixed-term appointment of one year or longer who are not serving in their home country shall be eligible for housing allowance to reimburse them for costs incurred in renting accommodation at their duty station, up to yearly maximum established by the Council or its Facilitative Sub-Committee, as appropriate, in light of the Director-General's recommendation.

Additionally, in order to review adequacy of the staff regulation implementation, we obtained the list of housing allowances recipients and general ledger of housing allowance (COA 51103010) from January 1, 2013 to September 30, 2013 from the office management & protocol coordinator and selected two samples out of the list. And we examined documentary evidences including lease agreement regarding two samples selected. After checking their grade, base region, nationality, period of contract, we found no significant exceptions. Based on our observation, housing allowance is paid pursuant to the new GGGI Staff Regulations and Provisional Staff Rules.

b. Subsidy for child education expenses

According to the BAI's report on its audit findings, excessive amount of child education allowance was paid in a manner inconsistent with an employment agreement and retroactive application was made based on the modified employment agreement. This was a violation of the GGGI Compensation Regulation. In order to respond to this comment, GGGI renewed the Staff Regulations & Staff Rules.

We received the GGGI Staff Regulations and Provisional Staff Rules from DDG M&A and confirmed that the regulation was approved at the 2nd Council in Abu Dhabi and promulgated by the Director-General on April 1, 2013. During the interview with Senior Human Resources Coordinator [REDACTED] according to the Staff Rules 4.4 Education allowance, staff members in the Executive and Professional categories holding a fixed-term appointment of one year or longer who are not serving in their home country shall be eligible for education allowance to reimburse them for payments they make to an educational institution for the education of each child. This will last until the end of the academic year when the child reaches age 21.

Additionally, in order to review adequacy of the staff regulation implementation, we obtained the general ledger of education allowance (COA 51103020) from January 1, 2013 to September 30, 2013 from the office management & protocol coordinator and selected two samples out of the list. And we

examined documentary evidences regarding two samples. Based on our observation, child education allowance is paid pursuant to the new GGGI Staff Regulations and Provisional Staff Rules.

c. Allowance for participation of meeting

According to the BAI's report on its audit findings, allowance for the participation meeting has been paid despite the fact that there were no related regulations. In order to respond to this comment, GGGI renewed the Staff Regulations & Staff Rules.

We received the GGGI Staff Regulations and Provisional Staff Rules from DDG M&A and confirmed that the regulation was approved at 2nd Council in Abu Dhabi and promulgated by the Director-General on April 1, 2013. Based on the interview with Senior Human Resources Coordinator [REDACTED], no provision was made in relation to allowance for participation of meeting in the Staff Regulations and Provisional Rules. As a result, no allowance for participation of meeting is currently being paid to GGGI staff.

After scanning chart of accounts, we requested general ledger of Travel (DSA) (COA 51108030), which could be probably utilized for the recording of the allowance for the participation meeting if the allowance did occur. We observed that expenses are paid pursuant to the regulations by examining related documents of two samples selected and found nothing unusual. Based on our observation, no exceptional payments regarding the allowance for the participation meeting, which are against the policies, were made.

d. Secondee Allowance

According to the BAI's report on its audit findings, GGGI should have paid within the ceiling of KRW 1.5 million to the secondee who works at least one month or more at GGGI. However, secondee allowance was paid on a temporary basis for urgent external staffing. In order to respond to this comment, GGGI developed a policy titled 'Policy on Opportunity for Visiting Persons to and from GGGI' which was approved by Director-General on October 15, 2013.

We obtained the 'Policy on Opportunity for Visiting Persons to and from GGGI' from DDG M&A and confirmed that the policy was approved on October 15, 2013. According to the objective and scope described in policy, this policy outlines opportunities for external persons to visit GGGI and participate in its activities, and at the same time provide similar opportunities for GGGI staff member to visit other organizations, through structured assignments and within an overall development framework. After conducting an interview with Senior Human Resources Coordinator [REDACTED], we found out that no compensation has been paid except a small allowance to an intern pursuant to the policy.

After scanning chart of accounts, we requested General ledger of Dispatch allowances (COA 51103030), which could be probably utilized for the recording of the secondee allowance if the allowance did occur. We have observed that expenses under the account are paid pursuant to the regulations by examining related documents of two samples selected, and nothing unusual was found. Based on our observation, no exceptional payments regarding the secondee allowance, which are against the policies, were made

2) Corporate vehicle management regulations – inappropriate dispatch (or use) of vehicle

According to the BAI's report on its audit findings, non-standing director was provided with a vehicle for his exclusive use and maintenance expenses. In order to respond to this comment, GGGI adopted policy titled 'GGGI Vehicle Use and Reservation Policies' which was approved on April 1, 2013.

We obtained 'GGGI Vehicle Use and Reservation Policies' and a sample of GGGI Official Vehicle Usage Log from DDG M&A. We confirmed that the policy was approved on April 1, 2013. According to the policy, GGGI owned vehicles are provided for official business only and reservation for use of vehicles may be made in the GGGI internal reservation system. According to the interview with IT and Facilities Senior Manager [REDACTED], there are two corporate vehicles, one primarily for the use of the Director-General, and this along with another vehicle are used only for staff members' official business. IT and Facilities Senior Manager [REDACTED] manages the vehicle usage log on internal reservation system through online.

Additionally, in order to review the adequacy regarding the maintenance of the vehicle usage log, we obtained the current year vehicle usage log and examined documentary evidences related to two samples selected. Based on the review of vehicle usage log which contains requester, time of departure and arrival, destination, objective and general ledger of vehicle maintenance expenses (COA 51121000), no significant exceptions were found. In addition, we selected two requestors from vehicle usage log to verify whether they are approved drivers. We have also observed that vehicle maintenance expenses are paid pursuant to the regulations by examining related documents of samples selected. As a result, nothing unusual was found. We were able to conclude that the proper implementation is being placed in accordance with GGGI Vehicle Use and Reservation Policies.

3) Corporate credit card regulations – inappropriate use of credit card

According to the BAI's report on its audit findings, GGGI provided a corporate credit card to a non-standing director for business purposes and reimbursements were paid without ascertaining related documents. In order to respond to this comment, GGGI developed a policy titled 'GGGI Credit Card Usage Policy' which was approved by the Director-General on December 2012.

We received the 'GGGI Credit Card Usage Policy' and a template of 'Receipt of Individual Official Card' from DDG M&A, and during the interview with [REDACTED] Finance Department we were able to confirm the fact that the policy was approved by the Director-General. According to the 'Article No.3 Card Issuance and Distribution of GGGI credit card usage policy', credit cards shall be categorized as GGGI admin usage card and individual official card.

We have observed whether cards are issued pursuant to the regulations by examining related documents including 'Receipt of individual official card' form for the samples selected. Nothing exceptional was found.

In addition, on a sample basis, we obtained credit card usage record (card no. 4518 4442 xxxx xxxx) from 21 May, 2013 to 20 June, 2013 and related documents to make sure if they are spent reasonably within their budgetary limits and rules. Based on our review, the proper implementation is being placed in accordance with new GGGI Credit Card Usage Policy.

4) GGGI procurement regulation - Inappropriate management of procurement.

a. Setup of procurement regulations and guidelines

BAI recommended GGGI to reinforce Procurement regulations and carry out a more rigorous application.

In order to respond to this recommendation, GGGI draft procurement rules which were adopted as interim at the Council in January 2013 and finalized in June 2013.

In order to verify whether the Procurement rules exists and has been implemented, we requested and received the Procurement handbook from [REDACTED] the Office management & protocol coordinator. After we checked the existence of the handbook, we requested for the Minute of the Council meeting in which the Procurement rules were approved. Consequently, we obtained the Minute for the third session of the Council which was held on June 8 ~ 9, 2013 and verified that the Council has adopted the Procurement rules without objection.

b. The status of hire of procurement officer

BAI recommended GGGI to recruit a staff in-charge of procurement and contracts. This recommendation was to employ a manager who will monitor and supervise the entire procurement process, from bidding, supplier selection, contract negotiations, to contract conclusion, in addition to tightening applicable rules. On September 17, 2013 [REDACTED] was appointed as Senior Procurement Manager.

In order to verify [REDACTED] reputation and experiences, we received [REDACTED] resume and matched the newspaper articles wrote by him on the web. We also searched his profile on the web. In this process, we were able to authenticate [REDACTED] qualifications. When GGGI posted the announcement on recruitment for the procurement manager, organization required for candidates with ample knowledge on procurement and contract laws and at least seven years' experience in related affairs as a procurement and contract manager. GGGI also required an advanced university degree (mastercies, procedurivalent). After reviewing [REDACTED] resume and the interview regarding his knowledge and insight, we did not find any inconsistencies. Considering documents we inspected and interviews conducted mentioned above, we are reasonably convinced that [REDACTED] Procurement manager has been or will be involved in all procurement procedures from initiation to contracts made.

c. The use of standard contract forms & the procurement officer's monitoring activities and the track records of such activities

GGGI adopted more rigorous details of a standard contract forms, for any exception, the team is required to submit reasonable rationale for a failure to use it to the Legal team for further review and approval.

Upon BAI recommendation for GGGI to make downward adjustments regarding optional contract limits to expand open competitive bidding, GGGI setup the revised Procurement

regulation which lowers the allowable limits for an optional agreement and prevents abuse of an optional agreement by requesting that a specific cause to be provided for the breach.

In order to verify whether GGGI complies with the regulation, we requested and received a list of outsourced contracts which were initiated after the Procurement regulation was adopted which was June 8, 2013. We selected two samples as below, for the samples selected, we requested the bidding notifications (if any), copies of the respective contract etc.;

#1 Doosung A&C (Serial number LD-K-64-28062013) : outsourcing contract

Contract with Doosung A&C was for maintenance of IS system and the payment total is worth KRW 6,400,000 which is approximately USD 5,522. According to the Procurement rule, contracts up to USD 7,000 are subject to contracted directly and should be monitored by the Procurement manager with approval by Deputy Director-General of Management & Administration (“DDG M&A”) according to the Delegation of Authority (“DOA”). Contract and the approval form were obtained from GGGI. We verified the total payment amount from the contract. We also were able to verify the approval made by the DDG M&A by the approval form (Memorandum) in this case ~~DDG M & A~~. Since the contract was signed in June of 2013, Procurement manager was not present at that time. Consequently, Procurement manager was not involved in the overall monitoring process. However, we do not believe it will cause a material difference to our conclusion. We also reviewed the contract to verify whether it was accordance with the standard contract. All the basic elements required by the standard contract were included in the contract.

#2 Consultation titled ‘Urban Green Growth Strategies for Indian Cities’

After ~~████████████████████~~ Procurement manager joined GGGI in September 2013, there are three major outsourced consultation projects which need to be scrutinized by Procurement manager. We have chosen ‘Urban Green Growth Strategies for Indian Cities’ project as our sample, as this project is the most progressed among others at this point. Since the arrival of ~~████████████████████~~ Procurement manager and the establishment of the new Procurement process mentioned above GGGI has implemented a new system regarding Procurement. We were able to obtain a general description regarding this matter by interviewing ~~████████████████████~~ Procurement manager. Upon reviewing the new procurement process, we were able to obtain the fact that all the procurements are being monitored by the Procurement manager in accordance with the Procurement rules and DOA, and the Monitoring and Evaluation Reporting including procurement as part of project management is also performed by Organization and Delivery Unit (“ODU”) for all GGGI projects. As such, procurement is reviewed by Procurement manager initially and then by head of ODU for re-checking. This way Procurement monitoring is executed in two ways. This seems to be an improvement from the previous practices in which there was no Procurement manager.

In order to verify whether the bidding process has taken place pursuant to the policy regarding the 'Urban Green Growth Strategies for Indian Cities' project, we inspected the following;

- Memorandum to the CFO (Procurement manager was not present at that time) by the project team requesting an initiation of the procurement process to select a consulting firm sent September 23, 2013 and the templates of the Request for Proposal ("RFP") (Main document, Technical form, Financial form, Standard contract) were prepared in compliance with new procurement rules.
- RFP for posted on the GGGI web site in compliance with new procurement rules.
- Q&A sent or received via e-mail of [REDACTED] Procurement manager and checklist prepared by [REDACTED] Procurement manager to determine the validity of the tenders processed.
- Tenders were either accepted or rejected upon the valid timeframe and the submittal of necessary forms.
- Financial and Technical forms segregated by Procurement manager for the purpose of enhancing independent judgment of each, and tender opening report prepared by Procurement manager which sent to Procurement committee members via e-mail on 12 November, 2013 in compliance with new procurement rules.

Procurements under USD 500,000 will be decided upon the completion of the review of financial & technical aspects, but in regards of procurements over USD 500,000 there will be an additional Contract Review Committee ("CRC") to make final decisions. Therefore, in these cases Technical and financial committee will only take an advisory role. However the CRC was not held until now because there were no contracts over the threshold.

d. Review process by bidding assessment committee (Procurement committee)

BAI recommended GGGI to set up a more rigorous review of the details of agreements. The recommendation also stated that GGGI to divide the Bidding Assessment Committee into the Contract Review Committee, Technical Committee, and the Financial Committee to maintain independence of each Committee and to cause the Contract Review Committee to monitor and supervise the overall bidding process.

'Urban Green Growth Strategies for Indian Cities' project was progressed up to this point where the Technical committee was held. We obtained documents from Procurement manager to verify whether the proper procedures were taken. Our examination of the process is summarized as below;

- Memorandum from [REDACTED] Procurement manager to Technical Committee Members was sent for 'Appointment of the Procurement Committees' on 11 November, 2013, stating the fact that members are selected according to the Procurement rule. Document titled 'Declaration of impartiality and confidentiality' signed by each members. We also inspected proposal evaluation sheets graded by each member.

Based on the inspections and interviews we made regarding Technical committee, no significant exceptions in connection with our understanding bidding assessment committee were noted.

5) Reinforcement of business management method & establishment of quality control system

BAI recommended GGGI to adopt a more stringent review of the GGGI's application of Core Operating Process ("COP") and formulate a corresponding business management and supervision method and to tighten transient examination of the scope of planned services for each project and the actual scope of contract regarding an outsourcing contract in particular, assessment of the level of deliverables utilization, and review of the effectiveness of projects themselves. There were also recommendations to establish a Monitoring and Evaluation ("M&E") system. As corrective action, As of Q2, 2013, all projects have now submitted COP documents relevant to the status of the project. A new Portfolio Management Unit ("PMU") has been created to oversee the management of all the processes related to the project cycle, and to provide senior management with regular status update on the portfolio of GGP&I projects.

After conducting an interview with [REDACTED] the Head of ODU we found out that the PMU has been transformed into Organization and Delivery Unit ("ODU"). This fact was confirmed by the new organization chart provided by GGGI. Compared to PMU which was governed by the Deputy Director-General of Green Growth Planning & Implementation ("DDG GGP&I"), ODU is governed by DDG M&A. This allows the unit to be more independent because they are segregated from the programs. During the interview, we obtained general knowledge regarding the overall Monitoring & Evaluation ("M&E") process.

ODU's framework for M&E uses COP documents as the foundation. All teams are required to produce COP documents for their projects. These documents include:

- A project description (brief for the scoping phase and a full project document for the delivery phase explaining the rationale for the project)
- A project log frame defining a clear results framework.
- A work plan describing the key activities, timeline and milestones that can be monitored.
- A detailed budget that includes contract award and disbursement projections; as well as, staff resource requirements. This is also updated periodically and at a minimum annually.

Once projects have begun implementation, they are monitored on a quarterly basis. Teams produce Quarterly Implementation Status Reports ("QIR") within one month of the end of every quarter. The QIRs are reviewed and compiled by the ODU M&E team to produce the Quarterly Portfolio Reports ("QPR"). At the end of the project, End-of-Project evaluation report is prepared.

Based on the interview with [REDACTED] ^{HEAD OF} ODU has been hiring more personnel in order to conduct further project review in terms of achievements and projects' budget execution. In 2014, ODU staff will conduct review missions to each project in the countries (within the budget limitations). These review missions will be for both monitoring and evaluation purposes. The review missions will have detailed terms of reference and checklists of mandatory items to be addressed.

With assistance of [REDACTED] ^{HEAD OF ODU} we reviewed the following documents for the selected projects to examine the above procedures are in place.

For the COP documents of Mongolia_053013 project;

- we examined the document 'PP1-A-F1 Project scope and description' for the project description,
- we inspected the document 'PP1-B-F1 Project log frame' for the project log frame defining a clear results framework,
- we inspected the document 'PPI-B-F2 Detailed project proposal' for the work plan,
- we inspected the document 'PPI-B-F3 Project work plan and budget' for the detailed budget.

Above COP documents we obtained are all approved by DDG of GGP&I in accordance with former process. As ODU has been organized recently, we couldn't obtain the track record of new review process,

No significant exceptions in connection with our understanding of GGGI's project management were noted.

For the QIR, we inspected the document 'Demonstration of the Eco-town Framework in the Municipalities of San Vicente in Palawan and Siargao Island in the Philippines (Report No: QIR 13 003)'.
For the QPR we inspected the document 'GGP&I and Research Portfolio/Sequence: Q2 2013(Report No: QPR 13 002)' – this QPR is under review at this point.

For the End-of-Project evaluation report we inspected the document 'PP4-A-F1 End-of-Project evaluation report of Ethiopia country program, climate resilience (Phase2)'.

No significant exceptions in connection with our understanding of GGGI's project management & M&E process were noted.

Pertaining to the documents we inspected and interview conducted, ODU is still at the early phase of full operation. We were reasonably convinced that the M&E process is progressing to a positive direction.

6) Reinforcement of Internal Control System – Inappropriate internal control system

a. Organization and Operation of the Audit and Finance Sub-Committee

BAI recommended GGGI to put in place an effective internal control system that can prevent the inefficient execution of budgets in the organizational operation due to the reckless pursuit of projects and inefficient operation of the organization. In order to respond to the BAI recommendation, the Audit & Finance Sub-Committee of The Council (“AFSC”) was formed and is currently active. In the meeting of the Transition Committee convened on November 20, 2012 to pursue conversion of the GGGI into an international organization as delegated by the Council, a plan to form the Audit and Finance Sub-Committee as an organization subordinate to the Council was proposed.

In order to verify whether the AFSC of The Council was formed and has been implemented effectively, we requested and obtained ‘Terms of Reference for the Audit & Finance Sub-Committee of The Council (“AFSC”) and the Minutes of the AFSC meeting. According to the Terms, the AFSC is established pursuant to Rule 17 of the ‘Rules of Procedure of the Council’. Its function is to assist the Council in carrying out its responsibilities in overseeing the GGGI’s financial reporting and audit procedures and outcomes. The Sub-Committee shall consist of not more than 5 members of the Council. The Sub-Committee shall meet as deemed necessary, but not less than twice per year and any written reports of the Sub-Committee on its activities, conclusions or recommendations shall be circulated to the Council.

We also obtained and examined the Minute of the AFSC meeting. We obtained the Summary of the fourth meeting of the AFSC which was held on October 28 ~ 29, 2013 in Seoul. The key agenda points of this meeting were about the budget, external auditor and the Office of the Internal Audit and Integrity.

b. Development of policies and procedures

In order to respond to BAI recommendation, GGGI have developed the various key policies as follows;

| No | Document Name | Date of adoption |
|----|---|------------------|
| 1 | Staff Regulation & Provisional Staff Rules | 4/1/2013 |
| 2 | Policy on Opportunities for Visiting Persons to & from GGGI | 10/15/2013 |
| 3 | GGGI Vehicle Use & Reservation Policies | Apr. 2013 |
| 4 | GGGI Corporate Card Usage Policy | Dec. 2012 |
| 5 | Procurement Rules | 6/8/2013 |
| 6 | Charter for the Office of the Internal Audit and Integrity | 9/11/2013 |

There are several policies and guidelines currently being reviewed, developed or pending approval. More detailed policies and procedures to set the common business process are developed and implemented through the ERP system.

c. Installation and Operation of a Dedicated Internal Audit System

- Installation of Office of Internal Audit and Integrity

In order to respond to BAI recommendation, GGGI established the Office of Internal Audit (“OIA”) in April 2013 to support the Council in fulfilling its oversight responsibilities. The OIA performs independent objective monitoring and evaluation of GGGI’s operations. On September 11, 2013, The OIA changed its name to Office of Internal Audit and Integrity (“OIAI”) and updated its charter to better reflect and customize the monitoring and evaluation of “integrity” into the role of the office. OIAI conducts audit projects in accordance with a risk-based annual internal audit plan approved by the AFSC. Upon completion of each audit, OIAI issues a report including observations, recommendations, and management’s responses accompanied by the action plan to the AFSC. OIAI periodically updates its activities to the Director-General and the Chair of the AFSC.

In order to verify the design effectiveness of OIAI, we requested and obtained the document ‘Charter for office of internal audit and integrity’. This Charter sets out the purpose, authority and responsibility of OIAI. The mission of OIAI is to assist the Council in fulfilling its internal oversight responsibilities of GGGI. Scope of OIAI activity includes the review/investigation of (a) financial, physical and human resources in relation to their economic acquisition, efficient utilization and adequate protection, (b) reliability, integrity and timeliness of financial, managerial and operational information, (c) effectiveness and efficiency of GGGI programs and operations, (d) existence and adequacy of the secretariat’s annual risk assessment process, (e) adequacy and effectiveness of ongoing internal control system, procedures and other relevant monitoring activities by process owners, (f) compliance with laws, regulations, policies, procedures, contracts, agreements, directives and resolutions from the Council, other legislative mandates and related administrative directives, and approved recommendations of external oversight bodies, (g) misconduct including, but not limited to, fraud, corruption, or abuse of authority. This Charter was approved in September 12, 2013 by Director-General, and September 13, 2013 by Chair of the AFSC.

- Independence and the appropriate competence of Internal Auditor

GGGI hired an internal auditor who will take charge of the auditing and report its activities to its decision-making bodies such as the General Assembly and the AFSC. In accordance with the Charter for OIAI, OIAI is led by the Chief Internal Auditor (CIA) who reports functionally to the AFSC and administratively to the Director-General. On April, 2013, GGGI hired [REDACTED] to act as the Chief Internal Auditor.

INTERNAL
AUDITOR

In order to verify independence and appropriate competence and capability of the Internal Auditor, we examined the hire process and the background and work experience of the internal auditor. We requested and obtained a job opening notice for internal auditor from HR department. This document includes the introduction about GGGI, job description and qualifications. Also, we received the resume of [REDACTED] Internal Auditor, and conducted an interview with her. [REDACTED] Internal Auditor is a Certified Public Accountant (US CPA) with more than 12 years of professional, hands-on working experience in finance, accounting, internal and external audits, Section 404 Sarbanes-Oxley (SOX) Act engagements, fraud investigations, litigation consulting services and so on. Internal Auditor had experiences as an internal or external auditor in several global companies. By examining documents and inquiring, no significant findings which might impair the independence and the appropriate competence of the Internal Auditor were noted.

- Internal Audit Activities

In order to verify the operation effectiveness of Office of Internal Audit and Integrity (OIAI), we requested and obtained Internal Audit Reports in 2013. Reports issued in 2013 by OIAI Chief Internal Auditor are as follows;

| Name of Report | Reported date | Approved by |
|--|--------------------|-------------------|
| Review of Code of Conduct (Note 1) | August 28, 2013 | Chair of the AFSC |
| Review of Funding Agreement Management | September 30, 2013 | Chair of the AFSC |

(Note 1) OIAI concluded that GGGI's existing Code of Conduct in terms of its content and implementation needs improvement. Observation and recommendations on this report are based on benchmarking from other treaty-based international organization and leading global companies. OIAI prepared a planning memo and distributed an audit notification letter to the Management. Prior to starting the fieldwork, OIAI had a kick off meeting with process owners and communicated the objectives and scope of this review. Action plans has been developed by management for the agreed observations identified during OIAI review to improve existing processes and controls, minimize business risks, and/or improve the efficiency and effectiveness of current procedures. OIAI will perform follow-up procedures to assess the status of the action plan for the commented observations listed in this report. OIAI will communicate the results of their periodic follow-up procedures to Director-General of the Secretariat and the chair of the AFSC.

In addition to the above reports, additional two internal audit reports are under review process, these review reports are about Staff R&R and Contract Management.

We examined the process for approval of OIAI review reports, and examined that all issued review documents were reported directly to, and approved by Chair of the AFSC.

At present, OIAI consists of 1 person (Chief Internal Auditor). And there are no regular staffs. Chief Internal Auditor performs co-works with 3rd party Internal Audit Service Provider ("IASP").

