



Investing in our future

**The Global Fund**

To Fight AIDS, Tuberculosis and Malaria

# **Report of the Finance and Audit Committee**

*Fifteenth Board Meeting  
Geneva, 25-27 April 2007*

# Topics

- Financial Matters
- Transition from the Administrative Services Agreement with WHO
- Resource Mobilization

## Financial Matters

(Part 1 of FAC Report)

- 2006 Budget Performance and Audited Financial Statements
- Development of a Budget Framework
- Amendments to policy following establishment of Rolling Continuation Channel

# 2006 Budget Performance

## Operating Expenses

**Secretariat Expenses**

**LFA Services**

Sub-total

Efficiency target

**Total Operating Expenses**

### January-Dec 2006 (12 months)

Actual \$m	Budget \$m	Variance \$m      As % of budget	
52.0	66.2	14.2	21%
23.9	22.8	(1.1)	-5%
75.9	89.0	13.1	15%
0.0	(2.5)	(2.5)	
75.9	86.5	10.6	12%

**Actual  
Jan-Dec  
as % of  
Year's  
Budget**

**79%**

**105%**

**85%**

**88%**

- Spent \$10.6m (12%) less than budget
- Operating expenses at \$76m were fully covered by investment income of \$126m

# Budget Variances

**LFA Fees** \$1.1m (5%) more than budget

- Spent \$2.9m less than estimated, which is \$1.1m less than the \$4m savings target (as advised to 14<sup>th</sup> BM)

**Secretariat Expenses** \$14.2m (21%) less than budget

- \$9.0m saving on staff costs, professional fees and travel
- \$3.4m saving on office rent, infrastructure and utilities, and communication expenses
- \$1.0m contingency not needed
- \$0.8m donations received towards operating expenses

Significant factor: new staff starting later than planned, prior to strengthening of HR team in 2006

**>> Overall saving of \$10.6m (12% of total budget)**  
after meeting the \$2.5m efficiency target

# Operating expense ratios

Key Ratios	2004	2005	2006
<b>Operating Expenses as % of:</b>			
Total Expenditure	4.9%	3.8%	→ 4.0%
Grant Disbursements	7.0%	5.8%	→ 5.8%
Grants Under Management	2.2%	1.7%	→ 1.4%
Operating Expenses per Active Grant	\$241k	\$222k	→ \$222k

- 2006 key ratios are (almost) static, compared to 2005

# Achievement of KPIs for 2006

## Of the 15 KPIs set by the Board for 2006:

7 at 100%+

3 at 90% - 99%

3 at 85% - 89%

1 at 78%

(1 to be measured by staff survey in April 2007)

**FAC observation:** timely to review and refine KPIs especially with regard to grant management indicators

# 2006 Audited Financial Statements



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- Audited by Ernst & Young:
  - “True and fair” opinion
  - Free of any qualification
- E&Y partner-in charge attended the FAC meeting, explained the audit processes and observations and responded to queries
- E&Y management letter was circulated to the FAC
- FAC agreed to recommend approval of the 2006 Audited Financial Statements



# Decision Point 1

**The Board approves the 2006 Financial Statements of the Global Fund which have been audited by Ernst & Young, attached as Annex 3 to the Report of the Finance and Audit Committee (GF/B15/8).**

There are no material budgetary implications for this decision

## **Background:**

- 14<sup>th</sup> BM asked the FAC to implement its recommendation to establish a framework to guide consideration of Secretariat resource needs
- The framework should take account of an external evaluation of staffing structure and size (to be commissioned by the ED), and incorporate appropriate budgetary parameters

## **FAC observation:**

- Since staffing needs are largely determined by activity levels that also influence LFA services and other expenses, the consultants' brief should include making recommendations on the budgetary parameters.

# Development of a Budget Framework



## Status:

- External evaluation to be initiated by ED
- Outputs likely to be available only by Sep/Oct 2007
- Can inform FAC review in Sep of 2008 budget
- Framework to fully drive budget for 2009 and beyond

# Amendments to policy following establishment of RCC

## Background

- 14<sup>th</sup> BM established Rolling Continuation Channel
- Asked FAC to recommend resultant amendments to Comprehensive Funding Policy and the Phase 2 Prioritization decision

## **FAC proposes a revised CFP that:**

- Incorporates the changes requested by the 14<sup>th</sup> BM
- Also incorporates the decisions of the 7<sup>th</sup> BM regarding prioritization in resource constrained environments and the use of promissory notes
- Assumes RCC-II has priority over RCC-I

# Order of Funding Priority

- 1. Phase 2** (& Continuation of Funding for Treatment)
- 2. RCC – II** (second 3 years of RCC)
- 3. RCC – I** (first 3 years of RCC)
- 4. Rounds-based proposals**

# Decision Point 2

- 1. The Board approves the amendments to the Comprehensive Funding Policy, as amended at the Thirteenth Board Meeting, as presented in Annex 5 to the Report of the Finance and Audit Committee (GF/B15/8).**
- 2. The Board revokes the following decisions:**
  - (1) The decisions made at the Seventh Board Meeting regarding prioritization of funding in resource-constrained environments (GF/B8/2 p. 13-14);**
  - (2) The decision made at the Seventh Board Meeting regarding the criteria for considering promissory notes as assets (GF/B8/2, p. 16, decision point 6); and**
  - (3) The decision points 1 and 2 entitled “Phase 2 Funding” made at the Eighth Board Meeting regarding prioritization of Phase 2 funding (GF/B9/2 p. 9-10).**

There are no material budgetary implications for this decision

# Transactions on bank account Investment briefing (by Trustee)



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- **FAC reviewed** detailed list of individual transactions on Credit Suisse Bank account in 2006
- **Trustee** representatives briefed the FAC on investment options, in light of RMTT recommendation
- Investment return in 2006 was 4.54%

## Transition from Administrative Services Agreement with WHO

(Part 3 of FAC Report)



## Resource Mobilization

(Part 4 of FAC Report)

## Office of the Inspector General

(Part 2 of FAC Report)

Report of the Inspector General a.i.

- Analysis of remaining issues from OIG report on audit of Credit Suisse bank account transactions
- Review of IG reporting lines and TOR
- Recruitment process for the IG
- Publications policy for OIG reports