



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 14th 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 | <u>2004</u> | <u>2005</u> | | <u>2006</u> |
|-------------------------------------|-------------|-------------|---|---------------|
| Operating Expenses as % of: | | | | |
| 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:

- 14th 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

- 14th 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 14th BM
- Also incorporates the decisions of the 7th 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)

- **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)

Report of the FAC



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Resource Mobilization

(Part 4 of FAC Report)

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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