



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Sixteenth Board Meeting
Kunming, China, 12 – 13 November 2007**

**GF/B16/8
Decision**

REPORT OF THE FINANCE AND AUDIT COMMITTEE

OUTLINE:

1. This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 1-3 October 2007 and in subsequent communications, and its resultant recommendations to the Sixteenth Board Meeting.

PART 1: INTRODUCTION

1. This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 1-3 October 2007 and in subsequent communications, and its resultant recommendations to the Sixteenth Board Meeting.

PART 2: BUDGET 2008

Decision

Decision Point 1:

The Board approves the 2008 Operating Expense budget in the amount of US\$ xxx as set out in Annex 1 to the Report of the Finance and Audit Committee GF/B16/8 and proposed by the Secretariat.

The budgetary implications of this decision point amount to US\$ XXX in 2008 which includes an allocation for XXX staff positions.

1. The Board-mandated Organizational Review is a key element towards determining the appropriate size and structure of the Secretariat relative to workload. As flagged to the Board in April, the deferred appointment of the Executive Director delayed the Review. Hence findings and recommendations of the review will now be reported at the end of October, and a follow-on project will develop budgetary parameters for a framework to guide the budget size for future years. The 2008 budget estimates will be finalized in the light of the Review's recommendations and discussed in a FAC conference call on 6 November. A specially convened FAC meeting on 11 November will finalize the recommendation to the Board.

2. In advance of the Review's findings, the FAC considered the Secretariat's estimates for 2008 operating expenses and concluded, subject to consideration of further details and analysis requested of the Secretariat, that a budget in the range of US\$ 165 million to US\$ 177 million could be appropriate (an increase of 26% to 35% over the 2007 budget). At the upper end of the range, operating expenses would represent 6.2% of total expenditure (grants plus operating expenses) in 2008, or 1.7% of the value of grants being managed ('active grants').

- i. The lower end of the range (US\$ 165 million) provides for the increased volume and scope of activity in 2008 such as from Rounds 6 and 7, grant renewal (Phase 2 and rolling Continuation Channel), grant consolidation, increased demands for interaction with partners and stakeholders, and greater fundraising needs. It also includes correction of prior workload underestimates.
- ii. The upper end of the range (US\$ 177 million) provides for increases in grant activity upon commencement of dual-track financing and makes a tentative allowance for the increased costs of the LFA function after final contract negotiations.
- iii. The FAC recognised that all of the foregoing activities would have to be provided for within the budget, as well as any further measures deemed necessary after the Organizational Review is completed. However, the FAC cautioned that the Secretariat will have to prepare different options for implementation depending on the total budget voted by the Board in the light of the justification provided.

3. An adjustment to the budget may be necessary in 2008, when final contracts are let for administrative services and withdrawal from the UNJSPF is negotiated.

4. The budget to be recommended by the FAC to the Board following its meeting on 11 November 2007 will be described in Annex 1 to this report, which will be circulated separately immediately following the FAC meeting. Details will be provided at the FAC briefing session in Kunming on 11 November.

PART 3: TRANSITION FROM ADMINISTRATIVE SERVICES ARRANGEMENT

Decision

Decision Point 2:

The Board decides that the Global Fund shall discontinue the Administrative Services Agreement with the World Health Organization not later than December 31, 2008 (the “End Date”). Administrative and employment arrangements that will be in effect after that date shall be determined in accordance with the principles, processes and timelines that are described in Annex 2 to the Report of the Finance and Audit Committee GF/B16/8.

Pursuant to the above, the Board requests the Secretariat to propose a new cash balance pension scheme that shall provide safeguards for the interests of staff, to which Global Fund staff can be affiliated beginning on the date of termination of the WHO Administrative Services Agreement (the “GF Pension Fund”), and delegates authority to the Finance and Audit Committee to approve it by its March 2008 meeting.

The Secretariat shall notify the United Nations Joint Staff Pension Fund through the WHO that the Global Fund wishes to negotiate a transfer agreement between the UNJSPF and the GF Pension Fund, for submission to the July 2008 session of the UNJSPF Board.

The budgetary implications of this decision point amount to a maximum of US\$ 18.4 million in 2008 which includes an allocation for 7 staff positions.

1. Pursuant to the decisions of the Fourteenth and Fifteenth Board meetings, the FAC reviewed the paper on the costing of alternative administrative service arrangements for transition from the Administrative Services Agreement (ASA) with WHO (under which staff are employed and other administrative services are provided to the Fund by the WHO) and gave guidance on its finalization. The revised paper forms Attachment 1 to this report (within the separate folder of background information).

2. The Chair emphasized the need to be respectful of dissenting voices to the decisions of the Fourteenth and Fifteenth Board meetings regarding the decision that the Fund will discontinue the ASA and to be mindful of the significant stress among Secretariat staff about the separation. He stressed that the termination of the ASA would not mean the termination of the relationship and partnership with the WHO and the UN system. Having considered the logistical practicalities of putting in place employment and administrative arrangements to succeed the current arrangement, FAC concluded that it would be prudent to allow up to the end of 2008 to implement the new arrangements. Accordingly, the Global Fund should ask the WHO to extend the ASA through 2008. FAC recommends that the administrative and employment arrangements to be in effect after that date shall be determined in accordance with the principles, processes and timelines that are described in Annex 2 to this report.

3. With regard to the pension arrangements for Global Fund staff that will be necessary on transfer of their employment from the WHO to the Global Fund, the FAC, upon recommendation of consultants and the Secretariat, put forth that the Global Fund Pension Fund should be constituted as a cash balance pension scheme that shall provide safeguards for the interests of staff. If so decided by the Board, the Global Fund, through the WHO, should seek to negotiate a transfer agreement between the United Nations Joint Staff Pension Fund (of which WHO staff are members) and the Global Fund Pension Fund. Over time, it will be important for the Global Fund to define what type of employer it wants to be. This will be an ongoing process to which the principles and processes for separation will contribute.

4. One-time costs of up to US\$ 18.4 million will be incurred in 2008 in ensuring that staff receive full credit for prior pension contributions on transfer to the new Global Fund pension fund, and in establishing IT systems and administrative and employment policies and processes. The actual cost may be less than this, following transfer negotiations with the current pension fund.

PART 4: POLICY FOR DISCLOSURE OF REPORTS ISSUED BY THE INSPECTOR GENERAL **Decision**

Decision Point 3:

The Board approves the Policy for Disclosure of Reports Issued by the Inspector General, set out in Annex 3 to the Report of the Finance and Audit Committee GF/B16/8.

This decision does not have material budgetary implications

1. As requested by the Fifteenth Board meeting, the sub-group established by the FAC completed the development of a Policy for Disclosure of OIG Reports, with the consensus of the group. The group was composed of delegates of the Private Foundations (Chair), the World Bank and the United States, and the Inspector General *ad interim*, with expert advice from Deloitte and legal support from the Secretariat.

2. The FAC, in consultation with the PSC, has finalised the Policy as set out in Annex 3 to this report, which the FAC recommends to the Board for approval.

PART 5: THE GLOBAL FUND ASSURANCE FRAMEWORK **Decision**

Decision Point 4:

The Board thanks the Inspector General ad interim for his work on the development of the Global Fund Assurance Framework, and requests the incoming Inspector General to further develop the Assurance Framework for approval at the Seventeenth Board Meeting.

The Board requests the Secretariat to develop a Risk Management Framework in collaboration with the incoming Inspector General for review by the FAC in March 2008 (subject to the priorities to be established).

The Board requests the incoming Inspector General to develop a list of priorities for consideration by the Finance and Audit Committee for inclusion in the 2008 work plan of the Office of the Inspector General that will be presented to the Seventeenth Board Meeting.

This decision does not have material budgetary implications

1. The Global Fund Assurance Framework as further developed by Deloitte (engaged by the interim IG) was reviewed by the FAC with input from the PSC. FAC concluded that it would be best to complete the Framework following further development by the incoming Inspector General, for presentation the Seventeenth Board Meeting in April 2008, through the FAC in consultation with the PSC.

2. The FAC noted that the development of a Risk Management Framework by the Secretariat was an important element of the overall assurance framework and noted that the Secretariat and the incoming IG would collaborate to complete this in 2008 (if possible, for review by the FAC in March 2008).

PART 6: INFORMATION ITEMS

Forecast of Assets Available for Round 7

Information

1. The FAC reviewed the forecast of assets available that was compiled by the Secretariat in accordance with the Comprehensive Funding Policy and applying the methodology previously endorsed by the FAC. The forecast showed assets available for Round 7 of US\$ 1.9 billion, after providing for grant renewals in 2008. The forecast will be updated immediately prior to the Sixteenth Board meeting at which proposals for Round 7 grants amounting to US\$ 1.1 billion will be considered for approval.

Operating Expense Review (January-June 2007)

Information

2. Operating Expenses for the first half of 2007 had consumed 42% of the budget for the whole year (58% by the end of August). Performance against the Key Performance Indications set for the Secretariat was generally on track at the mid-year point. Activity will be greater in the second half of the year, as the signing of Round 6 grants is completed. Based on the foregoing, operating expenses for the whole year are expected to be within budget.

Resource Mobilization Matters

Information

3. The FAC welcomed the outcome of the Second Replenishment. Some members expressed disappointment at the level of private sector contributions; it was noted that the policy being developed for product and service contributions should enable greater private sector support.

4. The Steering Group to oversee development of the policy has been reconstituted drawing its members from the re-formed membership of the FAC and PSC, chaired by the Vice-Chair of FAC. A full-time project manager has been hired by the Secretariat to support the process. The policy will be proposed to the Board in April 2008.

5. Under the Board approved pilot, to explore the Debt2Health mechanism in four countries, a Framework Agreement between Germany and the Global Fund was signed in Berlin that can provide additional resources of US\$ 283 million through 2010 through Debt2Health conversions. Under the

first conversion, Germany cancelled €50 million and Indonesia pledged to contribute €25 million to the Global Fund. A conversion agreement between Germany and Pakistan is close to finalization and others are being explored. The contribution to the Global Fund is recorded as Debt2Health in the tables on contributions and pledges.

FAC Sub-group on Optimizing Investment Returns

Information

6. The FAC established a working group as requested by the Board following a recommendation of the Task Team on resource Mobilization. Four members of the FAC volunteered to serve on the working group, to be chaired by the Vice-Chair of FAC. Two external experts will later be appointed to the group, following a transparent selection process to be developed by the group. The group is charged with evaluating the investment of Global Fund resources only as far as options are consistent with current Board policies, notably the Comprehensive Funding Policy. Based on its experience, the group will later develop recommendations on structures for investment governance for recommendation to the Board in November 2008.

Update on UNITAID Roadmap

Information

7. The FAC noted that further work was required to ensure that strategic objectives are met at limited transaction costs and that the PSC (as the lead committee for this matter) had agreed that a decision on the Roadmap will be moved to the April 2008 Board Meeting.

Office of the Inspector General Matters

Information

8. As requested by the Board, the Inspector General Selection Panel has revised the OIG Charter and Terms of Reference, with the support of Deloitte and Touche. Due to the extensive overlap between the two former separate documents, the revised document combines both the Charter and the Terms of Reference in a single document. The document has been endorsed by the Inspector General *ad interim* and was finalized and approved by the FAC at its meeting on 1-3 October 2007, as mandated by the Board.

9. The FAC noted that while the ability of the Global Fund Inspector General to undertake investigations may be limited by applicable current arrangements with other parties (such as in the case of Principal Recipients that, following the UN 'single auditor' principal, do not allow others to inspect their records), the Global Fund legal counsel and OIG will work to revisit these arrangements and report to the FAC on improvements to IG access. The FAC was not satisfied that the Global Fund OIG can be refused access to PR operations.

10. The FAC reviewed and was satisfied with actions taken by the Secretariat to implement the recommendations of the Orna Report.