

Finance and Audit Committee

Amb. Louis-Charles VIOSSAT, FAC Vice-Chair

FAC Report Overview

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|---|------------------|
| 1. 2007 Financial Statements | For decision |
| 2. OIG priorities | For decision |
| 3. Transition to new administrative framework | For decision (3) |
| 4. New budget framework | For decision |
| 5. Five-Year Evaluation budget reallocation | For decision |
| 6. Debt2Health | For decision |
| 7. Risk Management Framework | For information |
| 8. Implementation of Recommendations of TERG | For information |
| 9. UNITAID Roadmap | For information |
| 10. AMFm | For information |

FAC Report – Part 1

Approval of 2007 Financial Statements

- Financial Statements **audited by Ernst & Young**
 - Auditors reported to FAC and answered queries
 - **‘Clean’ audit opinion, free of any qualification**
 - In 2008, audit scope will increase
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- **FAC recommends that the Board approve the 2007 Audited Financial Statements**

FAC Report – Part 2

Priorities for Office of the Inspector General

- **FAC welcomed the remarks of the IG and the Executive Director** regarding the **positive working relationship** between the OIG and the Secretariat.
- **FAC was appreciative of the good start achieved by the new IG** and of the work plan outlined within the proposed Priorities for the OIG
- **FAC reviewed the strategy and the 4 priorities proposed by the Inspector General for 2008-2009:**
 - Providing assurance on grant processes
 - Providing assurance on the main managerial processes in the Secretariat
 - Supporting key managerial and governance initiatives
 - Strengthening the OIG
- **FAC recommends that the Board approves the priorities of the OIG**

FAC Report – Part 3

Transition to new administrative arrangements

- The Sixteenth Board Meeting decided to **discontinue the ASA as of December 31, 2008**
- **Since then, extensive work has been done:**
 - **Extensive collaboration of management and staff** on implementing the transition, translating into widespread acceptance of the transition among staff
 - Many aspects with long-term implications for staff and the Fund raised and being worked through: **compensation and benefits, HR strategy, pension scheme**
- **Implementation of Board decision has been delayed due to several reasons**
 - **Need for benchmarking** of comparator organizations for compensation structure
 - **Contracting delays for master consultant**, who will start in May
 - **Need to move into new WHO IT system** prior to subsequent move to GF own systems
 - Lengthy process of **negotiating with UNJSPF**

FAC Report – Part 3

Transition to new administrative arrangements 2

- Secretariat and FAC concluded that **transition cannot be fully implemented by January 1, 2009**
- **FAC recommends (decision point 3) the best option possible, after negotiating with WHO, which is as follows:**
 - ASA would terminate as foreseen at end of 2008
 - Staff would be employed direct by Global Fund as of January 1, 2009
 - For an interim period up to September 2009 at the latest, GF would adopt WHO compensation structure
 - WHO would process compensation for GF staff using WHO's own systems
 - This option would allow GF sufficient time to fully develop its own compensation and benefits framework, negotiate pension fund arrangements and design and implement the IT and financial systems to put this into effect

FAC Report – Part 3

Transition to new administrative arrangements

- **FAC recommends also that the Board approves a decision point (DP 4) that delegates authority to FAC to approve rules to succeed those of WHO (HR, purchasing of goods and services, non-grant financial matters)**
- **This recommended delegation of authority is based on the strong need for clarity and visibility for staff as soon as possible and not after September 2008**
- **FAC will be guided by the following principles for the compensation and benefits structure (cf. annex 4):**
 - Single salary structure for all staff with a reduced number of grades
 - Broader range of remuneration within each grade to enable the introduction of performance-based pay
 - Simplification of allowance framework to bring more equity and transparency and cost reduction. Current staff will be grandfathered for certain allowances (education grant)
 - Benchmarking with a select number international organizations and Swiss private sector firms

FAC Report – Part 3

Transition to new administrative arrangements

- FAC will be also guided by **the following strategic priorities of the GF Human Resources Management Strategy**
 - Foster an organizational culture that reflects the **internal values of results focus, commitment, respect, teamwork and innovation**
 - **Attract, develop and retain highly skilled people** dedicated to health and development
 - Provide unique opportunities for professional growth linking learning with evaluation and recognition and contributing to the development of leaders in health and development
 - **Promote the well-being** of the organization's people and their families

FAC Report – Part 3

Transition to new administrative arrangements

- Finally, **FAC recommends that the Board approves a decision point that renews delegation of authority to FAC to approve the Global Fund Pension Scheme**

FAC Report – Part 4

Budget Framework: Purpose and Context

- Following Board request, **FAC recommends that the Board adopts a new Budget Framework** that:
 - **Guides formulation of annual budgets** for Operating Expenses
 - **Proposes simple parameters** for considering the appropriate size of the budget
 - Gives **more flexibility** to the Secretariat and **focuses FAC and Board on major shift in activities and priorities**
 - **Enhances the process** for formulating and reviewing budget proposals (as recommended by TERG)
 - **Caters for the budgetary context through 2011**, during which:
 - GF in development phase
 - Substantial growth is expected
 - Efficiencies are also expected
 - Uncertainties arise from new initiatives (DTF, NSA, grant architecture)

FAC Report – Part 4

Budget Framework: Recommendation

- **FAC approved the new Budget Framework that, inter alia:**
 - Bases annual budget proposal on brief, bottom-up workplan and zero-based budget that explains major shifts and strategic aspects
 - Provides **same level of detailed information** as of now
 - Recognises a ***normally acceptable budget size*** as being **6% of the total annual expenditure** (= 2008 level)
 - Requires additional justification if budget exceeds the *normally acceptable budget size*
 - Adds a **10% contingency** for unforeseen needs and budgetary implications of Board decisions made during the year
 - Allows, if approved by FAC, **budget carry-over** for activities postponed from one year to another
 - Assesses **staff numbers** by the current ratio of US\$ 8.8 million of annual grant commitments per employee
 - **Will link budgetary performance with achievement of KPIs.**
FAC will engage with the PSC process for developing Secretariat Key Performance Indicators for 2009

FAC Report – Part 4

Budget Framework: Recommendation

- **FAC also recommends** that, given the complexity of the subject and its “work in process” aspect, Budget Framework :
 - **be reviewed annually by FAC over the coming three years** as efficiencies emerge and uncertainties decline
 - **be amended by FAC as appropriate** (level of normally acceptable budget size, level of contingency..)

FAC Report – Part 5

Budget Reattribution (from 2007 to 2008)

- Board-approved budget for the Five-Year Evaluation: US\$ 17.1 million in 2007–2008.
- Of this, included in the 2007 budget: US\$ 12.6 million.
- Due to contracting delays, some activities (US\$ 6 million) originally planned for 2007 will now occur in 2008 instead
- **FAC recommends that the Board approves the reattribution of US\$ 6 million of the Five-Year Evaluation budget from 2007 to 2008**

FAC Report – Part 6

Debt2Health

- **FAC reviewed and was satisfied with good progress** that has been achieved:
 - Agreements signed or under negotiation with all participants in the pilot phase
 - First contribution expected in mid-2008
 - Additional creditor countries interested in participating.
- **FAC considered that the pilot phase might be expanded based on review and evaluation of experience current pilot phase**
- **FAC recommends that the Board supports exploration of additional opportunities for Debt2Health and that the Board may consider expansion of the pilot program in the future after review of current pilot phase**

FAC Report – Part 7

Information Items

1. Risk Management

- Framework is being developed; in 2008, a small number of priority areas to be identified and addressed
- In parallel, each Committee is asked to consider risks within its area of responsibility on an ongoing basis
- FAC will update the Board in November 2008

2. Implementation of Recommendations of TERG and the Organizational & Management Review

- FAC is satisfied with implementation progress to date

3. UNITAID Roadmap – now finalized

4. AMFm – FAC needs to have an oversight role