



Investing in our future

**The Global Fund**

To Fight AIDS, Tuberculosis and Malaria

**Seventeenth Board Meeting  
Geneva, 28 – 29 April 2008**

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**GF/B17/6  
Decision**

## **REPORT OF THE FINANCE AND AUDIT COMMITTEE**

### **OUTLINE:**

This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 26-27 March 2008 and in subsequent email communications, and its resultant recommendations to the Seventeenth Board Meeting.

## **PART 1: APPROVAL OF 2007 AUDITED FINANCIAL STATEMENTS**

## **Decision**

1. The independent auditors of the Global Fund, Ernst & Young, reported to the FAC on their audit of the 2007 Financial Statements, which form Attachment 2 hereto. The draft audit report expressing a 'clean' audit opinion, free of any qualification, is set out in Annex 1; the report will be issued once the Financial Statements have been approved by the Board, in accordance with normal practice.

2. The auditors outlined their audit procedures and responded to queries from the FAC. They confirmed that their management recommendations made in the previous year had since been fully addressed. One new recommendation was made for 2008 – to further enhance the process by which financial statements and related adjustments to comply with International Financial Reporting Standards (IFRS) are reviewed to mitigate potential audit differences. The auditors observed that this had been the smoothest audit to date and expressed their appreciation for the quality of the preparatory work by the Secretariat in advance of the audit.

3. The audit scope will increase in 2008 and beyond as a result of new Swiss requirements that require specific audit reporting on internal control systems, increasing IFRS disclosure requirements and, potentially, with regard to the Global Fund's own pension scheme, once established.

### **Decision Point 1: Approval of 2007 Audited Financial Statements**

***The Board approves the 2007 Financial Statements of the Global Fund which have been audited by Ernst & Young as set out in Attachment 1 to the Report of the Finance and Audit Committee (GF/B17/6).***

***This decision does not have material budgetary implications.***

## **PART 2: PRIORITIES FOR THE OFFICE OF THE INSPECTOR GENERAL**

## **Decision**

1. The FAC reviewed the strategy and priorities proposed by the Inspector General (IG) for his Office (OIG) in 2008 and 2009 (as set out in Attachment 2 and summarised in Annex 2 hereto). FAC welcomed the remarks of both the IG and the Executive Director regarding the positive working relationship between the OIG and the Secretariat. The priorities reflect the need of the OIG to provide assurance on all areas of Global Fund operations and were informed by a review of external and internal studies, visits by the IG to three implementing countries, consultations with Board members and Secretariat staff, and input from independent advisors.

2. The OIG priorities span four areas:

- i. Developing a body of country work to provide reasonable assurance on grant processes
- ii. Beginning and expanding audit coverage of the main managerial processes in the Secretariat, to provide reasonable assurance on each of them to the Board by 2011.
- iii. Supporting key managerial and governance initiatives in the Secretariat, to provide useful tools for management.
- iv. Developing appropriate capacity and operating protocols for the OIG to enable it to provide reasonable assurance to the Board.

3. The OIG work approach will include active collaboration with partner organizations, building multi-disciplinary teams within the OIG and the contracting-in of specialist services as needed with an emphasis on using local experience, knowledge and language. In addition to its audit and investigation roles, the OIG will seek to add value by documenting good practices and by providing catalytic support to management in its work in areas such as risk management, clarification of accountabilities (of Secretariat, LFAs, CCMs) and the promotion of values and integrity. The development by the Secretariat of its risk management framework will enable the OIG to develop an assurance framework.

4. The FAC noted that, in due course, reports issued by the OIG would be made available in accordance with Board policy and that none had yet been issued by the new IG since taking up office during January 2008. The IG expects to issue a number of reports during 2008. Regarding any matters other than reports, the Chair encouraged the IG to use his judgment to decide which matters should be brought to the attention of the FAC as and when the need arose.

**Decision Point 2: Priorities for the Office of the Inspector General**

***The Board approves the Priorities for the Office of the Inspector General as set out in Attachment 2 and summarised in Annex 2 to the Report of the Finance and Audit Committee (GF/B17/6).***

**This decision does not have material budgetary implications.**

**PART 3: TRANSITION FROM ADMINISTRATIVE SERVICES AGREEMENT (ASA) Decision**

1. Following the decision of the Sixteenth Board Meeting to discontinue the ASA, management and staff of the Secretariat have collaboratively engaged in detailed consideration of matters relating to compensation and benefits, HR strategy and the pension scheme, building a positive atmosphere towards the transition. The process has brought into focus many issues that have long-term implications for both staff and the Global Fund and which require considerable further 'working-through' in the spirit of trust that has been built. There is now widespread acceptance of the transition among staff, but some growing anxiety that many aspects remain to be worked through in what is becoming a short period.

2. A lengthy competitive process was undertaken to select a master consultant to oversee the transition. However, there were delays in the contract award process as a result of which the firm will commence work in May 2008. It was also recently confirmed that the Global Fund will have to transition to WHO's new IT system in June 2008, because it is not feasible to continue to use the existing IT systems until the end of the year. This means that staff will have to deal with that change before turning attention to the subsequent change into the Fund's own systems, while also transitioning to the new Secretariat structure and in advance of additional staff being in place to cope with increased workload. For these reasons, it is clear that the design and implementation of the Fund's own rules, processes and systems for human resources, purchasing of goods and services and administrative matters cannot be fully operational on 1 January 2009.

3. Because of the delayed systems development and the desirability of allowing the necessary time to conclude work on aspects of compensation and benefits, the Secretariat had asked the FAC to consider recommending an extension to the ASA. On exploring this possibility with the WHO, a further option was offered by the WHO, which the FAC recommends to the Board. Under this option, the ASA would cease on 31 December 2008 as planned, following which all staff would be directly employed by the Global Fund. By agreement with the WHO, the WHO, using its own systems, could

continue to pay the Global Fund staff, for an interim period, provided the staff were remunerated in accordance with the WHO compensation and benefits structure during that interim period.

4. That option would allow the requisite time to complete development of the Global Fund compensation and benefits structure, which would then be implemented in 2009. It would also enable the development of rules, processes and systems to be phased, such that the elements not related to HR could be implemented on 1 January 2009, and the HR-related elements completed in 2009 following completion of the compensation and benefits structure. The FAC recommends that the option be availed of for an interim period commencing on 1 January 2009 and ending not later than 30 September 2009, thus facilitating the cessation of the ASA on 31 December 2008.

5. So that approval of the new Global Fund rules (for HR and other non-grant matters) can proceed between Board meetings, the FAC proposes that the Board delegate to the FAC the authority to approve such rules both for the interim period and thereafter. During the interim period, it would be necessary to adopt elements of the WHO rules. It is proposed that HR-related rules for application during the interim period would be consistent with the principles for compensation and benefits and the strategic human resources management priorities set out in Annex 4.

6. The FAC proposes a continuation of the authority delegated to the FAC to approve the Global Fund Pension Fund. This would facilitate progress towards establishment of the Pension Fund and the Global Fund's application for a special transfer agreement with the UN Joint Staff Pension Fund.

### **Decision Point 3: WHO Arrangements**

***The Board accepts with gratitude the World Health Organization's offer to provide human resources services, based on WHO's pay scale and rules and regulations, following the discontinuation of the Administrative Services Agreement on December 31, 2008. Global Fund staff shall at that time be directly employed by the Global Fund. The Board requests the Executive Director to negotiate and enter into a legal agreement putting in place this arrangement, not to extend past 30 September 2009, by which time the Global Fund's own arrangements for Human Resources services shall be in place.***

***This decision does not have material budgetary implications.***

### **Decision Point 4: Human Resources and Financial Rules**

***The Board refers to its decision (GF/B17/DPn) to accept the World Health Organization's offer to provide human resources services during the period beginning on 1 January 2009 and ending not later than 30 September 2009 (the "Interim Period") and delegates authority to the Finance and Audit Committee (FAC) to approve appropriate human resources and related rules applicable to that Interim Period.***

***In addition, the Board delegates authority to the FAC to approve human resources and related rules consistent with the principles and strategic priorities set out in Annex 4 to the Report of the Finance and Audit Committee (GF/B17/6) which shall come into effect at the end of the Interim Period, and rules applicable to the purchasing of services and goods, and non-grant financial management which shall come into effect following the discontinuation of the Administrative Services Agreement with the World Health Organization on 31 December 2008. The Board requests the Executive Director to take all action, including the execution of legal agreements, required to bring into operation the Global Fund's interim and new administrative frameworks.***

***This decision does not have material budgetary implications.***

### **Decision Point 5: Pension Arrangements**

***The Board renews its delegation of authority to the Finance and Audit Committee to approve the Global Fund's cash balance pension fund, and requests the Executive Director to take all necessary action, including the execution of legal agreements, to establish the pension fund following such approval.***

**This decision does not have material budgetary implications.**

## **PART 4: BUDGET FRAMEWORK**

## **Decision**

1. The FAC recommends for approval by the Board a Budget Framework to guide the formulation of annual budgets for Operating Expenses of the Global Fund, as requested by the Board, as set out in Annex 3, with further background detail in Attachment 3. The Framework proposes parameters for considering the appropriate size of the annual budget and enhancements to the process for formulating and reviewing budget proposals.

2. The framework caters for the budgetary context of the Global Fund over the coming three years, during which it is expected to experience substantial growth from increasing grant volumes, evolution of grant management needs and additional mechanisms for channeling finance to fight the three diseases. The Fund will also play an expanding role in the global health architecture, necessitating involvement in matters beyond the core grant-making activities of the Fund. Efficiencies are also anticipated from factors including simplification of the grant architecture, streamlining of processes and the restructuring of the Secretariat. Hence it is proposed to keep the framework under review annually with a major review after three years.

3. Recognising the uncertainties inherent in such a development phase, the FAC concluded that budgetary needs should be assessed for reasonableness relative to a high-level indicator of activity: the value of total annual expenditure<sup>1</sup>. FAC noted the advice that any more granular measure of activity that relied on current levels of effort would be less reliable, while processes continued to evolve to meet expanding needs and gain potential efficiencies.

4. In determining the metrics to be considered as normal for the Global Fund, the FAC agreed to use the percentage that operating expenses are of total annual expenditure in 2008 although this is higher than in prior years<sup>2</sup> and to review this annually for the first three years. In reaching this conclusion, the FAC noted that historic levels for the Global Fund are significantly lower (in terms of budgetary need) than for other comparable organizations. The FAC was conscious that despite the lack of direct comparability with other organizations, such significantly lower ratios may indicate sub-optimal investment in management of the grant portfolio, including with regard to risk.

5. The framework proposes enhancements to the process for formulating and reviewing budget proposals that implement recommendations of the TERG and the Organizational and Management Review. The budget will continue to be formulated through a 'bottom-up', activity-based process. Summarised information will be presented to FAC for review that outlines with regard to each Cluster its strategic role, factors impacting its resource needs, comparison of budget and staffing with prior year and explanations of major changes. The FAC recognised the need to link KPIs to the budget framework and will engage with the PSC process for developing Secretariat KPIs for 2009 with a view to better linking budget inputs to KPI measurements.

<sup>1</sup> Total annual expenditure comprises grant commitments made during the year plus operating expenses.

<sup>2</sup> Operating Expenses represented 4% of total expenditure over 2005-2007; the expected percentage for 2008 is 6%.

6. The review process will focus review on the strategic factors impacting budgetary needs and prior year performance on KPIs, while requiring additional justification for any budget requests outside the norms suggested by the framework. A budget contingency is proposed that would obviate the need for budget additions in the course of the year.

**Decision Point 6: Budget Framework for Future Years**

***The Board approves the Budget Framework as set out in Annex 3 to the Report of the Finance and Audit Committee (GF/B17/6), which shall guide the formulation and consideration for approval of annual budgets for Operating Expenses of the Global Fund. The Board requests that FAC annually review the Framework for three years, and thereafter as needed, and report back to the Board, with recommendations for modifications as necessary. In conjunction with the PSC process that will recommend Secretariat KPIs for 2009, FAC shall explore how best to link the KPIs to the budget.***

**This decision does not have material budgetary implications.**

**PART 5: OPERATING EXPENSES 2007 AND BUDGET REATTRIBUTION TO 2008**      **Decision**

1. In reviewing Operating Expenses for 2007, the FAC noted that the expenditure at US\$ 114 million was 88% of the approved budget of US\$130 million. This was fully covered by investment income of US\$240 million, which reflected an investment return of 6.9% for the year. (See GF/FAC10/05)

2. Of the US\$16 million of unspent budget, US\$ 6 million related to the Five-Year Evaluation. The Board approved a budget of US\$17.1 million for the Five-Year Evaluation, spanning 2007 and 2008. Of the total budget approved, US\$12.6 was originally attributed to 2007. Due to delays in contracting with sub-contractors, US\$ 6 million less than planned was used in 2007 but this will be needed for the planned activities which will now be performed in 2008 instead of 2007. Hence the FAC recommends that US\$ 6 million of the budget be reattributed from 2007 to 2008.

3. Other savings as compared to budget were in respect of staff costs, professional fees and travel and meeting expenses, while office infrastructure costs exceeded budget. A net saving of US\$10 million in excess of the efficiency target resulted. The underlying factors were explained to the satisfaction of the FAC.

4. The FAC reviewed Secretariat performance as measured by the Key Performance Indicators as reported to the Policy and Strategy Committee. Of the 17 KPIs set for 2007, ten had been achieved by 90% to 100% or more; explanations were provided for the under-achievement of the other seven KPIs. (See GF/PSC9/06). The FAC will engage with the PSC work group that will undertake the revision of Secretariat KPIs for 2009.

5. The Secretariat provided the FAC with an update on key numbers as they currently stand, for pledges and contributions; grant approvals, commitments and disbursements; assets available for commitment and staffing. The FAC also received details of the transactions on the Global Fund bank account.

## **Decision Point 7: Reattribution of the Five-Year Evaluation Budget**

***The Board approves the reattribution of US\$6 million of the Five-Year Evaluation budget from 2007 to 2008.***

***This decision does not have material budgetary implications.***

(Note: Because this decision provides for a transfer of an approved budget amount from one year to the next, there are no incremental budgetary implications.)

## **PART 6: RESOURCE MOBILIZATION AND DEBT2HEALTH**

**Decision**

### **Resource Mobilization Update**

1. When approving the resource mobilization strategy in April 2007 (as recommended by the Resource Mobilization Task Team and the FAC), the Board agreed to review progress in November 2008. In advance of that, the Secretariat provided an interim progress update to the FAC. (See GF/FAC10/11)

2. The Second Voluntary Replenishment and subsequent follow-up with donors have assured the availability of funding for all grant renewals and an increased level of new grant approvals in 2008 – 2010; at least US\$ 2 billion will be available for Round 8, the largest amount ever forecast when calling for proposals for a new round. The Replenishment process opened up a dialogue on long-term pledges. In the lead up to the mid-term voluntary replenishment in 2009 the Secretariat is working with potential new donors amongst new EU member states, emerging economies and oil-rich states.

3. In the private sector, Product RED has raised over US\$100 million to date and the Corporate Champions Program has recently generated its first commitment for US\$30 million. A strategy being developed proposes continuing focus on these areas and additional effort on philanthropic support from foundations and high net worth individuals. This seeks to grow private sector contributions from the US\$ 200 million expected in 2008 to \$500 million per year by 2015. The FAC noted that while providing the acknowledgement necessary to encourage private sector contributions, it was also important to give due recognition to the continuing substantial support of public sector donors. The FAC asked to be updated at its meetings on the extent of restricted contributions, which it will keep under review. (See GF/FAC10/12)

4. The importance of co-investment was emphasised and it was noted that the new structure of the Secretariat has a team dedicated to this activity.

### **Debt2Health**

5. Under the Debt2Health initiative, the first beneficiary-creditor agreement has been signed and agreements are under negotiation with all other participants in the pilot phase. The first contribution to the Global Fund is expected in mid-2008, from Indonesia's pledge of Euro 25 million resulting from a Euro 50 million debt cancellation by Germany. The FAC discussed the issues of additionality, debt legitimacy and transparency. Additional creditor countries have expressed interest in implementing debt conversion. This would require the inclusion of additional beneficiary countries beyond the ones approved for the pilot phase. The FAC discussed whether the pilot phase should be expanded and concluded that this should be considered later in the light of further experience from the current debt conversion negotiations.

## **Product and Service Contributions**

6. The Joint Steering Group on Product and Service Contributions (drawn from members of FAC and PSC) chaired by the Vice-Chair of FAC has in its initial phase been conducting research and analysis supported by a working group of international experts. After further analysis of remaining issues, the group will soon commence development of a policy in consultation with key stakeholders for review by FAC and consideration by the Board in November 2008.

## **Optimizing Investment Returns**

7. The working group on Optimizing Investment Returns has concluded its search for pro-bono external expert advisors and selected three high caliber volunteers to support the development of a policy for review by FAC and consideration by the Board in November 2008.

### **Decision Point 8: Debt2Health – exploration of additional opportunities**

*The Board recognizes some early success in securing resources through Debt2Health and awaits the first contribution in mid-2008. Although the Board awaits specific data on aspects of the program, the Board supports exploration of additional opportunities. Based on additional data, the Board may consider expansion of the pilot program in the future.*

**This decision does not have material budgetary implications.**

## **PART 7: INFORMATION ITEMS**

## **Information**

### **Risk Management**

1. The Secretariat has engaged Aon Global Risk Consulting to support it in developing a Risk Management Framework, working in consultation with the Inspector General. Following an initial risk analysis, an implementation plan has been developed to guide development of the Framework. The timing of implementation will be impacted by factors such as changes to the grant architecture and the Fund's transition to its own administrative framework. A draft risk management policy had been developed, but it was decided to defer any recommendation to the Board until the framework had evolved further. (See GF/FAC10/7).

2. The FAC considered the implications of an accelerated, full-scale implementation including whether a dedicated risk management function should be created within the Secretariat. It concluded that, as a start, a small number of priority areas should be identified and addressed. In parallel with that, each Committee should be asked to identify and consider emerging risks within its areas of responsibility on an ongoing basis, with a view to limiting risk, supporting innovation and underpinning accountability. The FAC will keep the process under review and update the Board in November 2008.

### **Implementation of recommendations of TERG (Five-Year Evaluation) and the Organizational & Management Review**

3. The FAC reviewed and was satisfied with progress to date in implementing the recommendations of the TERG (Five-Year Evaluation) that were assigned to the FAC for oversight, and the recommendations of the Organizational & Management Review. (See GF/FAC10/13). As agreed in



Kunming, the Chairs of the PSC, PC and FAC will oversee implementation of the TERG Recommendation 5 (Processes and grant management: simplify and innovate).

### **UNITAID Roadmap**

4. It was noted that the Roadmap for the strategic collaboration between the Global Fund and UNITAID had now been finalized under the guidance of PSC in consultation with FAC, and recommended to the Board for approval. The Secretariat will absorb the budgetary implications within its existing 2008 budget.

### **AMFm**

5. The Executive Director updated the FAC on the AMFm business plan that has been considered by the PSC. The FAC noted that proposed approach to funding was consistent with the principles of the Comprehensive Funding Policy. The roles of the FAC and the PSC in the oversight of AMFm, if approved, would need to be considered. FAC will review the budgetary implications of the PSC-proposed decision point when it has been finalized by the PSC.

### **Committee attendance**

6. For various reasons, three members of the FAC were unable to attend its 26-27 March meeting, at short notice. The FAC will explore how full participation may be better ensured.

This document is part of an internal deliberative process of the Fund and as such cannot be made public. Please refer to the Global Fund's documents policy for further guidance.

**REPORT OF THE INDEPENDENT AUDITORS**  
**(Extracted from the 2007 Audited Financial Statements that form Attachment 2)**



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To the general meeting of the Board of  
**The Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva**

Geneva, xx April, 2008

### **Report of the independent auditors**

We have audited the accompanying statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”) as of 31 December 2007, and the related statements of activities, cash flows and changes in funds, and notes for the year then ended, published on pages xxx to yyy of the Annual Report.

These financial statements are the responsibility of the Global Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the requirements concerning professional qualification and independence.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ernst & Young Ltd

Mark Hawkins  
(Auditor in charge)

Thomas Madoery

**PRIORITIES FOR THE OFFICE OF THE INSPECTOR GENERAL****Summary of the subject and timing of work on each priority before the end of 2009****Priority 1: Providing assurance on grant processes**

Developing a body of country work to provide reasonable assurance on grant processes

1. Overview risk analysis study at HQ-learning lessons from past problem cases (Quarters 1 & 2, 2008)
2. 8 country audits of main risk areas: procurement, data systems and quality, responsibilities of FPM, CCM, PR, SRs, LFAs. (ongoing from Quarter 2, 2008)
3. Any necessary investigations. (ongoing from Quarter 1, 2008)

**Priority 2: Providing assurance on other main business processes**

Beginning and expanding audit coverage of the main managerial processes in the Secretariat, to provide reasonable assurance on each of them to the Board by 2011.

1. LFA retendering (leads into contracting processes) (Quarter 2, 2008)
2. ASA transition from WHO (leads into HR and Financial processes) (Quarters 2 & 3, 2008)

**Priority 3: Supporting key managerial and governance initiatives**

Supporting key managerial and governance initiatives in the Secretariat, to provide useful tools for management.

1. Accountability framework (ongoing from Quarter 2, 2008)
2. Risk management framework (ongoing from Quarter 1, 2008)
3. Values and Integrity Initiative (ongoing from Quarter 1, 2008)

**Priority 4: Strengthening the Office of the Inspector General**

Developing appropriate capacity and operating protocols for the OIG to enable it to provide reasonable assurance to the Board.

1. Organization structure (Quarter 1, 2008)
2. Staffing & training (ongoing from Quarter 1, 2008)
3. Work and reporting protocols (Quarter 2, 2008)

The above summary is extracted from "The Priorities for the Office of the Inspector General" which forms Attachment 2 to the Report of the Finance and Audit Committee (GF/B17/6).

## BUDGET FRAMEWORK

### Introduction

The framework outlined below responds to the requests of the FAC and the Board for the development of a Budget Framework to guide the formulation of annual budgets for Operating Expenses of the Global Fund. Further background information is contained in Attachment 3.

### Part 1: Normally Acceptable Budget Size

1. The total annual budget for Operating Expenses, excluding the contingency, shall not normally exceed 6% of the total expenditure forecast for the year (being grant commitments made in the year plus operating expenses).
2. A contingency of 10% (net of any savings/efficiency target) of the budget shall be added to the budget to provide for unforeseen needs arising and the budgetary implications of Board decisions made after approval of the annual budget. Only decisions of extraordinary budgetary impact will give rise to an addition to the budget (including the contingency).
3. Within the approved budget, the reasonableness staff numbers shall be assessed by applying a ratio not greater than \$8.8 million of grant commitments per employee (expressed in full-time equivalents), while recognising this to be an indicative, rather than definitive, number.
4. The foregoing should be kept under review as efficiencies emerge following the enhancement of grant management systems, streamlining of processes and the implementation of a risk management framework, and as processes for managing new activities become stable.

### Part 2: Budget Process

For each of the key stages in the budget cycle, the current process and the modifications proposed to form a budget framework for the future are outlined below. The key stages are:

- (a) Budget formulation process and its review by FAC to inform Board approval
- (b) Budgetary adjustments during the year
- (c) Monitoring of outcomes by the FAC

#### **(a) Budget Formulation and Review for Board approval** *(in preceding year)*

<b>Current</b>	<b><u>Proposed</u></b>
<p><u>Formulation of annual workplan and budget</u></p> <ul style="list-style-type: none"> <li>• The Secretariat prepares detailed workplans and budgets at team and sub-team level, specifying individual staff positions and individual events/activities that require resources. These are then consolidated into an organization-wide budget.</li> <li>• The process involves many staff throughout the Secretariat over a four-month period each</li> </ul>	<ul style="list-style-type: none"> <li>• The Secretariat prepares a brief workplan and budget for each Cluster, focused on the major activities foreseen for the organization in the coming year.</li> <li>• The workplan identifies and explains major shifts in anticipated resource needs from year-to-year. It does not focus on individual staff positions, but highlights</li> </ul>

<p>year. Much of the detailed input is required to facilitate response to FAC queries and is not used further once the budget has been approved.</p> <ul style="list-style-type: none"> <li>The factors taken into account when the budget is being compiled in May-August may differ significantly from what will actually be required of the Secretariat in the following year.</li> </ul>	<p>strategic aspects and options in a simplified manner that better enables consideration of the 'big issues'.</p> <ul style="list-style-type: none"> <li>If the proposed budget is greater than the '<i>normally acceptable budget size</i>' further justification and review is required.</li> <li>In addition to the budget proposed for the coming year, indicative budgetary estimates are provided for the following two years.</li> </ul>
<p><u>Review by the FAC to inform Board approval</u></p> <ul style="list-style-type: none"> <li>Detailed workplan and budget data is initially shared with FAC.</li> <li>Further analysis is undertaken to respond to high-level and detailed queries from FAC member delegations (ranging from assumptions underlying new activities to position lists and grades).</li> </ul>	<ul style="list-style-type: none"> <li>Review focuses on major shifts in activities and their budgetary consequences.</li> <li>The information provided to FAC outlines with regard to each Cluster its strategic role, factors impacting its resource needs, comparison of budget and staffing with prior year and explanations of major changes (similar to 2008 Budget information per GF/B16/8 Attachment 2).</li> <li>Additional attention is triggered if the proposed budget total is outside the parameters set for the <i>normally acceptable budget size</i>.</li> </ul>

**(b) Budgetary adjustments during the year**

<b>Current</b>	<b><u>Proposed</u></b>
<ul style="list-style-type: none"> <li>The annual budget contains a contingency (\$1 million) to cater for unforeseen needs that may arise in the course of the year, subsequent to approval of the budget. It also sets an efficiency target (\$3 million), intended to encourage cost saving during the year. However, the efficiency target exceeds the contingency, leaving no net provision for unforeseen eventualities.</li> <li>Adjustment is made to the budget for decisions taken by the Board in the course of the year with budgetary implications which were not anticipated in the annual budget (as approved in the previous year). Such decisions may also arise through committee processes in parallel with those of FAC in the lead-up to the Board meeting that approves the annual budget, causing late additions to the budget considered by FAC.</li> </ul>	<ul style="list-style-type: none"> <li>When approving the annual budget, a more substantial net contingency of <b>10%</b> of the budget will be added. This will better enable the Secretariat to both absorb the cost of unforeseen needs, and cater for the budgetary implications of new Board decisions without having to go back to the Board for approval on a piecemeal basis.</li> <li>Only in exceptional circumstances (e.g. approval by the Board of a major new initiative) will it be necessary to consider an increase beyond the originally approved budget.</li> </ul> <p>[This approach is consistent with the recommendations of the TERG and the O&amp;M Review for providing appropriate budgetary flexibility to the Executive Director.]</p>

**(c) Monitoring of outcomes by the FAC**

<b>Current</b>	<b><u>Proposed</u></b>
<ul style="list-style-type: none"><li>• The FAC reviews budgetary performance, in terms of expenditure on operating expenses and the achievement of the set of Board-approved KPIs for the Secretariat, each half-year.</li></ul>	<ul style="list-style-type: none"><li>• As currently, with an enhanced set of KPIs for the Secretariat (as recommended by the PSC for Board approval).</li></ul>

**(d) Other elements of the Framework**

<b>Current</b>	<b><u>Proposed</u></b>
<p><u>'Ring-fencing' of certain budgets</u></p> <ul style="list-style-type: none"><li>• The portions of the overall approved budget that relate to the functions listed below are specific to those functions individually and cannot be used to supplement the budget of other functions without the approval of the FAC:<ul style="list-style-type: none"><li>(a) In-country Oversight</li><li>(b) Office of the Inspector General</li><li>(c) Funding of CCMs</li></ul></li></ul>	<ul style="list-style-type: none"><li>• As currently, with the possibility for the Executive Director to supplement the 'ring-fenced' budgets by drawing on the (enhanced) contingency.</li></ul>
<p><u>Carry-over of unused budget at year-end</u></p> <ul style="list-style-type: none"><li>• No carry-over is provided for. Where it is foreseen at the time of budget compilation (i.e. mid-year) that an activity will be postponed to the following year, then this can be taken into account in the budget proposed for that year. However, if the postponement becomes apparent later in the year, such that it is not included in the budget for the following year, there is no mechanism for adjusting that budget post approval.</li></ul>	<ul style="list-style-type: none"><li>• Unused budget for specific activities which were postponed to the following year may be added to the approved budget for that following year, subject to the approval of the FAC.</li><li>• The aggregate amount of such transfers shall not exceed the overall amount of unused budget for the prior year (as 'ring-fenced' where applicable) and shall not increase the budget for the subsequent year beyond the <i>normally acceptable budget size</i>.</li></ul>

**PRINCIPLES AND STRATEGIC PRIORITIES  
FOR COMPENSATION AND BENEFITS AND HR STRATEGY**

**Principles for the compensation and benefits structure for the Global Fund:**

- (a) A single salary structure is proposed for all staff (without differentiating between professionals and general services staff), with a reduced number of grades compared with the United Nations system;
- (b) Within each grade, there will be a broader banding of remuneration to enable the introduction of performance-based pay and to be better able to attract and retain skilled staff with skills and experience suitable for the Global Fund;
- (c) As the organization is located in Switzerland, the currency of salary payment will be the Swiss Franc; and,
- (d) The complex system of allowances provided under the UN common system will be simplified to bring more equity and transparency, as well as reducing transaction costs. Current staff will be 'grandfathered' for certain allowances (e.g. the education grant, which will be continued and will also be available to new internationally recruited staff).
- (e) The salary structure will be based on benchmarking Swiss private sector firms and a select number of international organizations.

**Strategic Priorities of the Global Fund Human Resource Management Strategy:**

Priority 1 - Organizational Culture:

Foster an organizational culture that reflects the internal values of results focus, commitment, respect, teamwork and innovation, that are held by management and staff.

Priority 2 - Recruitment & Retention:

Attract, develop and retain highly skilled people dedicated to health and development.

Priority 3 - Professional Development:

Provide unique opportunities for professional growth linking learning with evaluation and recognition and contributing to the development of leaders in health and development.

Priority Four - First Class Work Experience:

Promote the well-being of the organization's people and their families.

For background information please see:

GF/FAC10/08 Human Resource Management Strategy

GF/FAC10/09 Outline of proposed Compensation and Benefits Structure for the Global Fund

### GUIDANCE ON LOCATION OF FURTHER INFORMATION

The below table indicates where further information on items dealt with in this report can be found:

**All FAC documents are available on the FAC password-protected website:**

<http://www.theglobalfund.org/en/about/board/committees/documents/default.asp?#fac>

Item:	Further information available:
1. Approval of 2007 Audited Financial Statements	GF/B17/6 Attachment 1: 2007 Audited Financial Statements
2. Priorities for the Office of the Inspector General	GF/B17/6 Attachment 2: Priorities for the Office of the Inspector General
3. Transition from the Administrative Services Agreement	GF/FAC10/08: Human Resource Management Strategy GF/FAC10/09: Outline of proposed Compensation and Benefits Structure for the Global Fund GF/FAC10/10: Update on Developing a Pension Scheme for the Global Fund
4. Budget Framework	GF/B17/6 Attachment 3: Development of a Budget Framework
5. Operating Expenses 2007 and Budget Reattribution to 2008	GF/FAC10/05: Review of Operating Expenses in 2007
6. Resource Mobilization and Debt2Health	GF/FAC10/11: Resource Mobilization Update GF/FAC10/12: Strategy for Private Sector Fundraising
7. Risk Management	GF/FAC10/07: Development of a Risk Management Framework
8. Update on implementation of recommendations of the TERG (Five-Year Evaluation) and the Organizational & Management Review	GF/FAC10/13: Update on implementation of recommendations of the TERG (Five-Year Evaluation) and the Organizational & Management Review