



Investing in our future

# The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Nineteenth Board Meeting  
Geneva, 5 - 6 May 2009

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GF/B19/6  
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 8 - 9 April 2009 and in subsequent email communications, and its resultant recommendations to the Nineteenth Board Meeting.

1.1 The independent auditors of the Global Fund, Ernst & Young, reported to the FAC on their audit of the 2008 Financial Statements, which form Attachment 1 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.

1.2 The draft audit report contains two new paragraphs relating to Swiss legal requirements, one confirming the independence of the auditors and the second confirming that the Global Fund has an internal control system.

1.3 The auditors outlined their audit procedures, noting that there were no significant issues to report, and responded to queries from the FAC. They explained that while the Swiss requirement to confirm the existence of the internal control system was a less onerous requirement than in some other countries (eg: Sarbanes-Oxley requirements in the USA), the requirement did lead to increased auditor hours and fees.

1.4 The auditors noted that their management recommendation from the 2007 audit (further enhance the process by which financial statements and related International Financial reporting Standards - IFRS - adjustments are reviewed to mitigate potential audit differences) had been fully addressed and expressed their appreciation for the quality of the preparatory work by the Secretariat in advance of the audit. There were no significant management recommendations arising from the 2008 audit. The FAC also acknowledged the excellent work of the Secretariat in preparing the 2008 Financial Statements when the WHO changed their accounting system in the middle of 2008 and the Global Fund was itself transitioning to a new accounting system at the beginning of 2009.

1.5 The FAC noted that the audited Financial Statements do not report on the detail of the income from individual donors or on the ultimate use of the grant funds by Principal Recipients. It did note that contribution details are regularly updated on the Global Fund website and that Enhanced Financial Reporting (which requires all Principal Recipients to report actual expenditure against budget per grant on an annual basis) was introduced in 2008. The FAC proposed that the Secretariat develop a paper for review by FAC at the 13th FAC meeting in order to clarify the existing oversight and reporting mechanisms for these income and expenditures.

**Decision Point 1: Approval of 2008 Audited Financial Statements**

*The Board approves the 2008 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/B19/6).*

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

## PART 2: MANAGING DEMAND AND SUPPLY IN A RESOURCE-CONSTRAINED ENVIRONMENT

### Decision

2.1 The FAC reviewed the forecast of assets available for grant approvals in 2009 and 2010 (GF/FAC12/05). It noted the Board decision (GF/B18/DP13) of November 2008 related to funding of new grants and the Chair's Summary of the discussions at the Mid-Term Review of the Replenishment in Caceres, Spain (30 March - 1 April 2009). The FAC also noted that of the US\$ 2.75 billion approved in principle for Round 8 grants in November 2008, 90% had already been approved for funding, or recommended to the Board for approval of funding, by April 2008. The remaining proposals totaling US\$ 280 can be approved for funding once additional contributions of US\$ 264 million have been pledged.

2.2 The forecast estimated that, based on confirmed pledges and reasonable assumptions of further contributions, it may be possible to approve Round 9 proposals (including the First Learning Wave of National Strategy Applications) in November 2009 up to an amount of US\$ 0.9 billion. No funding would be available for a further round of new grants in 2010.

2.3 The FAC noted with concern the inherent tension between demand and supply of funds in a resource-constrained environment and recommended that the Board establish a Working Group to make recommendations for managing this tension, including through increased resource mobilization, prior to Board consideration of Round 9 proposals in November 2009. The Working Group should be of a manageable size (up to eight members), with a balance between donors and implementers and include the Chair of the Technical Review Panel (TRP).

#### Decision Point 2: *Managing demand and supply in a resource-constrained environment*

*Based on the updated Demand Scenarios and Resource Forecasts, the Board decides to establish a balanced Working Group of up to eight members appointed by the Board leadership, and also including the Chair of the TRP, to review the current policies that guide both resource mobilization and resource allocation and to develop a framework for managing the tension between resource demand and supply in a resource-constrained environment.*

*The Working Group is requested to provide recommendations for amendments of existing policies regarding prioritization for funding technically sound proposals in a resource-constrained environment, subject to review at the appropriate time, and to include options for an increased and urgent resource mobilization effort.*

*The Working Group is requested to seek appropriate input during its deliberations, consult with PC, PSC and FAC, and report to the Board at its Twentieth Board Meeting in November 2009.*

*This decision does not have material budgetary implications.*

## PART 3: ACCOUNTABILITY AND ANTI-CORRUPTION MEASURES DURING OIG INVESTIGATIONS Decision

3.1 At the Eighteenth Board Meeting, the Board strongly affirmed in principle a policy on grant signature where a country has a grant under investigation by the OIG (GF/B18/DP23). The Board requested the FAC to review the policy, in particular to ensure that the policy is limited to circumstances in which the Inspector General has determined that there is prima facie evidence of fraud, abuse, misappropriation or corruption. The Board requested the FAC to report back to the Board at its Nineteenth Meeting with a final decision point, or confirmation that the policy has been incorporated into the Global Fund's risk management framework.

3.2 A Sub-Committee of the FAC worked with the Secretariat and the Inspector General to revise the policy in line with the following objectives:

- i. Send a strong message that the Global Fund does not tolerate corruption and will impose and enforce severe consequences for corruption;
- ii. Mandate the Executive Director to take strong and immediate action in situations where the Inspector General determines there is credible and substantive evidence of fraud, corruption, abuse or misappropriation;
- iii. Make a clear statement that signature of new grants will be restricted;
- iv. Establish the principle that the restrictions to be imposed in each case are based on the specific circumstances, balancing the risks to the Global Fund against the impact on the country and the continued provision of essential services; and
- v. Ensure that the Board is regularly informed of the imposition of restrictions, the conditions for lifting such restrictions and when restrictions are lifted.

3.3 Both the Secretariat and the OIG will report to the FAC on a regular basis on restrictions imposed in relation to any grant(s) in such situations, the specific actions required to lift such restrictions, and the status of the situation. This reporting requirement is a separate reporting requirement for both the Executive Director and the Inspector General, based on their respective role and responsibilities.

3.4 The FAC believes that the proposed revised policy maintains the intent of the "in principle" Board decision of the Eighteenth Board Meeting, while enabling the Secretariat to manage each situation in a manner appropriate to the particular facts and circumstances of the case.

Decision Point 3: Grant Policy during OIG Investigations and Audits

*The Global Fund does not tolerate corruption, fraud, misappropriation or abuse of any kind in relation to its grants. As part of the comprehensive risk management framework, the Board requests the Executive Director to take strong, immediate action in all circumstances where the Inspector General has determined that there is credible and substantive evidence of fraud, abuse, misappropriation or corruption involving Global Fund grants.*

*Such action will include the Executive Director restricting the signature of new grants with the nominated principal recipient(s), if the evidence concerns the nominated principal recipient(s), or of all new grants in the country, if the evidence points to country risks.*

*Restrictions may also include the suspension of disbursements under existing grants in the affected country or countries, the temporary or permanent debarment of any entity under investigation from receiving grant funding or any other measure deemed appropriate and justified under the circumstances by the Executive Director.*

*In such situations, the Executive Director shall ensure that measures imposed balance the impact on the country's health systems, other reliant projects and the continuation of the provision of essential services, against the risks to the Global Fund and adherence to the Global Fund's core ethical values and principles.*

*The Secretariat and the OIG will on a regular basis - each based on their respective role and responsibilities - report to the Board, through the FAC, on restrictions imposed in relation to any grant(s) in such situations, the specific actions required to lift such restrictions, and the status of the situation.*

*If signature of a new grant with a nominated principal recipient has been restricted, the deadline for signature of a grant agreement shall automatically be extended by a period equal to the period of the restriction in the following limited situations: (i) an OIG investigation or audit by the OIG finds no wrongdoing or (ii) in the opinion of the Secretariat and OIG, the wrongdoing is not material or the risks to Global Fund grant funds under the new grant are manageable, or (iii) a new principal recipient is identified for the grant under implementation arrangements that address the risks.*

*This decision does not have material budgetary implications.*

4.1 At its meeting in September 2007, 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 Office of the Inspector General (OIG) will work to revisit these arrangements and report to the FAC on improvements to Inspector General access. The FAC was not satisfied that the Global Fund OIG can be refused access to PR operations”* (GF/B16/8, Part 6, paragraph 8).

4.2 The Inspector General and the Global Fund Legal Counsel have since been in discussions with UNDP to seek appropriate access to program sites and program records. This has culminated in some improvements in the arrangements for access but not to the level sought by the Inspector General.

4.3 Most recently, the Inspector General has received a letter<sup>1</sup> from the Director, Office of Audit and Investigation, in which UNDP proposes as follows:

- (a) Investigations:
  - (i) to notify the OIG at an early stage of any investigation undertaken with respect to Global Fund grants;
  - (ii) to maintain consultation and exchange of information about the matter under investigation throughout the process; and
  - (iii) where appropriate, to invite the OIG to participate in the investigation “or to conduct coordinated and parallel investigative work in each office’s area of authority”;
- (b) Audit: to explore, on a case-by-case basis, whether audits of activities funded by the Global Fund can be done simultaneously by the UN OAI and the OIG;
- (c) Reports: to consider sharing with the Global Fund summaries of audit reports into activities funded by the Global Fund.

4.4 The justifications provided by UNDP for these limited access rights relate to policies established by the UN Executive Board, including the single audit principle and the policy on confidentiality of internal audit reports.

4.5 The FAC found the position of UNDP to be unacceptable and decided:

- (i) to request the Inspector General to accept UNDP’s proposal with respect to joint audits and investigations, but to keep implementation of this proposal under continual review and to report to the FAC any material difficulties or concerns in this approach identified during implementation;
- (ii) to request the Inspector General to reject UNDP’s offer of providing copies only of the summaries of UNDP audit and investigation reports (rather than full reports) and to express in strong terms the FAC’s disappointment with this proposal from UNDP; and
- (iii) to request the Secretariat to negotiate with UNDP that grants agreements for non-ASP (Additional Safeguards Policy) grants contain the same special audit provisions that are currently included in grant agreements for ASP grants.

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<sup>1</sup> See GF/FAC12/14, Annex 2, Attachment1

4.6 In support of these actions, the FAC recommended the following decision point:

**Decision Point 4:**     *Collaboration from UNDP in Audits and Investigations*

*The Board requests the Chair of the Board, in support of the OIG and Secretariat, to secure greater assurance from UNDP regarding audits and investigations of Global Fund grants where UNDP acts as Principal Recipient, including access to the full text of audit and investigation reports.*

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

**PART 5: DELEGATED AUTHORITY FOR SIGNATURE**

**Decision**

5.1 The Finance and Audit Committee recommends to the Board to delegate authority to the Executive Director to issue proxies to appropriate Secretariat staff to sign agreements on behalf of the Global Fund.

5.2 The recommended decision is required as a consequence of cessation of the Administrative Services Agreement (ASA) between the Global Fund and the WHO on 31 December 2008. The decision of the Board would replace the current decision which limits the authority to sign agreements to only four officers of the Secretariat. (Until the cessation of the ASA on 31 December 2008, these were primarily Grant Agreements; all agreements for the purchase of goods and services were entered into by the WHO, pursuant to the ASA). In the post-ASA situation where the Global Fund is managing all of its administrative services, including contracting for goods and services, the delegated authority needs to be expanded to a wider group of managers.

5.3 The Executive Director will inform the FAC of the authority levels established as part of the delegation process.

**Decision Point 5:**     *Delegated Authority for Signature*

*The Board authorizes the Chair and Vice Chair of the Board and the Executive Director to execute agreements on the Board's behalf. In the event the Executive Director is unavailable to exercise such authority, the Board authorizes each of the Deputy Executive Director, the Director of Country Programs and the Director of Corporate Services individually to execute agreements on the Board's behalf.*

*In addition, as necessary and appropriate for the fulfillment of the Executive Director's responsibilities for the day-to-day management of the operations of the Global Fund, the Board authorizes the Executive Director to issue proxies to Secretariat staff to execute agreements on behalf of the Global Fund in accordance with the Financial Rules and Regulations and requests the Executive Director to inform the FAC of his signature authority policy.*

*This decision replaces the Board's decision at its thirteenth meeting regarding delegated authority to sign agreements.*

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

6.1 A previous decision of the Board restricted the use of the Credit Suisse bank account at the Secretariat; at that time, operating expenses were generally paid by the WHO from its bank account. As a result of the cessation of the Administrative Services Agreement with WHO, the Global Fund is itself responsible for paying operating expenses through its own bank account. Accordingly, the previous Board decision needs to be rescinded and replaced by the decision proposed below.

Decision Point 6: *Credit Suisse Bank Account*

*The Board recognizes that, as a result of the termination of the Administrative Services Agreement with the World Health Organization, all operating expenses are now required to be paid through the Global Fund's Credit Suisse bank account. The Board decides to rescind its previous decision on the policy for the Credit Suisse bank account (GF/SB1/DP6). The Credit Suisse bank account shall be maintained and used by the Global Fund in accordance with the Global Fund's Financial Rules and Regulations for the following:*

- 1. to hold the foundation's capital, of CHF 50,000, as required by Swiss law;*
- 2. to pay for all Secretariat operating expenses in accordance with the Board-approved annual budget; and*
- 3. to receive private-sector contributions that the Trustee is not able to receive directly and other miscellaneous receipts.*

*The Board requests the Finance and Audit Committee to continue its oversight of the Credit Suisse bank account.*

*This decision does not have material budgetary implications.*



**Operating Expenses Review 2008**

7.1 In reviewing Operating Expenses for 2008, the FAC noted that the total expenditure of US\$ 164 million was 22% less than the approved budget of US\$ 210 million. The under-spend of US\$ 46 million resulted primarily from the delayed implementation of the LFA re-tendering and two recruitment and travel freeze periods upon the transition to new WHO systems in mid-2008 and the transition to the Global Fund's own systems at the end of the year.

7.2 The expenditure of US\$ 164 million on operating expenses was more than fully covered by investment income of US\$ 290 million.

7.3 US\$ 46 million of the 2008 budget was not utilized for the following reasons:

- i. Secretariat expenses were US\$20 million less than budgeted. The ability to utilize the budget for staff costs and travel was significantly restricted by two freeze periods, first in June-July 2008 due to the WHO's transition to a new Enterprise Resource Planning (ERP) system and secondly in December 2008 to facilitate an orderly transition to the new Global Fund Systems (GFS) upon cessation of the Administrative Services Agreement (ASA) with the WHO. (The recruitment back-log was cleared in the first quarter of 2009.)
- ii. LFA services for in-country oversight were US\$ 23 million less than budgeted. This arose mainly from the delayed implementation of the LFA re-tendering as a result of which anticipated rate increases and training and handover costs did not begin to materialize until the end of 2008, and an exceptional credit of US\$ 8 million arising from the release of prior year provisions upon cessation of the ASA.
- iii. The new arrangements introduced in 2008 for funding to support Country Coordinating Mechanisms (CCM) required only US\$ 1.4 of the 6.0 million provided in the budget, producing under-spend of US\$ 4.6 million.
- iv. After meeting the efficiency target of US\$2 million, the foregoing factors resulted in expenditure being US\$ 45 million less than budgeted.

7.4 The FAC noted that the exceptional costs of the ASA transition was one of the reasons that led operating expenses in 2008 to be 6.6% of total expenditure, higher than the average of 4.7% since inception of the Global Fund. However, operating expenses in 2008 include one-time costs of \$22 million relating to the ASA transition; excluding these exceptional costs, normal operating expenses were 5.8% of total expenditure.

7.5 Given the large under-spend on the 2008 budget, the FAC considered whether the 2009 budget should be reduced to reflect any anticipated under-spends in 2009, especially in the area of staffing. However, the FAC noted that 58 new staff had been recruited in the first quarter of 2009, reflecting both the end of the hiring freeze in December 2008 and the anticipated recruitment in 2009. The Secretariat will report to the 13<sup>th</sup> FAC meeting on an analysis of Secretariat expenditure against budget for the first six months of 2009.

7.6 The FAC was updated on the Secretariat performance as measured by the Key Performance Indicators (KPIs). Of the 17 KPIs set for 2008, ten had met or exceeded their targets, three were

showing adequate performance, three were showing unacceptable performance and one will be measured at a later date.

## Programmatic and Secretariat Efficiencies in 2009

7.7 Efficiencies in Round 8 (Phase 1): Following the November 2008 Board decision (GF/B18/DP13) to look for efficiency gains on Phase 1 of Round 8 grants, the Secretariat reported that it was following an approach aimed at achieving a 10% overall efficiency saving while avoiding or minimizing reductions in grant performance targets, and ensuring that any group of recipients is not disproportionately affected. The Secretariat has provided a uniform set of guidelines calling on CCMs to first look for potential savings that would not lead to cancellation of activities or reductions of performance targets and only then at additional savings with minimal target reductions. The guidelines suggested the examination of procurement costs, overheads, economies and elimination of overlaps, and the pursuit of funding from other sources. Indications to date are for efficiencies in the range of 3% to 15% across grants, suggesting that an overall 10% saving will be achieved.

7.8 Efficiencies in Grant Renewals: Grants which came up for Phase 2 renewal since the Board decision (totaling US\$ 435 million for original Phase 2 proposal amounts) would normally have been expected to have been funded at 85% of this amount (US\$ 370 million) reflecting an average 15% reduction. (This 15% reduction would normally result from under-spending in Phase 1, budget reductions in Phase 2 or non-renewal of grants.) In addition to this normal reduction, since the Eighteenth Board Meeting, efficiency gains of 10.3% (US\$ 38 million on US\$ 370 million) have been achieved across Phase 2 renewals in line with the Board decision to achieve an overall efficiency gain of 10%. It is too early to report on efficiency gains on grant renewals through RCC.

7.9 Efficiencies in Secretariat costs: The FAC was informed of the various initiatives that the Secretariat has instigated to strengthen the culture of efficiency in the Secretariat. These initiatives include a target of 10% savings on travel by further limiting business class travel and other measures. The FAC acknowledged the serious and continuous efforts being undertaken by Secretariat to increase efficiencies and asked for a clearer distinction between "real" efficiencies and postponed expenditures. The FAC welcomed the Executive Director's promise to make further efforts to achieve efficiencies within the Secretariat and requested the Secretariat to build a strong culture of efficiency.

## Review of Budget Framework and Process for 2010 budget

7.10 Framework: When the FAC-recommended budget for 2009 was considered by the Board in November 2008, a further reduction of the recommended amount was sought by a number of non-FAC constituencies. Especially against a background of global economic recession, a tension was evident between the need to resource management of an expanding grant portfolio and the need for budget containment, at a time when many organizations were experiencing severe budget challenges. A range of reduction options were developed by the Secretariat and considered by the FAC in an iterative process that led to a further reduced budget being re-submitted to the Board for approval by email at the end of December, which was accepted.

7.11 2010 budget: To ensure a wider understanding of the composition of the budget request prior to formal Board consideration of the budget, it is proposed that for the 2010 budget, non-FAC constituencies be invited to engage in reviewing the budget during the iterative development process, prior to presentation to the Board for approval. In this manner, concerns could be taken

into account earlier, so that the budget when presented to the Board has been considered and contributed to by all interested constituencies. It would also enable a wider understanding of the bottom-up (zero-based) workplan process from which the budget is derived. The FAC recommended that the Secretariat explore commissioning a workforce analysis to guide future staff planning and underpin the budget assumptions for staffing needs in 2010 and beyond. The Secretariat was asked to provide the FAC with a draft Statement of Work for a contract to look at workforce needs and an estimated budget.

7.12 In light of the foregoing, for the 2010 budget, the FAC agreed to:

- i. review the budget framework parameters, including consideration of the rationale for the parameters, and clarification and/or refinement of benchmarks, in light of the conclusions of the workforce and workload analysis commissioned; this review should also consider more carefully the link between KPIs and the budget-setting process;
- ii. clarify the workplan-based budget process, linked to the workforce analysis to be carried out;
- iii. present the process at the May 2009 Board Meeting and invite constituencies that are interested an opportunity to be engaged in the process at key moments; and
- iv. consider recommending that the budget contingency be reduced to 5% in the current Budget Framework, to be used only for funding additional requirements of the Board in the course of the year. With a view to streamlining the budget decision-making process between the FAC and other committees, the FAC would consider recommending that any new initiatives not covered by the contingency would have to be funded from the existing budget.

## **PART 8: RESOURCE MOBILIZATION MATTERS**

**Information**

### **Update on Resource Mobilization**

8.1 The Secretariat updated the FAC on resource mobilization matters and on the Mid-Term Review of the Second Voluntary Replenishment held in Caceres, Spain on 30 March - 1 April 2009. The demand scenarios presented at Caceres showed a potential funding gap for the 2008-2010 replenishment period of at least US\$ 3.9 billion. The participants at the Mid-Term Review meeting recommended the following actions to address this funding gap:

- (i) Seek additional funding through various resource mobilization channels;
- (ii) Increase domestic funding by implementing countries;
- (iii) Pursue cost effectiveness and efficiency measures;
- (iv) Make more extensive use of equity principles when prioritizing funding;
- (v) Review the role and place of the Global Fund in the global health architecture; and
- (vi) Develop a Framework to manage demand and supply in a resource-constrained environment (see Part 2 and Decision Point of this report).

8.2 Participants at the Mid-Term Review meeting recommended beginning preparation for the Third Replenishment period (for 2011 and beyond) with a preparatory meeting in early 2010 and a pledging meeting in the fall of 2010. Additional meetings might be called for if required.

8.3 The Resource Mobilization Task Team (RMTT) was reconvened in January 2009 as per the request of the Board (GF/B18/DP13) and recommended that the Global Fund should work closely with the new US administration to leverage additional funding and look for other potential donors in the run up to the next replenishment. For the private sector, the RMTT recommended that the Global Fund should work with partners such as the Global Business Coalition and focus in particular on the promotion of philanthropic giving.

8.4 First time contributions to the Global Fund have been received from Brunei, Latvia and Romania and new donor countries such as Greece and the Republic of Korea were represented in Caceres.

8.5 Under the Debt2Health initiative, there are now two agreements (between Germany and Indonesia, and Germany and Pakistan) which have been signed. An agreement between Australia and Indonesia is expected to be signed, subject to parliamentary approval in Australia. The total potential contribution will be EUR 141 million (US\$ 188 million). Additional collaborations are being explored; any agreements with recipient countries beyond the four nominated for the pilot phase would be subject to Board approval following review of the pilot phase.

8.6 The collaboration with UNITAID on all three diseases has now reached a potential amount of US\$ 383 million (activities planned and being implemented) of which US\$ 77 million has already been contributed to the Global Fund.

8.7 In the private sector, the Global Fund has established initiatives with the Melinda and Bill Gates Foundation, the United Nations Foundation, the Communitas Foundation, the M.A.C. AIDS Fund and Comic Relief. Corporate partnership agreements with Chevron and Standard Bank have been signed. Product RED has now raised US\$ 130 million and the "Idol Gives Back" TV program raised US\$ 17 million, much more than the US\$ 10 million expected.

## Comprehensive Funding Policy - New Developments

### UNITAID

8.8 The framework (or "Roadmap") for collaboration with UNITAID in the area of MDR-TB refers to a new type of funds-flow mechanism under which UNITAID would finance certain commodities (initially MDR-TB drugs and diagnostics) by paying the Global Drug Facility (GDF) of the Stop TB partnership directly for the cost of the commodities to support Global Fund grants in a given funding round.

8.9 The proposed mechanism for doing this (the "Direct Disbursement Mechanism") would have necessitated an interpretation or amendment of the Global Fund's Comprehensive Funding Policy to include this contribution when approving new grants for funding. However, after contact with the UNITAID Secretariat, UNITAID confirmed that, if the Global Fund's proposal for funding is approved by the UNITAID Board, UNITAID would make the contribution to the Global Fund's Trustee (the World Bank). The Global Fund would then promptly disburse the full UNITAID contribution amount directly to GDF for the procurement of qualifying commodities under the relevant grants.

The normal Global Fund grant management processes would continue to apply (including performance-based disbursement decisions).

### National Strategy Applications

8.10 The FAC noted that in order to facilitate operation of the Board decision that the First Learning Wave of National Strategy Applications (NSA) shall have equal priority for funding to that of rounds-based proposals, the Secretariat will ask the TRP to categorize the First Learning Wave NSA proposals using the same categorizations as those applied to rounds-based proposals.

### AMFm

8.11 The FAC was informed that the AMFm Ad Hoc Committee proposes to recommend to the Board a change in the timeline for submission and approval of applications for funding for supporting interventions. It is expected that the majority of the funding need for supporting interventions will be financed through re-programming of ACT procurement budgets in existing Global Fund grants. However, additional resources may be required to fund supporting intervention plans where funding from re-programming is insufficient. The AMFm Ad Hoc Committee is currently considering the implications for funding AMFm applications and will present its recommendations to the Board at the Twentieth Board Meeting.

### Guidelines for Service Donations

8.12 At the Eighteenth Board Meeting (GF/B18/DP5) the Board recognized the value of service donations to the Secretariat and to Global Fund grant recipients. The Board therefore requested the Secretariat to develop guidelines for the acceptance of service donations and asked the FAC to oversee the guidelines.

8.13 The guidelines were presented to the FAC. There were several suggestions on how to improve and revise the guidelines including a definition of standard valuation and reporting of in-kind donations, more clarity on the difference between service donations to the Secretariat and to grant recipients. The respective roles of LFAs, CCMs and PRs in the process should also be explained in more detail. The Secretariat agreed to revise the guidelines and present them at the 13th FAC meeting.

8.14 The Secretariat informed the FAC that information on in-kind donations of non-health products was being gathered and would be reported to the Twentieth Board Meeting in November 2009.

### Update on Investment Assets and Portfolio Returns

8.15 The World Bank presented the investment report for the calendar year 2008 and noted that the conservative investment strategy had led to an overall average return on the portfolio of 6.4% (in past years the annual return has ranged from 1.7% to 6.9%). Given the current difficult economic environment, returns in 2009 are expected to be much lower, possibly in the range 1.5% to 2.5%.

8.16 The World Bank explained that it provides a comprehensive Trustee Report twice a year for the Board meetings but, given the continuing role of the FAC in overseeing investment returns, it is currently proposing to prepare quarterly investment reports for the FAC. The FAC asked the World Bank to clarify the tables on the benchmarks included in the report presented to the FAC and

requested that the report also include a breakdown of the composition of mortgage-backed securities within the portfolio.

## Optimizing Investment Returns

8.17 The working group on Optimizing Investment Returns presented their report to the FAC with the following recommendations:

- i. The Global Fund's primary investment objective should be capital preservation, and the secondary objective should be to maximize returns;
- ii. The Global Fund's tolerance for risk and volatility should not change from its current level (probability of cumulative negative returns over three years of approximately 1%);
- iii. The investment horizon should not exceed three years;
- iv. The Global Fund should continue to make agreements conditional on availability of funds (rather than setting up contingency reserves or requesting additional funds to cover investment losses);
- v. Up to 10% of the Global Fund portfolio could be allocated to equities; An independent Investment Committee should be set up to oversee and monitor investment performance and application of investment policies; and
- vi. The World Bank should continue as Trustee and manage the fixed-income portfolio as well as hiring and managing external manager(s) for the equity portion of the portfolio.

8.18 The FAC recognized the work of the Working Group but, given the sensitivities of diversifying the portfolio into equities, and considering the timing of such a decision with regard to the global financial crisis, decided that it would be preferable to have a wider consultation with Board members before bringing a decision to the Board.

8.19 The FAC requested that the paper and presentation for the Board be revised to better justify the suggested diversification of the portfolio to include equities and to better illustrate that it would not increase the risk profile of the portfolio.

## PART 9: OIG MATTERS AND RISK MANAGEMENT

## Information

### OIG Matters

9.1 The Inspector General (IG) presented his progress report for the period October 2008 to March 2009. During this period two reports have been released to the Board: Country Audit of Round 5 Global Fund Grants to Zimbabwe and an Ethics & Reputational Risk Assessment.

9.2 The IG also reported on the current follow-up to previous and new investigations with a particular focus on four cases (Uganda, Democratic Republic of Congo, Mauritania and Bed Net Procurement).

9.3 The OIG has supported key managerial and governance initiatives such as the Values and Integrity Initiative and the Secretariat's work on developing an Accountability Framework and a Risk Management Framework.

9.4 The FAC approved the terms of reference of the newly-formed FAC Sub-committee for OIG Matters. The sub-committee reported for the first time, with a particular focus on the follow-up to the IG reports on Uganda and Zimbabwe. The sub-committee proposed decision points on grant

signing during OIG investigations (see Part 3 of this report) and collaboration from UNDP on audits and investigations (see part 4 of this report).

9.5 The Secretariat updated the FAC on the current situation in Zimbabwe with the CCM now endorsing the decision to appoint UNDP as PR for all the Zimbabwe grants under the Additional Safeguards Policy.

9.6 The FAC held an executive session to discuss the regular performance review of the Inspector General.

**Decision Point of the FAC: Terms of Reference of the FAC Sub-Committee for OIG Matters**

*The Finance and Audit Committee (FAC) notes its previous decision to create a sub-committee to give detailed consideration to OIG report findings and recommendations (GF/B18/6).*

*The FAC approves the terms of reference of the sub-committee as set out in Annex 1 of the Sub-Committee Report to the FAC (GF/FAC12/14, revision 1).*

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

## Risk Management

9.7 The Secretariat presented the Risk Management Framework to the FAC, noting that it reflected an initial review of strategic risks and a detailed review of the Portfolio Management (grant-making) system -- one of the key processes of the Global Fund. The Secretariat asked for endorsement of the current Framework so that the work in populating the Framework for the other key processes could be completed.

9.8 The FAC acknowledged that good progress had been made on formally documenting the risk management processes in place and endorsed the Framework, and noted that the Risk Management Framework would be further completed and presented at next FAC meeting.

**Decision Point of the FAC: Endorsement of the Risk Management Framework**

*The Finance and Audit Committee endorses the Risk Management Framework of the Global Fund as set out in Attachment 3 to the Finance and Audit Committee Report to the Board (GF/B19/6).*

*The FAC requests the Secretariat to complete the work and will report to the Board with a recommendation at the Twentieth Board Meeting to approve the completed Risk Management Framework.*

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

**Update on Status of ASA Transition**

10.1 The Secretariat updated the FAC on the ASA Transition Program which ended on 31 March 2009. While the timeline and nature of this program presented considerable risk, as noted by the OIG in September 2008, the transition was successfully implemented on time. As a result, the Global Fund commenced to function as an administratively autonomous organization on 1 January 2009, with policies and systems in place to enable the performance of all its activities. The FAC congratulated the Secretariat on this achievement.

10.2 The FAC noted that 95% of staff accepted the offer to transfer their employment to the Global Fund. Of the 20 staff (5% of the total) who chose to leave the Global Fund, half decided to stay in UN employment.

10.3 The FAC further noted the successful implementation of the new Global Fund enterprise resource planning (ERP) system (referred to as "GFS") and the establishment of travel, procurement and other administrative services. The Transition Program also delivered a suite of new Operational Regulations which complement the Policies already approved by the FAC and the Board.

10.4 Ongoing activities to complete the new Human Resources environment include implementation of HR processes, development of the tax equalization process and the investment policy and operational aspects of the Provident Fund.

10.5 In response to the requests of a number of Board constituencies for the inclusion of some more "family-friendly" elements in the human resource policies and the better reflect the Global Fund's commitment to gender equality, the Secretariat has reviewed and revised some of its HR regulations. The Flexible Working Regulation now provides for a range of working arrangements that allow for a more family friendly approach to work. The Secretariat sought FAC guidance with regard to a proposal to increase the duration of paid parental leave. The FAC decided that the current parental leave arrangements were in line with other comparable organizations and asked the Secretariat to come back with a more cost-neutral proposition that might retain some of the elements proposed while taking a wider approach to creating a more family-friendly environment.

**Negotiation of Pension Fund Transfer from UNJSPF**

10.6 At its 16th Meeting, the Board had requested the Secretariat to seek a transfer agreement with the United Nations Joint Staff Pension Fund (UNJSPF) following the termination of the Administrative Services Agreement with the World Health Organization. Such a transfer agreement would enable the Global Fund to recover all or part of the contributions the Global Fund had paid to the UNJSPF for the benefit of its staff members that they could otherwise not receive from the UNJSPF.

10.7 The Secretariat presented an update on its efforts to secure a transfer agreement, the available options to pursue a transfer agreement, including their cost implications, and an analysis of the likelihood of success (as set out in GF/FAC12/17 and circulated to the FAC after its meeting). The Secretariat explained that there are several obstacles to concluding a transfer



agreement with the UNJSPF and that the chances of success are limited. Pursuing a transfer agreement would involve substantial resources.

10.8 Having carefully considered whether, in the circumstances outlined by the Secretariat, it would be opportune to continue pursuing a transfer agreement with the UNJSPF, the FAC decided that the Secretariat should request the UNJSPF Secretariat in writing to transmit the Global Fund's application for a transfer agreement to the UNJSPF Board for its consideration in July 2009. The FAC also suggested that the Chair of the (Global Fund) Board write to the Chair of the UNJSPF Board in support of the Secretariat's application. These communications should emphasize the concern of the Secretariat and the Board at the fact that not reaching a transfer agreement would harm the people who depend on the Global Fund by diminishing the Fund's resources available for fighting the three pandemics. If the UNJSPF's response to these communications would be negative the FAC would not consider it cost-effective to further pursue a transfer agreement.

## **PART 11: OTHER FAC MATTERS**

**Information**

### **Implementation of Recommendations of the Five-Year Evaluation**

11.1 The Secretariat updated the FAC on the implementation of recommendations of the Five-Year Evaluation (in Study Areas 1 and 2) relating to financial management, accountability and risk management.

#### **FAC Workplan**

11.2 The FAC workplan will be updated to reflect the decisions of the FAC meeting and the Nineteenth Board meeting and then circulated to FAC members.

(Extracted from the 2008 Audited Financial Statements that form Attachment 1)

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To the Foundation Board of

**The Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva**

Geneva, [DD MMMM YYYY]

## **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the accompanying financial statements of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"), which comprise the statement of financial position, statements of activities, cash flows and changes in funds, and notes for the year then ended.

### *The Global Fund's Secretariat responsibility*

The Global Fund's Secretariat is responsible for the preparation of the financial statements in accordance with Inter-national Financial Reporting Standards, the requirements of Swiss law and the Global Fund's by-laws. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Global Fund's Secretariat is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) as well as Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

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effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the year ended 31 December 2008 present a fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards, comply with Swiss law and the Global Fund's by-laws.

### **Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Global Fund's secretariat.

Ernst & Young Ltd

Mark Hawkins  
Licensed audit expert  
(Auditor in charge)

Thomas Madoery  
Licensed audit expert

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

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

<http://www.theglobalfund.org/protected/committees/fac/>

Item:	Further information available:
1. 2008 Audited Financial Statements (DP1)	GF/B19/6 – Attachment 1
2. Managing Demand and Supply in a Resource-Constrained Environment (DP2)	GF/FAC12/05
3. Accountability and Anti-Corruption Measures During OIG Investigations (DP3)	GF/FAC12/14
4. Collaboration From UNDP in Audits and Investigations (DP4)	GF/FAC12/14
5. Delegated Authority For Signature (DP5)	GF/FAC12/16
6. Credit Suisse Bank Account (DP6)	(no paper)
7. Financial matters: 7.1 Operating Expense Review 2008 7.2 Programmatic and Secretariat Efficiencies in 2009 7.3 Review of Budget Framework and Linking Budget to KPIs	GF/FAC12/03 GF/FAC12/04 GF/FAC12/06
8. Resource Mobilization Matters: 8.1 Update on Resource Mobilization 8.2 Comprehensive Funding Policy – New Developments 8.3 Guidelines for Service Donations 8.4 Update on Investment Assets and Portfolio Returns 8.5 Optimizing Investment Returns	(no paper) GF/FAC12/07 GF/FAC12/08 GF/FAC12/09 GF/FAC12/10
9. OIG Matters and Risk Management: 9.1 OIG Matters 9.2 Risk management	GF/FAC12/13 GF/FAC12/15
10. Transition to New Administrative Arrangements: 10.1 Update on Status of ASA Transition 10.2 Negotiation of Pension Fund Transfer from UNJSPF	GF/FAC12/11 GF/FAC12/18
11. Other FAC Matters: 11.1 Implementation of Recommendations of the Five-Year Evaluation 11.2 FAC Workplan	GF/FAC12/12 GF/FAC12/17