Report of the Finance and Audit Committee
Topics

• Financial Matters
• Transition from the Administrative Services Agreement with WHO
• Resource Mobilization
Financial Matters
(Part 1 of FAC Report)

- 2006 Budget Performance and Audited Financial Statements
- Development of a Budget Framework
- Amendments to policy following establishment of Rolling Continuation Channel
### 2006 Budget Performance

#### Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>As % of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretariat Expenses</td>
<td>52.0</td>
<td>66.2</td>
<td>14.2</td>
<td>21%</td>
</tr>
<tr>
<td>LFA Services</td>
<td>23.9</td>
<td>22.8</td>
<td>(1.1)</td>
<td>-5%</td>
</tr>
<tr>
<td>Sub-total</td>
<td>75.9</td>
<td>89.0</td>
<td>13.1</td>
<td>15%</td>
</tr>
<tr>
<td>Efficiency target</td>
<td>0.0</td>
<td>(2.5)</td>
<td>(2.5)</td>
<td></td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>75.9</td>
<td>86.5</td>
<td>10.6</td>
<td>12%</td>
</tr>
</tbody>
</table>

- Spent $10.6m (12%) less than budget
- Operating expenses at $76m were fully covered by investment income of $126m
Budget Variances

LFA Fees  $1.1m (5%) more than budget
  • Spent $2.9m less than estimated, which is $1.1m less than the $4m savings target (as advised to 14th BM)

Secretariat Expenses  $14.2m (21%) less than budget
  • $9.0m saving on staff costs, professional fees and travel
  • $3.4m saving on office rent, infrastructure and utilities, and communication expenses
  • $1.0m contingency not needed
  • $0.8m donations received towards operating expenses
Significant factor: new staff starting later than planned, prior to strengthening of HR team in 2006

>> Overall saving of $10.6m (12% of total budget) after meeting the $2.5m efficiency target
Operating expense ratios

Key Ratios

<table>
<thead>
<tr>
<th>Operating Expenses as % of:</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure</td>
<td>4.9%</td>
<td>3.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Grant Disbursements</td>
<td>7.0%</td>
<td>5.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Grants Under Management</td>
<td>2.2%</td>
<td>1.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Operating Expenses per Active Grant</td>
<td>$241k</td>
<td>$222k</td>
<td>$222k</td>
</tr>
</tbody>
</table>

- 2006 key ratios are (almost) static, compared to 2005
Of the 15 KPIs set by the Board for 2006:

- 7 at 100%+
- 3 at 90% - 99%
- 3 at 85% - 89%
- 1 at 78%

(1 to be measured by staff survey in April 2007)

**FAC observation:** timely to review and refine KPIs especially with regard to grant management indicators
2006 Audited Financial Statements

• Audited by Ernst & Young:
  – “True and fair” opinion
  – Free of any qualification

• E&Y partner-in charge attended the FAC meeting, explained the audit processes and observations and responded to queries

• E&Y management letter was circulated to the FAC

• FAC agreed to recommend approval of the 2006 Audited Financial Statements
Decision Point 1

The Board approves the 2006 Financial Statements of the Global Fund which have been audited by Ernst & Young, attached as Annex 3 to the Report of the Finance and Audit Committee (GF/B15/8).

There are no material budgetary implications for this decision.
Development of a Budget Framework

Background:

• 14th BM asked the FAC to implement its recommendation to establish a framework to guide consideration of Secretariat resource needs
• The framework should take account of an external evaluation of staffing structure and size (to be commissioned by the ED), and incorporate appropriate budgetary parameters

FAC observation:

• Since staffing needs are largely determined by activity levels that also influence LFA services and other expenses, the consultants’ brief should include making recommendations on the budgetary parameters.
Development of a Budget Framework

Status:

• External evaluation to be initiated by ED
• Outputs likely to be available only by Sep/Oct 2007
• Can inform FAC review in Sep of 2008 budget
• Framework to fully drive budget for 2009 and beyond
Amendments to policy following establishment of RCC

Background
- 14th BM established Rolling Continuation Channel
- Asked FAC to recommend resultant amendments to Comprehensive Funding Policy and the Phase 2 Prioritization decision

FAC proposes a revised CFP that:
- Incorporates the changes requested by the 14th BM
- Also incorporates the decisions of the 7th BM regarding prioritization in resource constrained environments and the use of promissory notes
- Assumes RCC-II has priority over RCC-I
Order of Funding Priority

1. **Phase 2** (& Continuation of Funding for Treatment)
2. **RCC – II** (second 3 years of RCC)
3. **RCC – I** (first 3 years of RCC)
4. **Rounds-based proposals**
1. The Board approves the amendments to the Comprehensive Funding Policy, as amended at the Thirteenth Board Meeting, as presented in Annex 5 to the Report of the Finance and Audit Committee (GF/B15/8).

2. The Board revokes the following decisions:
   (1) The decisions made at the Seventh Board Meeting regarding prioritization of funding in resource-constrained environments (GF/B8/2 p. 13-14);
   (2) The decision made at the Seventh Board Meeting regarding the criteria for considering promissory notes as assets (GF/B8/2, p. 16, decision point 6); and
   (3) The decision points 1 and 2 entitled “Phase 2 Funding” made at the Eighth Board Meeting regarding prioritization of Phase 2 funding (GF/B9/2 p. 9-10).

There are no material budgetary implications for this decision.
Transactions on bank account
Investment briefing (by Trustee)

• **FAC reviewed** detailed list of individual transactions on Credit Suisse Bank account in 2006

• **Trustee** representatives briefed the FAC on investment options, in light of RMTT recommendation

• Investment return in 2006 was 4.54%
Transition from Administrative Services Agreement with WHO

(Part 3 of FAC Report)
Resource Mobilization
(Part 4 of FAC Report)
Office of the Inspector General
(Part 2 of FAC Report)

– Analysis of remaining issues from OIG report on audit of Credit Suisse bank account transactions
– Review of IG reporting lines and TOR
– Recruitment process for the IG
– Publications policy for OIG reports