

SUPPLEMENTARY REPORT OF THE FAC

Purpose:

This document summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 20 November 2011.

Notes:

This document should be read in conjunction with the report of the FAC to the Twenty-Fifth Board Meeting (GF/B25/14)

PART 1: INTRODUCTION

1.1 The Finance and Audit Committee (FAC) met in Accra on 20 November 2011. The Chair was Peter van Rooijen (Developed Countries NGO) and the Vice-Chair was Lars Kjaer Knudsen (Point Seven).

1.2 This report contains the following topics for Board Information:

Part 2: Forecast of Assets Available

Part 3: 2012 Budget of the Office of the Inspector General (OIG)

1.3 This report should be read in conjunction with GF/B25/14

PART 2: Forecast of Assets Available

Information

2.1 Following the FAC meeting on 7-9 November, the FAC noted that it would be helpful to have additional information to understand the movement in pledged and projected resources from the time of the Twenty-Second Board meeting in Sofia to the information presented in the Forecast of Assets Available (GF/B25/9) to the Twenty-Fifth Board meeting in Accra.

2.2 The FAC were presented with a detailed analysis showing the movement in individual donor or other source of funding, pledges and projections up to the time of the Twenty-Fifth Board meeting. The FAC noted the explanations provided by the Secretariat for these changes.

2.3 The FAC recognized, that in the current economic environment, both pledges and projections of donor contributions, funds from innovative financing initiatives, and investment income had become vulnerable, and that some of these sources of funding were further negatively affected by foreign exchange movements. It was further noted that changes in the timing of contributions also affected the Forecast of Assets Available. The FAC noted that risks are managed by ensuring that projections are not used as a basis of approving funding for new Rounds, and that grant commitments are only made if resources are actually available. The FAC noted that this protection has resulted in the decision to put Round 10 grant signings on hold until the Board meets to discuss these issues and possibly makes decisions.

2.4 The FAC highlighted that in the presentation on Forecast of Assets, that the immediate impact on Round 10 grant signing should be brought more prominently to the Board's attention. The FAC noted that Round 10 grant signing has been put on hold due to the current funding position, although recognizing that this was a very recent development.

2.5 The FAC welcomed the information provided and noted that an annual update to the Financial and Operational Performance Committee may be helpful. The FAC recognized that determining the projected and pledged resources was an iterative effort, based on updated information from donors. However it was recognized that sometimes a judgement call has to be made by the Secretariat, especially in relation to the projections, and that more information on the methodology used may be helpful for the incoming Committee.

2.6 The FAC noted that they had now reviewed and discussed the Forecast of Assets Available four times so as to fully understand the figures, the process involved, and that the adjustments made reflect the risks that affect the forecast.

2.7 The FAC recognized that some of the information presented to FAC was sensitive and that publicly reporting this information outside of the FAC could jeopardize resource mobilization efforts.

PART 3: 2012 Budget of the Office of the Inspector General (OIG) Information

3.1 As outlined in GF/B25/14, the Chair and Vice-Chair of FAC were mandated by FAC to review the 2012 budget (GF/FAC17/25) submitted by the OIG. The outcome of this review was submitted to FAC on 16 November. As this review was completed a day before finalization of the FAC report, the FAC believed that further time would be beneficial to complete deliberations on the budget. The FAC discussed the budget on the 20 November.

3.2 The FAC noted the conclusions and recommendations of the FAC Chair and vice-Chair regarding the OIG budget for 2012. Some FAC members however expressed reservations regarding the size of the increase proposed.

3.3 It was noted that the total OIG budget for 2012 proposed is US\$ 28 million (including a US\$ 3 million contingency), based on the need to re-enforce the capacity of the audit unit, which the FAC accepted, and the projected increase in the caseload of large investigations which needed to be kept under close review. If approved, the OIG budget for 2012 will increase by 35% when compared on a like-for-like basis with 2011.

3.4 The FAC noted the Inspector Generals clarification that the 2013 and 2014 budgets compared to the 2012 budget are expected to be 'flat' on the audit side and 'flat' on the investigation side unless the investigation caseload of large cases involving significant alleged misappropriation continues to rise and requires additional capacity.

3.5 FAC therefore recommends that the Audit and Ethics Committee monitors and reviews the (investigations) caseload and its resource implications at the appropriate time in 2012.

3.6 FAC recommends the approval of a budget of US\$24,962,221 for 2012 plus a contingency of US\$3,000,000. It is expected that this total amount of US\$ 28 million also reflects the nominal ceiling for 2013 and 2014, although recognizing that an increase for investigations may be required as outlined in paragraph 3.4. The ability to use any amount in the US\$ 3.0 million contingency within the budget would be based upon an OIG request to the Audit and Ethics Committee, and the subsequent approval of the recommendation of the Audit and Ethics Committee by the Financial and Operational Performance Committee.

3.7 This request for this approval would include a report on progress in recruitment of staff and/or demonstrate the ability to manage the response to the investigations caseload through hiring external capacity.

3.8 The OIG is requested to review opportunities for efficiencies and cost savings in the OIG operations and report on this in the context of budget presentations in the following years.

3.9 The FAC further noted that the Audit and Ethics Committee should consider reviewing the size of the OIG budget by comparison to peer organizations, noting that there are complexities related to ensuring appropriate comparisons based on the differences in the functions of peer organizations. It was further suggested that the planned peer review of the OIG Investigation Unit planned for 2012 may be an opportunity to carry out this comparison,

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.