

2023 Annual Financial Report and External audit results

Report to the Board

GF/B51/14A

51st Board Meeting

22-24 April 2024, Geneva, Switzerland

Board Decision

Purpose of the paper: This report presents an overview of the Global Fund's 2023 Annual Financial Report, including the 2023 Annual Financial Statements, and the 2023 Statutory Financial Statements, which have been audited by KPMG SA. The Audit and Finance Committee recommends such financial statements to the Board for approval and issuance.

Decision

Decision Point: GF/B51/DP05: 2023 Annual Financial Report

The Board authorizes the issuance of, and therefore approves, the Global Fund's 2023 Annual Financial Report, including the 2023 Annual Financial Statements which have been audited by KPMG SA, as set forth in Annex 1 to GF/B51/14A.

Decision Point: GF/B51/DP06: 2023 Statutory Financial Statements

The Board authorizes the issuance of, and therefore approves, the Global Fund's 2023 Statutory Financial Statements, which have been audited by KPMG SA, as set forth in Annex 2 to GF/B51/14A.

Budgetary implications (included in OPEX budget)

A summary of relevant past decisions providing context to the proposed Decision Points can be found in Annex 3.

Executive Summary

Context

- The Secretariat has prepared the 2023 Annual Report, including the 2023 Annual Financial Statements, and the 2023 Statutory Financial Statements which have been subject to an independent external audit by KPMG SA (the External Auditor). Following the external audit KPMG SA has confirmed it is in a position to issue unmodified audit opinions on the two sets of financial statements, including confirmation on the internal control system.
- Following the approval by the Board of the Board decision points recommended by the AFC, the Secretariat will:
 - publish the 2023 Annual Financial Report, which includes the audited 2023 Annual Financial Statements, on the Global Fund's external website accessible by its stakeholders; and
 - file the audited 2023 Statutory Financial Statements with the Surveillance des fondations under the Département fédéral de l'intérieur, in accordance with Swiss law and the Global Fund's Bylaws.

Input Sought

The Board is requested to approve the decision points presented on page 2:

- Decision Point: GF/B51/DP05: 2023 Annual Financial Report
- Decision Point: GF/B51/DP06: 2023 Statutory Financial Statements

Report

External audit for financial year 2023

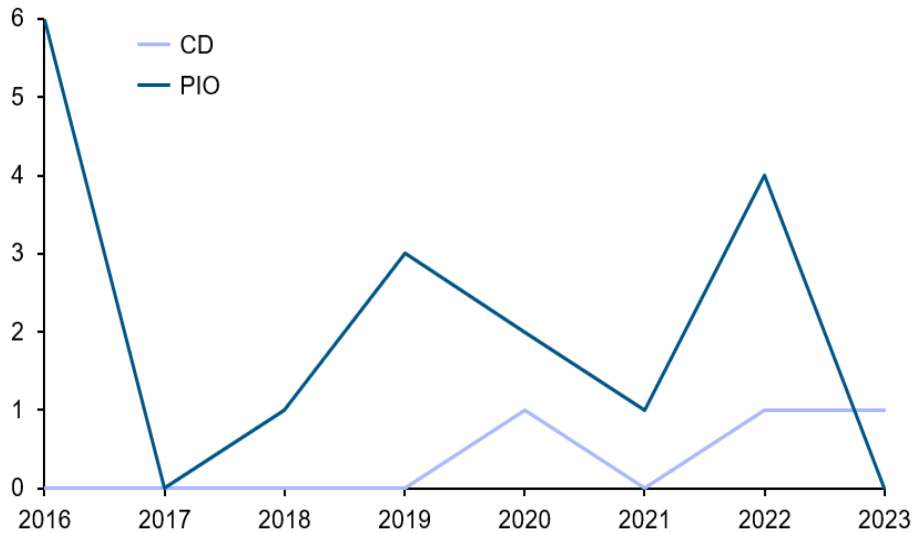
1. In accordance with article 2.2b of its Charter, the AFC has the advisory authority to recommend the annual audited financial statements of the Global Fund to the Board for approval.
2. The External Auditor is responsible for delivering a written report of its audit findings arising from the audit of the Global Fund's annual financial statements to the Board and the AFC.
3. The External Auditor has been reappointed by the Board in May 2022 pursuant to decision point GF/B46/EDP24 in alignment with the Global Fund strategy 2023-2028 (grant cycles GC7 2023-2025 and, subject to an independent performance assessment, GC8 2026-2028).
4. The 2023 External Audit Plan approved by the AFC pursuant to decision point GF/AFC22/DP01 in July 2023 includes an extension in the scope of work for the External Audit mandate to cover certain additional activities:
 - i. Fiduciary oversight activities – Grant external audit;
 - ii. Strategic Initiatives (SI) - SI project deep-dive;
 - iii. HR – insurance reimbursable costs; and
 - iv. Trust Fund investments.
5. The Secretariat is responsible for reporting to the AFC all audit findings in a timely manner, as well as management's response to audit findings including implementation of recommendations.
6. For the 2023 financial year, the Secretariat presents two sets of information for the AFC's recommendation to the Board for issuance and approval, as follows:
 - i. The 2023 Annual Financial Report, including the 2023 Annual Financial Statements, which have been audited by the External Auditor; and
 - ii. The 2023 Statutory Financial Statements, which have been audited by the External Auditor.
7. The 2023 Annual Financial Report, comprising the 2023 Annual Financial Statements and its related discussion, analysis and commentary, is set forth in Annex 1. The 2023 Statutory Financial Statements, as set forth in Annex 2, is an independent document prepared only for Swiss statutory financial reporting purposes.
8. As such the financial information in the 2023 Statutory Financial Statements is a subset of the annual information reflected in the 2023 Annual Financial Statements, with two main points of differences:

- i. **Basis of reporting:** The Annual Financial Statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Statutory Financial Statements have been prepared in conformity with the applicable accounting and financial reporting provisions of the Swiss Code of Obligations and presented in accordance with the Global Fund's Bylaws.
 - ii. **Reporting currency:** The Annual Financial Statements are reported in USD, the functional currency of the Global Fund, while the Statutory Financial Statements are reported in CHF by translating the financial results incorporated in the Annual Financial Statements for the reporting financial year under consideration.
9. During the course of the year several accounting and internal control enhancements have been implemented by the Secretariat:
- i. Resolution of 2022 audit recommendation to discount long-term contributions receivable.
 - ii. Centralized management of grant contingent liability through systematic review of grant closures leading to closure of 2022 audit control deficiency.
 - iii. Resolution of 2022 performance improvement observation on UNDP grant external audits.
 - iv. Systematic review of donor conditions to report contingent assets in the financial statements to increase transparency and enhance IFRS compliance.
 - v. Revenue recognition on 7th Replenishment restricted donor contributions towards operating expenses and strategic initiatives aligned with core donor revenue, increased transparency and IFRS compliance.
 - vi. Resolution of decommitment of wambo expenses related to management of buffer.
 - vii. With respect to the Provident Fund, change in actuarial valuation methodology to include disability benefits for increased accuracy of valuation under IFRS.
10. Based on its discussions with audit procedures conducted, the External Auditor reported for the year ended 31 December 2023:
- i. no matters regarding fraud or illegal acts;
 - ii. one corrected reclassification misstatement, related to IFRS compliance leading to P&L reclassification of USD 18 million to present grant expenses net of discount;
 - iii. the roll forward of an unadjusted cut-off audit misstatement, resulting from non-transmission of a commitment notification letter for grant expenditure by USD 9 million to the PR before 31 December 2022. This results in an understatement of grant expenditure by USD 9 million;
 - iv. no management letter points on material weaknesses; and
 - v. the summary of financial audit findings¹ in the following paragraph:

¹ The external audit findings are rated according to the following scale:

- **MW-Material Weakness**-A deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the organization's financial reporting will not be prevented, or detected and corrected, on a timely basis.
- **CD-Control Deficiency**-A control weakness exists that requires prompt remediation and potentially could have a significant and material impact on the business and integrity of the financial reporting. A combination of control deficiencies could result in a significant deficiency in internal controls however the impact is less severe than a material weakness, yet important enough to merit the attention of those responsible for oversight of the organization's financial reporting (i.e. those charged with governance).

11. Financial audit findings: The following chart summarizes the type of financial audit findings arising in the external audit during the last 12 years:



MW-Material Weakness-A deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the organization's financial reporting will not be prevented, or detected and corrected, on a timely basis.

CD-Control Deficiency-A control weakness exists that requires prompt remediation and potentially could have a significant and material impact on the business and integrity of the financial reporting. A combination of control deficiencies could result in a significant deficiency in internal controls however the impact is less severe than a material weakness, yet important enough to merit the attention of those responsible for oversight of the organization's financial reporting (i.e. those charged with governance).

PIO-Performance Improvement Observation-A minor control gap that exists in the business process. These findings are considered to improve efficiency or performance of internal controls. PIOs are designated as low risk and therefore referred to as performance improvement observations to align with industry best practices.

MA-Management Alert Findings relating to new processes that are yet to fully mature but are brought to management's attention for proactive and quick resolution. As these items are less severe and do not merit significant attention to those charged with governance, communication is restricted to only the members of the management executive committee (MEC).

12. The Secretariat continues to report no material weakness (MW) in an operating environment filled with resource constraints and competing priorities emanating from the seventh replenishment, scale-up of GC6 and C19RM implementation, increased grant implementation risk landscape including cybersecurity and IT environment. One control deficiency (CD) was identified and 2023 and one performance improvement observation (PIO) remains open from 2022; further details are provided below.

13. An overview of financial audit findings identified during 2023 is summarized as follows:

2023 findings	Classification
---------------	----------------

2023-1 Limitation on the documentation obtained over sick leaves covered by insurance	CD
Open prior year findings	
2022-2 Control performed by Country Teams on Grant external audit reports	PIO

14. A part of one 2022 audit finding that relates to revision of grant external auditing guidelines which was intentionally reprioritized for delivery in 2024 to be aligned with the start of GC7 grant assurance cycle, previous years audit findings were closed in 2023.

A control deficiency on HR sick leave insurable costs has been reported for the 2023 audit, in regard to the front-end business process of administering sick leave absence management, which has a bearing on the financial costs' recovery from the insurance company under the related insurance cover.

15. Altogether, the External Auditor confirmed that they are in a position to issue unmodified audit opinions for the 2023 Annual IFRS Financial Statements and 2023 Statutory Financial Statements.
16. Given the regulatory nature of the audit for the 2023 Annual Financial Report, including the 2023 Annual Financial Statements, performed by the External Auditor and the unmodified audit results, the executive management believes that standard information is being reported in the 2023 Annual Financial Report and as such it does not bear any compliance or operational risk.

Recommendation

The Audit and Finance Committee recommends the Decision Point presented on page 2 to the Board for approval.

Annexes

The following items can be found in Annex:

- Annex 1: 2023 Annual Financial Report including 2023 Annual Financial Statements
- Annex 2: 2023 Statutory Financial Statements
- Annex 3: Relevant Past Board Decisions

**Annex 1 – 2023 Annual Financial Report including 2023 Annual
Financial Statements**

(Intentionally left blank)

Annex 2 – 2023 Statutory Financial Statements
(Intentionally left blank)

Annex 3 – Relevant Past Board Decisions

Relevant past Decision Point	Summary and Impact
<u>GF/B47/DP08 (May 2022): Leveraging the Work of the Standing Committees²</u>	Based on the recommendation of the Ethics and Governance Committee, the Board approved amendments to the Charter of the Audit and Finance Committee. The Bylaws provide, in relevant part, that the Audit and Finance Committee shall have oversight of the external audit, that the Board or a Committee with delegated authority shall select an external, independent auditor to annually audit the accounts of the Global Fund, and such auditor shall deliver a written report of its audit findings to the Board or a Committee with delegated authority.
<u>GF/B46/EDP24 (May 2022): Appointment of the External Auditor³</u>	Based on the recommendation of the Audit and Finance Committee, the Board authorized the appointment of KPMG SA as the Global Fund’s external auditor.

² <https://www.theglobalfund.org/kb/board-decisions/b47/b47-dp08/>

³ <https://www.theglobalfund.org/kb/board-decisions/b46/b46-edp24/>