



EXTERNAL AUDIT OF 2002 FINANCIAL STATEMENTS
PROGRESS REPORT

Outline: The Global Fund is in the process of selecting an external auditor by means of a competitive bidding process. Once appointed, the auditor will audit the Fund's financial statements for 2002. In advance of that, draft un-audited financial statements for 2002 are annexed, for information.

Part 1: Financial Statements 2002

1. Requirement for external audit

a. The Global Fund to fight AIDS, Tuberculosis and Malaria was established as a non-profit foundation in January 2002, under Article 80 of the Swiss Civil Code. Article 19 of the Foundation's by-laws states that: "In accordance with Swiss law, the Foundation Board will select an external, independent body to audit the Foundation's annual accounts and present a detailed report to the Foundation Board for approval." In addition to this statutory requirement, an external audit is a key element of the Fund's accountability to donors and other stakeholders.

2. Scope of the Global Fund's financial statements

a. The nature of the Global Fund's relationships with the World Bank and WHO has given rise to consideration of whether the activities undertaken by these entities pursuant their agreements with the Global Fund should be reflected within the financial statements of the Global Fund. The outcome has a significant impact on the scope of the financial statements and, hence, the scope of work required for the audit of those statements.

b. To clarify the Global Fund's obligations, professional opinion was obtained on how the Fund should account for the transactions arising under the agreements. The opinion expressed is that the substance of the transactions undertaken by the World Bank and WHO pursuant to their agreements with the Global Fund is such that these transactions should be reported within the financial statements of the Global Fund (if these statements are to be compliant with the 'substance over form' concept that is inherent in the foremost systems of accounting standards.)

3. Audit implications

a. Pursuant to the Administrative Services Agreement (ASA) between the Global Fund the World Health Organization (WHO), WHO provides personnel and purchases goods and services for the needs the Global Fund. The resultant financial transactions are legally the obligations of WHO (although paid for by monies provided by the Global Fund). As outlined at (2) above, these transactions should be dealt with in the Global Fund's financial statements and represent almost the entirety of the Fund's activities other than grants.

b. In accordance with the 'single audit' principle of the UN System, of which WHO is part, there is only one external auditor that may be allowed to audit the transactions undertaken by WHO (currently, this is the Auditor General of

the Republic of South Africa). All documents (including invoices, purchase orders, payment requests, personnel forms, etc.) pertaining to transactions undertaken by WHO pursuant to the ASA are the property of WHO. As a consequence of the single audit policy, these documents are not made available to any external auditor other than the external auditor of WHO, and, hence, would not be available for inspection by the external auditor of the Global Fund.

c. To overcome this impediment to an external audit of the Global Fund's financial statements, an arrangement has been agreed with WHO whereby WHO would, at the request of the Fund, ask the external auditors of WHO to perform certain elements of the audit work, on which they would report to the Global Fund's external auditors. The documentation provided by the World Bank regarding its transactions as Trustee of the Trust Fund for the Global Fund can be used as audit evidence and the Bank has further offered to request its external auditors to provide access to the Fund's auditors to their audit working papers with regard to their audit of the Trust Fund. These arrangements should enable a comprehensive audit opinion to be expressed on the Global Fund's financial statements.

4. Impact on audit timetable

a. The need to give careful consideration to the issues outlined above to obtain the relevant advices and to consult with partners has, of necessity, delayed the process of selecting an external auditor for the Global Fund. The Request for Proposals (RFP) for external audit services reflects the matters outlined above and was drafted in consultation with, and with the input of, WHO and the World Bank. The final concurrence of these partners was received on 30 April 2003 and the RFP was issued on that day, with a submission deadline of 16 May 2003.

b. The MEFA Committee has adopted a process whereby it will review the Secretariat's analysis of the responses to the RFP and select the external auditor to be recommended (by email) to the Board by mid-June 2003. If in agreement, the Board would then appoint the auditor, in accordance with the Fund's by-laws, after which the audit could commence.

c. It is anticipated that the audit would be completed by 31 July 2003. MEFA would receive the report of the external auditor and convey its findings to the Board with a recommendation as to whether the Board should approve the audited financial statements for 2002.

5. Global Fund financial statements 2002

a. In advance of the external audit, the Secretariat has compiled the annexed draft financial statements of the Global Fund for 2002. These are subject to modification in the course of the external audit.

The Global Fund to Fight AIDS, Tuberculosis & Malaria
Financial Statements 2002 (un-audited)

(For the period from 24 January 2002 to 31 December 2002, in thousands of US dollars)

Statement of Activities	
	<u>2002</u> US\$'000
INCOME	
Contributions	
Governments	762,161
Private sector	<u>2,442</u>
	764,603
Other Income	
Financial income, net	<u>8,873</u>
Total INCOME	<u>773,476</u>
EXPENDITURE	
Grants	
Grant disbursed	898
Committed, not yet disbursed	<u>51,121</u>
	<u>52,019</u>
Operating expenses	
Secretariat expenses:	
Staff	3,070
Travel	800
Meetings	227
Communication materials	135
Professional services	6,513
IT infrastructure	114
Office rental	427
General supplies and services	518
Fixed assets	<u>434</u>
Secretariat expenses (total)	12,238
Local Fund Agent fees	<u>673</u>
	<u>12,911</u>
Total EXPENDITURE	<u>64,930</u>
SURPLUS of INCOME over EXPENDITURE	<u>708,546</u>

Statement of Financial Position

31 December 2002

US\$'000

ASSETS

Current Assets

Funds at World Bank	681,030
Funds at United Nations Foundation	2,442
Unobligated funds at WHO	18,317
Cash and bank balances	542
Contributions receivable	59,928
Prepayments and miscellaneous receivables	1,919
	<u>764,177</u>

Total ASSETS

764,177

LIABILITIES and RESERVES

Liabilities

Undisbursed grant commitments	51,121
Accrued expenses	4,510
	<u>55,631</u>

Reserves

General reserve, at beginning of year	-
Surplus of income over expenditure	708,546
	<u>708,546</u>

Total LIABILITIES and RESERVES

764,177

Statement of Cash Flows

2002

US\$'000

Cash Flows from Operating Activities

Contributions received	702,233
Grants disbursed	898
Payments to suppliers and personnel	10,320
	<u>11,218</u>

Net cash provided by operating activities 693,457

Cash Flows from Financing Activities

Net financial income 8,873

Net Increase in Cash and Cash Equivalents

702,330

Cash and Cash Equivalents at beginning of year -

Cash and Cash Equivalents at end of year

702,330

Notes to the Financial Statements at 31 December 2002

1 Significant Accounting Policies

- 1.1 Basis of presentation
The financial statements are presented in US dollars, rounded to the nearest thousand.
- 1.2 Scope
The financial statements include trust funds that are held solely for the benefit of the Global Fund (by the World Bank and the World Health Organization).
- 1.3 Receivables
Receivables are stated at their cost net of a provision to cover the risk of nonpayment.
- 1.4 Contributions
Contributions from governments are recognized as receivable when a written contribution agreement is executed. Contributions from other sources are recognized upon receipt of cash. Nonpayment provision is made for all contributions receivable later than one year after the balance sheet date.
- 1.5 Grants
Grants are stated at the amount committed for payment over the duration of the grant agreement. Grants are recognized as payable when a written grant agreement is executed.
- 1.6 Fixed assets
Expenditure on fixed assets of which the Global Fund is not the legal owner is expensed.

2 Details relating to the financial statements

- 2.1 Contributions
Contributions from governments include amounts receivable within one year under written contribution agreements. Contributions from other sources comprise amounts received in cash
- 2.2 Financial income, net
Financial income, net includes bank interest and other investment income plus/minus foreign exchange gains/losses.
- 2.3 Grants
Grant expenditure includes amounts disbursed to grant recipients and the amount of commitments under written grant agreements that have not yet been disbursed.
- 2.4 Professional services
Professional services include fees payable under the Trustee Agreement with the World Bank, the Administrative Services Agreement with WHO and for other professional services rendered, including by management consultants.

- 2.5 Unobligated funds at WHO
Unobligated funds at WHO comprise the amount of funds held in trust for the Global Fund in respect of which no obligation to expend funds has yet been made.
- 2.6 Contributions receivable
Contributions receivable comprise amounts receivable from governments within one year under written contribution agreements.
- 2.7 Prepayments and miscellaneous receivables
Prepayments comprise that portion of obligations for expenditure on goods and services that have not yet been supplied or rendered. Miscellaneous receivables comprise recoverable advances to personnel.
- 2.8 Accrued expenses
Accrued expenses comprise amounts payable for goods and services that have been supplied or rendered which have not yet been paid for or in respect of which an expenditure obligation has not yet been recorded. (Includes Trustee Fee, management consultancy fees and other items.)