

41st Board Meeting

2018 Annual Financial Report Including the 2018 Consolidated Financial Statements and 2018 Statutory Financial Statements

GF/B41/04

15-16 May 2019, Geneva

Board Decision

Purpose of the paper:

This report provides the Board with the Audit and Finance Committee's recommendation, based on an overview of the external audit, to approve and issue the:

1. The Global Fund's 2018 Annual Financial Report, which includes the 2018 Consolidated Financial Statements audited by KPMG SA; and
2. The Global Fund's 2018 Statutory Financial Statements audited by KPMG SA.

Decision

Decision Point: GF/B41/DP06: 2018 Annual Financial Report

The Board authorizes the issuance of, and therefore approves, the Global Fund's 2018 Annual Financial Report, which includes the 2018 Consolidated Financial Statements that have been audited by KPMG SA, as set forth in Annex 1 to GF/B41/04.

Decision Point: GF/B41/DP07: 2018 Statutory Financial Statements

The Board authorizes the issuance of, and therefore approves, the Global Fund's 2018 Statutory Financial Statements, which have been audited by KPMG SA, as set forth in Annex 2 to GF/B41/04.

Budgetary implications (included in the OpEx budget)

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 4.

Executive Summary

Context

1. The Global Fund undertakes external audits of its annual financial statements each year pursuant to the Policy for Financial Administration¹ as well as its initial establishment as a non-profit foundation under Swiss law, prior to entry into force of the Headquarters Agreement with the Swiss Federal Council².
2. For the 2018 financial year, two sets of financial statements are provided to the Board for issuance and approval, as follows:
 - i. The 2018 Annual Financial Report, which includes the 2018 Consolidated Financial Statements audited by KPMG SA (the “External Auditor”); and
 - ii. The 2018 Statutory Financial Statements audited by the External Auditor.

Input Sought

- Decision Point: GF/B41/DPO6: 2018 Annual Financial Report
- Decision Point: GF/B41/DPO7: 2018 Statutory Financial Statements

Input Received

- In accordance with its Charter, the Audit and Finance Committee (the “AFC”) has the advisory function to recommend the annual audited financial statements of the Global Fund to the Board for approval³.
- At its 9th meeting in March 2019, the AFC deliberated upon the 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, and the 2018 Statutory Financial Statements. In accordance with the AFC’s advisory authority, Committee members made enquiries of the Secretariat, the Inspector General and the External Auditor. The ensuing discussion is summarized in Annex 3 to this paper. At the conclusion of the session, the AFC voted unanimously to recommend such financial statements to the Board for approval pursuant to Decision Point GF/AFC09/DPO2.
- The External Auditor provided its independent advice and views to the AFC, in line with its role as assurance provider to the Global Fund Board, at such meeting and to the Secretariat during the conduct of the audit.

¹ The AFC approved the Policy for Financial Administration in October 2016.

² The Board approved the Headquarters Agreement, as set forth in the text attached as Annex 4a to the Report of the Governance and Partnership Committee, pursuant to GF/Bo8/DPO8 (June 2004). The Headquarters Agreement, effective as of 13 December 2004, recognizes the international juridical personality and legal capacity of the Global Fund as, and confers upon it the privileges and immunities of, an international organization in Switzerland.

³ The Board approved the Charter of the Audit and Finance Committee, as set forth in Annex 1 to GF/B34/ERO6, pursuant to GF/B34/EDPO7 (January 2016). Cf. Section B.2.2.b.

Discussion

3. The 2018 Consolidated Financial Statements and its related discussion, analysis and commentary have been combined into one report (the “2018 Annual Financial Report”), as set forth in Annex 1. The 2018 Statutory Financial Statements, as set forth in Annex 2, is an independent document meant to be used only for Swiss statutory financial reporting purposes.
4. As such the financial information in the Statutory Financial Statements is a subset of the consolidated information reflected in the Consolidated Financial Statements, with three main points of difference:
 - i. Basis of reporting: The Consolidated Financial Statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), while 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. Scope of operations: The Consolidated Financial Statements include the financial statements for the U.S. Fund for the Global Fund (“U.S. Fund”) ⁴ whereas the Statutory Financial Statements do not.
 - iii. Reporting currency: The Consolidated Financial Statements are reported in USD, the functional currency of the Global Fund. The Statutory Financial Statements are reported in CHF by translating the non-U.S. Fund financial results incorporated in the Consolidated Financial Statements.
5. Based on its discussions with audit procedures conducted, the External Auditor reported for the year ended 31 December 2018:
 - i. no matters regarding fraud or illegal acts;
 - ii. no material findings or audit adjustments during this period;
 - iii. no management letter points on material weaknesses; and
 - iv. the following summary of financial audit findings⁵:

Summary of Financial Audit Findings

Year	MW	CD	PIO	Total	Outstanding
2018	-	-	1	1	1
2017	-	-	1	1	0
2016	-	-	5	5	2

⁴ The U.S. Fund is a not-for-profit organization incorporated in the State of Delaware, United States, and is independent of the Global Fund.

⁵ 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).
- **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.

6. Following the external audit review, the External Auditor has confirmed they are able to issue unqualified audit opinions on the 2018 Annual Consolidated Financial Statements and 2018 Statutory Financial statements, also confirming:
 - i. The 2018 Consolidated Financial Statements give a true and fair view of the financial position, the results of operations and the cash flows of the Global Fund in accordance with IFRS;
 - ii. With respect to the 2018 Statutory Financial Statements:
 - a. The 2018 Statutory Financial Statements comply with Swiss law and the Global Fund's Bylaws;
 - b. The External Auditor meets legal requirements on licensing and independence and there are no circumstances incompatible with their independence; and
 - c. An internal control system exists, which has been designed for the preparation of financial statements and complies with the Swiss law.

Next steps

7. Upon the approval of the Decision Points proposed in this paper the Secretariat will:
 - i. publish the 2018 Annual Financial Report, including the audited 2018 Consolidated Financial Statements, on the Global Fund's external website accessible by its stakeholders; and
 - ii. file the audited 2018 Statutory Financial Statements with the Surveillance des fondations under the Département fédéral de l'intérieur, in accordance with Swiss laws and the Global Fund's Bylaws.

Recommendation

The Audit and Finance Committee recommends the Decision Points presented on page 2 to the Board.

Annexes

The following items can be found in Annex:

- Annex 1: 2018 Annual Financial Report including 2018 Consolidated Financial Statements
- Annex 2: 2018 Statutory Financial Statements
- Annex 3: Summary of Committee Input
- Annex 4: Relevant Past Decisions

Annex 1 – 2018 Annual Financial Report including 2018 Consolidated Financial Statements

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Annex 2 – 2018 Statutory Financial Statements

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Annex 3 – Summary of Committee Input

At its 9th meeting in March 2019, the AFC deliberated upon the 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, and the 2018 Statutory Financial Statements.

In accordance with the AFC's advisory authority, Committee members made enquiries of the Secretariat, the Inspector General and the External Auditor. The ensuing discussion encompassed matters such as compliance with IFRS reporting requirements, changes to IFRS standards and guidance, the financial results of the Global Fund Provident Fund, revenue recognition in the context of contributions, the scope of extended country team reviews in the context of internal controls, as well as non-audit services provided by the global KPMG SA organization.

The External Auditor provided its independent advice and views to the AFC, in line with its role as assurance provider to the Global Fund Board at such meeting, and to the Secretariat during the conduct of the audit

The AFC recognized the work of the Secretariat and, at the conclusion of the session, voted unanimously to recommend the 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, and the 2018 Statutory Financial Statements to the Board for approval pursuant to Decision Point GF/AFC09/DP02.

Annex 4 – Relevant Past Decisions

Relevant past Decision Point	Summary and Impact
<p>GF/AFC09/DP02: Acceptance by the Audit and Finance Committee of Documents and Responses Relating to the 2018 Consolidated Financial Statements and 2018 Statutory Financial Statements (March 2019)</p>	<p>The Audit and Finance Committee accepted and recommended for approval by the Board:</p> <ul style="list-style-type: none"> a. The 2018 Annual Financial Report, including the 2018 Consolidated Financial Statements, which have been prepared by the Secretariat and audited by KPMG SA, as set forth in Annex 1 to GF/AFC09/06; b. The 2018 Statutory Financial Statements, which have been prepared by the Secretariat and audited by KPMG SA, as set forth in Annex 2 to GF/AFC09/06; c. The unqualified audit opinions on both the 2018 Consolidated Financial Statements and the 2018 Statutory Financial Statements prepared by KPMG SA, and the related conclusions and statements of KPMG SA; and d. Comments and responses by the Secretariat and KPMG SA to the questions and topics of discussion during the AFC's deliberations.
<p>GF/AFC08/DP01: Approval of the 2018 Interim Financial Report (October 2018)</p>	<p>The Audit and Finance Committee authorized the issuance of, and therefore approved, the Global Fund's 2018 Interim Financial Report, which includes the 2018 Interim Condensed Consolidated Financial Statements that have been reviewed by KPMG SA, as set forth in Annex 1 to GF/AFC08/02.</p>
<p>GF/AFC02/DP09: Advance Payments (October 2016)</p>	<p>The Audit and Finance Committee approved amendments to the Policy for Financial Administration, as set forth in Annex 2 to GF/AFC02/04, to align with the approval of advance payments for certain grant expenditures.</p>
<p>GF/B34/EDP18: Appointment of External Auditor (April 2016)⁶</p>	<p>The Board authorizes the appointment of KPMG SA as the Global Fund's external auditor for an initial three year term beginning with the 2016 fiscal year.</p>
<p>GF/FAC11 (October 2008)</p>	<p>The former Finance and Audit Committee approved the Policy for Financial Administration, as set forth in Annex 2 to GF/FAC11/03, which provides that the accounting records and controls of the Global Fund shall be subject to audit by independent auditors.</p>
<p>GF/B17/DP21: Transition from Administrative Services – Human Resources and Financial Rules (April 2008)⁷</p>	<p>The Board delegated authority to the former Finance and Audit Committee to approve rules applicable to non-grant financial management, in connection with the transition from administrative services previously provided by the World Health Organization.</p>

⁶ <https://www.theglobalfund.org/board-decisions/b34-edp18/>

⁷ <https://www.theglobalfund.org/board-decisions/b17-dp21/>

