

Thirty-Third Board Meeting

Appointment of the External Auditor

GF/B33/23

Board Decision

PURPOSE: This paper provides the Board with the Audit and Ethics Committee's recommendation to appoint Ernst & Young as the Global Fund's external auditor for the 2015 fiscal year. It includes a decision point on the appointment of Ernst & Young for the Board to approve.

I. Decision Point

1. Based on the rationale described below, the following decision point is recommended to the Board:

Decision Point: GF/B33/DPXX: Appointment of the External Auditor

The Board appoints Ernst & Young SA as the Global Fund's external auditor for the 2015 fiscal year.

II. Relevant Past Decisions

2. Pursuant to the Governance Plan for Impact as approved at the Thirty-Second Board Meeting,¹ the following summary of relevant past decision points is submitted to contextualize the decision point proposed in Section I above.

Relevant past Decision Point	Summary and Impact
GF/B31/EDP16: Appointment of the External Auditor²	The Board approved the re-appointment of Ernst & Young as the Global Fund's external auditor for the 2014 fiscal year with the understanding that upon the presentation of the 2014 annual financial statements to the Board for approval, the Secretariat and Audit and Ethics Committee would coordinate on external audit arrangements for future fiscal years. The outcomes of the Secretariat and Audit and Ethics Committee's coordination and considerations are summarized below.

III. Action Required

3. Upon the approval of the decision point proposed in this paper, the Secretariat will determine the final audit fee for 2015 based on a discussion with the external auditor on the detailed scope of work.
4. The external auditor shall present to the Audit and Ethics Committee its 2015 external audit plan following finalization of discussions with the Secretariat.

¹ GF/B32/DP05: Approval of the Governance Plan for Impact as set forth in document GF/B32/08 Revision 2.

² <http://www.theglobalfund.org/Knowledge/Decisions/GF/B31/EDP16/>

IV. Background

01 Current External Audit Arrangements.

5. Based on the recommendation of the Audit and Ethics Committee (the “AEC”), the Board appointed Ernst & Young (“EY”) to serve as the Global Fund’s external auditor for the 2014 fiscal year.³ EY’s services in 2014 included its full review of the annual accounts for the audit of the 2014 financial statements and limited review of the accounts for the first six months of the 2014 fiscal year.

6. At its 9th Meeting in June 2014, the AEC agreed with the Secretariat’s suggestion to discuss the external auditor appointment for future years following the completion of the audit of the 2014 financial statements. Such discussions occurred during the 11th AEC Meeting in March 2015 after the AEC’s review and acceptance of the 2014 Annual Report, which included the 2014 Consolidated Financial Statements, and the 2014 Statutory Financial Statements for recommendation to Board.⁴

V. Discussion

01 Re-Appointment of Ernst & Young

7. In Switzerland, as in many countries, an external auditor’s term ends upon the adoption of the annual accounts for the final year of their appointment. Re-appointment is permitted provided the person that manages the external audit engagement remains in such role for no more than seven consecutive years. At that point, the person may not assume such role again until a minimum of three years have passed.⁵

8. Although EY has served as the Global Fund’s external auditor since the Global Fund’s inception, the current partner at EY that manages the Global Fund’s external audit has done so for five consecutive years (2010-2014 inclusive).

9. As such, based on the Secretariat’s recommendation, the AEC agreed to recommend to the Board the re-appointment of EY as the Global Fund’s external auditor for the 2015 fiscal year.

02 Scope of Work and Fees

10. Accordingly, EY’s scope of work for audit services will include:

- a) A full review of the annual accounts for the 2015 fiscal year for the audit of the 2015 Consolidated Financial Statements and 2015 Statutory Financial Statements; and
- b) A limited review of the accounts covering the first six months of the 2015 fiscal year.

11. The maximum fee for audit services of CHF 580,000 for the 2015 fiscal year has been included in the Global Fund’s 2015 operating expenses budget. The actual amount will depend on discussions with EY on the detailed scope of work.

³ Board Decision Point GF/B31/EDP16.

⁴ [The Board approved the 2014 Annual Report and 2014 Statutory Financial Statements on 31 March 2015 under Board Decision Points GF/B33/DPXX and GF/B33/DPXX, respectively.]

⁵ Article 730a of the Swiss Code of Obligations.

12. Appearances or presentations by EY before the AEC or Board in connection with the services provided by EY will be included in the relevant scope of work and fee arrangements.

13. The Secretariat will manage the fees for any non-audit services in accordance with the existing framework approved by the AEC at its 3rd Meeting.⁶

14. Following EY's limited review, and upon the AEC's review and approval to publish, the interim condensed consolidated financial statements for the first six months of the 2015 fiscal year will be available to the Board for information, and subsequently posted on the Global Fund's external website.

15. The audited financial statements for the full 2015 fiscal year will be reviewed by the AEC in the first quarter of 2016 for recommendation to the Board for approval and issuance.

03 Approach for fiscal year 2016

16. At its 11th Meeting in March 2015, the AEC briefly discussed the approach for the appointment of the external auditor for the 2016 fiscal year. The Committee noted that in Switzerland, there are no requirements to rotate audit firms, as described in paragraph 7 above. It also underscored both the value of maintaining the current external auditor's knowledge and experience with the organization and the opportunity to periodically examine proposals from a set of firms.

17. The Committee supported the following approach:

- a) During the fourth quarter of 2015, the Secretariat would launch a competitive bidding process, inviting proposals from a set of audit firms.
- b) Upon the Board's approval and issuance of the 2015 annual financial statements, a set of retained proposals would be reviewed by the AEC, who would then recommend an external auditor to the Board for appointment.

VI. Recommendation

18. Based on the discussion presented above, the AEC recommends that the Board approve the decision point proposed in this paper to re-appoint EY as the Global Fund's external auditor for the 2015 fiscal year.

⁶ Approval of fees for non-audit services follow the parameters agreed by the AEC at its 3rd Meeting whereby the Secretariat may engage the external auditor for non-audit services if the fee for such services is within 25% of the audit fee for the relevant fiscal year. Any non-audit services requiring a fee that exceeds 25% of the audit fee would require prior approval by the Chair and Vice-Chair of the AEC.