APPPOINTMENT OF EXTERNAL AUDITOR FOR THE 2014 FISCAL YEAR AND REVIEW AND AUTHORIZATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Purpose: This report outlines and presents the Audit and Ethics Committee's ("AEC") recommendation to the Board on the approval of: (a) the appointment of Ernst & Young as the Global Fund's external auditor for the 2014 fiscal year; and (b) the delegation of authority to the AEC to review and authorize the interim condensed consolidated annual financial statements for publication. Accordingly, this electronic report contains the following decision points for the Board to adopt:

1. GF/B31/EDP16: Appointment of the External Auditor; and
2. GF/B31/EDP17: Interim Condensed Consolidated Financial Statements.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board deliberations close and a decision has been taken.
PART 1. BACKGROUND

1.1 Based on the recommendation of the Audit and Ethics Committee (the “AEC”), the Board appointed Ernst & Young (“EY”) to serve as its external auditor for the 2013 fiscal year. EY’s services in 2013 included its full review of the annual accounts for the audit of the 2013 financial statements, limited review of the accounts for the first six months of the 2013 fiscal year, and non-audit review of the redesign and update of the Global Fund’s financial information statements under the “Finance Step Up” project.

1.2 At its 5th Meeting in July 2013, 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 2013 financial statements. Such discussions occurred during the 8th AEC Meeting in April 2014 after the AEC’s review and acceptance of the 2013 Annual Financial Report and Statutory Financial Statements for recommendation to Board.

PART 2: DISCUSSION

Appointment of External Auditor

2.1 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 2014 fiscal year.

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

a. A full review of the annual accounts for the 2014 fiscal year for the audit of the 2014 Consolidated Financial Statements and 2014 Statutory Financial Statements; and

b. A limited review of the accounts covering the first six months of the 2014 fiscal year.

2.3 The maximum fee for audit services of CHF 530,000 for the 2014 fiscal year has been included in the Global Fund’s 2014 operating expenses budget. The actual amount will depend on discussions with EY on the detailed scope of work.

2.4 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.

2.5 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.

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1 Board Decision Point GF/B29/EDP01.
2 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.
3 The Board approved the 2013 Annual Financial Report and 2013 Statutory Financial Statements on 25 April 2014 under Board Decision Points GF/B31/EDP02 and GF/B31/EDP03, respectively.
Interim Condensed Consolidated Financial Statements

2.6 The Secretariat will prepare, and EY will conduct a limited review of, the interim condensed consolidated financial statements for the first six months of the 2014 fiscal year. The preparation and review of the interim condensed consolidated financial statements facilitates the year-end closing of the financial accounts for the audit of the annual financial statements. As this process of preparing and reviewing the accounts for the first six months of the fiscal year has become a regular part of the Global Fund’s financial reporting practices, the AEC recommends that the Board acknowledge the AEC’s authority to review and authorize the publication of the interim condensed consolidated financial statements given the AEC’s general oversight over financial accounting and reporting matters.

2.7 Upon review by the AEC, the interim condensed consolidated financial statements will be available to the Board for information, and subsequently posted on the Global Fund’s external website.

2.8 The audited financial statements for the full 2014 fiscal year will be reviewed by the AEC in the first quarter of 2015 for recommendation to the Board for approval and issuance at the first Board Meeting in 2015.

2.9 Upon the conclusion of such Board Meeting where the 2014 annual financial statements are presented to and approved by the Board, the Secretariat will coordinate with the AEC on external-audit arrangements for future fiscal years.
PART 3: DECISION POINTS

3.1 Based on the discussions above, the AEC recommends the following decision points to the Board for adoption:

**Decision Point GF/B31/EDP16: Appointment of the External Auditor**

*The Board authorizes the appointment of Ernst & Young Ltd as the Global Fund's external auditor for the 2014 fiscal year.*

*The maximum budget implication of this decision is already included in the Global Fund's 2014 operating expenses budget.*

**Decision Point GF/B31/EDP17: Interim Condensed Consolidated Financial Statements**

*The Board notes the Audit and Ethics Committee’s (the “AEC”) responsibility to oversee financial accounting and reporting matters and requests that, following a limited review by the Global Fund’s external auditor, the AEC reviews and authorizes the publication of interim condensed consolidated financial statements which have been prepared by the Secretariat.*