

41st Board Meeting

Appointment of the Independent External Auditor

GF/B41/05

15-16 May 2019, Geneva

Board Decision

Purpose of the paper:

This report provides the Board with the Audit and Finance Committee's recommendation to appoint the independent external auditor of the Global Fund for a second term of three years beginning with the 2019 financial year.

Decision

Decision Point: GF/B41/DPO8: Appointment of the External Auditor

Based on the recommendation of the Audit and Finance Committee, as set forth in GF/AFC09/DPO3, the Board authorizes the reappointment of KPMG SA as the Global Fund's independent external auditor for a second term of three years beginning with the 2019 financial year.

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 2.

Executive Summary

Context

1. The Policy for Financial Administration¹ provides that the Board shall appoint independent external auditors to audit the financial statements of the Global Fund and report thereon to the Board and its Audit and Finance Committee (“AFC”).
2. The current independent external auditors (“External Auditor”), KPMG SA, have completed their initial mandate for a term of three years beginning with the 2016 financial year².
3. The Board, based on the recommendation of the Audit and Finance Committee (“AFC”), is therefore requested to appoint KPMG SA as External Auditor for a second term of three years beginning with the 2019 financial year.

Input Sought

- Decision Point: GF/B41/DPXX: Appointment of the independent external auditor

Input Received

- In accordance with its Charter, the Audit and Finance Committee (the “AFC”) has the advisory function to recommend the appointment of the external auditor of the Global Fund to the Board for approval³.
- In developing the Decision Point presented on page 2, the performance assessment process considered the input, summarized in Annex 1 to this paper, received from (a) the 8th meeting of the AFC in October 2018; (b) the Chair and Vice-Chair of the AFC as well as the independent member (as an expert on financial audit matters) during telephonic consultations on 25 February 2019; and (c) the 9th meeting of the AFC in March 2019, at which Committee members voted unanimously to recommend the appointment of KPMG SA to the Board for approval pursuant to GF/AFC09/DPO3.
- The performance assessment process also included input from selected Global Fund stakeholders who have interacted with KPMG SA during the period 2016-2018, namely the Chief Financial Officer, the Chief Risk Officer, the Head of the Grant Management Division, the Inspector General and the Legal Department.

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

² The Board approved the initial appointment of KPMG SA pursuant to GF/B34/EDP18 (April 2016).

³ The Board approved the Charter of the Audit and Finance Committee, as set forth in Annex 1 to GF/B34/ER06, pursuant to GF/B34/EDP07 (January 2016). Cf. Section B.2.2.a.

What is the need or opportunity?

1. The Policy for Financial Administration⁴ provides that the Board shall appoint independent External Auditors to audit the financial statements of the Global Fund in accordance with International Standards on Auditing and report thereon to the Board and the AFC.
2. The External Auditor also conducts audits of the financial statements of the Global Fund in accordance with Swiss law and Swiss Auditing Standards, stemming from the Global Fund's initial establishment as a non-profit foundation under Swiss law, prior to entry into force of the Headquarters Agreement with the Swiss Federal Council.
3. KPMG SA were appointed as External Auditor and completed their initial mandate from 2016 through 2018, following a transition from another firm which had audited the Global Fund's financial statements from 2003 through 2015.

What do we propose to do and why?

What is the proposal?

4. The Board, based on the outcomes of the performance assessment and the subsequent recommendation of the AFC, is requested to appoint KPMG SA as External Auditor for a second term of three years beginning with the 2019 financial year.

Why is this the recommended option?

5. Continuity of mandate will facilitate the progressive maturity of the assurance provided to the Global Fund Board, building upon the due diligence and level of effort invested by the current External Auditor in critical accounting and external audit matters specific to the Global Fund context.
6. The recommendation to appoint the current External Auditor for a second term is supported by the results of the performance assessment for their first mandate. The performance was evaluated based on four key criteria:
 - i. Quality of services provided by the External Auditor;
 - ii. Sufficiency of audit firm and network resources;
 - iii. Communication and interaction; and
 - iv. Independence, objectivity and professionalism scepticism.
7. The overall performance assessment is higher than 60 percent which is the minimum score required for satisfactory performance. This is considered well-aligned in the context of a first mandate.
8. The Secretariat has discussed the areas for improvement outlined in the performance assessment, which were deemed feasible for the current External Auditor to implement in the three years beginning with the 2019 financial year. KPMG SA has accordingly submitted a revised proposal to reflect the revised scope of work, team resources and engagement fees for a second term contemplated by the AFC.

What are the risks and proposed mitigations?

9. Non-renewal of the current External Auditor would result in operational risk resulting from the inefficiencies in securing a new external auditor and forfeiting the benefits of insights gained following a heavy onboarding investment and a learning curve to fully understand the Global Fund

⁴ The AFC approved the Policy for Financial Administration in October 2016.

business model, risk and assurance mechanism and IFRS impact in the context of not-for-profit entity.

10. Renewal for a term shorter than three years may be perceived as affecting the current External Auditor's ability to act independently.

Which option does the Secretariat recommend, considering the benefits and risks of the options discussed by the Committee?

11. The Secretariat supports the recommendation of the AFC to appoint KPMG SA as External Auditor for a second term of three years beginning with the 2019 financial year, in light of their revised proposal.

Recommendation

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

Annexes

The following items can be found in Annex:

- Annex 1: Summary of Committee Input
- Annex 2: Relevant Past Decisions

Annex 1 – Summary of Committee Input

At its 8th meeting in October 2018, the AFC supported the leveraging of the current External Auditor's investment in building institutional knowledge, and acknowledged the absence of a requirement to periodically rotate the Global Fund's external auditors. It further instructed the Secretariat to conduct a performance assessment of the current External Auditor and nominated the AFC Chair, Vice-Chair and independent member (as an expert on financial audit matters) to participate in consultations, to inform a recommendation on appointment of an external auditor for the following year(s).

In early 2019, the Secretariat launched the performance assessment process. On 25 February 2019, it held telephonic consultations with the AFC Chair, Vice-Chair and independent member.

At its 9th meeting in March 2019, the AFC deliberated upon the results of the performance assessment for the current External Auditor's first mandate. In accordance with its advisory authority, the AFC made enquiries of the Secretariat, the Inspector General and the External Auditor. The ensuing discussion encompassed matters such as the scope of proposed audits during a second term and the role of extended country team reviews in the context of internal controls, complementarity with respect to the audits conducted by the Office of the Inspector General, potential alternatives and their implications, the appropriate length of a second term and areas for improvement.

The AFC emphasized its confidence in the Secretariat's ability to manage performance discussions with KPMG SA and, at the conclusion of the session, voted unanimously to recommend the appointment of KPMG SA for a second term beginning with the 2019 financial year to the Board for approval pursuant to GF/AFC09/DP03.

Annex 2 – Relevant Past Decisions

Relevant past Decision Point	Summary and Impact
GF/AFC09/DP03: Appointment of the External Auditor (March 2019)	Based on the performance assessment presented by the Secretariat, the Audit and Finance Committee recommended the Board to authorize the appointment of KPMG SA as the Global Fund’s independent external auditor for a second three year term beginning with the 2019 financial year.
GF/AFC02/DP09: Advance Payments (October 2016)	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.
GF/B34/EDP18: Appointment of the External Auditor (April 2016)⁵	Based on the Audit and Ethics Committee recommendation, set forth in GF/B34/ER13, the Board authorized the appointment of KPMG SA as the Global Fund’s external auditor for an initial three-year term beginning with the 2016 fiscal year.
GF/FAC11 (October 2008)	The former Finance and Audit Committee approved the Policy for Financial Administration, as set forth in Annex 2 to GF/FAC11/03, which requires the Board to appoint independent auditors to audit the financial statements.
GF/B17/DP21: Transition from Administrative Services – Human Resources and Financial Rules (April 2008)⁶	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.

⁵ <https://www.theglobalfund.org/board-decisions/b34-edp18/>

⁶ <https://www.theglobalfund.org/board-decisions/b17-dp21/>