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# 2019 Annual Financial Statements

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## Electronic Report to the Board

GF/B42/ER07

42<sup>nd</sup> Board Meeting

31 March 2020, Geneva, Switzerland

### **Board Decision**

Purpose of the paper: This report presents an overview of the Global Fund's 2019 Annual Financial Report, including the Consolidated Financial Statements, and the 2019 Statutory Financial Statements. Such financial statements have been audited by KPMG SA. The Audit and Finance Committee has recommended such financial statements to the Board for approval and issuance.

# Decision

**i. Decision Point: GF/B42/EDP07: 2019 Annual Financial Report**

***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2019 Annual Financial Report, including the 2019 Consolidated Financial Statements which have been audited by KPMG SA, as set forth in Annex 1 to GF/B42/ER07.***

**ii. Decision Point: GF/B42/EDP08: 2019 Statutory Financial Statements**

***The Board authorizes the issuance of, and therefore approves, the Global Fund's 2019 Statutory Financial Statements, which have been audited by KPMG SA, as set forth in Annex 2 to GF/B42/ER07.***

**Budgetary implications (included in OPEX budget)**

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 3.

# Executive Summary

## Context

1. The Global Fund undertakes external audits of its annual financial statements each year pursuant to the Policy for Financial Administration 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 Council.
2. For the 2019 financial year, two sets of financial statements are provided to the Board for issuance and approval, as follows:
  - i. The 2019 Annual Financial Report, which includes the 2019 Consolidated Financial Statements audited by KPMG SA (the “External Auditor”); and
  - ii. The 2019 Statutory Financial Statements audited by the External Auditor.

## Input Sought

- Decision Point: GF/B42/EDP07: 2019 Annual Financial Report
- Decision Point: GF/B42/EDP08: 2019 Statutory Financial Statements

## Input Received

1. 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 approval.
2. At its 12th meeting in March 2020, the AFC deliberated upon the 2019 Annual Financial Report, including the 2019 Consolidated Financial Statements, and the 2019 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/AFC12/DP05.
3. 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.

# Report

## External audit for financial year 2019

1. The External Auditor is responsible for delivering a written report of its audit findings arising from the audit of the Global Fund's annual financial statements to the Board and the AFC.
2. The Secretariat is responsible for reporting to the Board, through the AFC, all audit findings in a timely manner, as well as management's response to audit findings including implementations of recommendations.
3. For the 2019 financial year, the Secretariat presents two sets of information to the Board for its issuance and approval in accordance with the AFC's recommendation, as follows:
  - i. The 2019 Annual Financial Report, including the 2019 Consolidated Financial Statements, which have been audited by the External Auditor; and
  - ii. The 2019 Statutory Financial Statements, which have been audited by the External Auditor.
4. The 2019 Annual Report, comprising the 2019 Consolidated Financial Statements and its related discussion, analysis and commentary is set forth in Annex 1. The 2019 Statutory Financial Statements, as set forth in Annex 2, is an independent document prepared only for Swiss statutory financial reporting purposes.
5. As such the financial information in the 2019 Statutory Financial Statements is a subset of the consolidated information reflected in the 2019 Consolidated Financial Statements, with three main points of differences:
  - 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"). 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 2019 Consolidated Financial Statements include the financial statements for the U.S. Fund for the Global Fund whereas the 2019 Statutory Financial Statements do not. The U.S. Fund is an independent legal entity and is not affiliated with the Global Fund.
  - iii. Reporting currency: The 2019 Consolidated Financial Statements are reported in USD, the functional currency of the Global Fund. The 2019 Statutory Financial Statements are reported in CHF by translating the non-U.S. Fund financial results incorporated in the 2019 Consolidated Financial Statements.

6. Based on its discussions with audit procedures conducted, the External Auditor reported for the year ended 31 December 2019:
- 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. no material impact of subsequent events resulting from COVID19 situation on the financial positions reported in the financial statements presented for approval.

7. Financial Audit Findings:

Current year observations mainly relate to grant processes. One of which is a consolidation of recurring observations from prior years on manual controls performed by country teams around the submission of notification letter to Principal Recipients and consistent documentation for key decisions.

Summary of Financial Audit Findings

Year	MW	CD	PIO	Total	Outstanding
2019	-	-	3	3	3
2018	-	-	1	1	1
2017	-	-	0	0	0
2016	-	-	1	1	0

8. IT General Control Findings:

The two control deficiencies identified during 2019 relate to assurance provided by IT services organizations used by the Global Fund for its grants (Salesforce) and treasury & cash management (Kyriba). The Secretariat has compensating controls which mitigates the risk on the completeness and accuracy of the financial statements. Accordingly, the auditors have concluded no material impact on the financial and accounting records which form the basis for the financial statements.

Summary of IT General Control Findings

Year	MW	CD	PIO	Total	Outstanding
2019	-	2	3	5	5
2018	-	3	-	3	1
2017	-	2	1	3	1
2016	-	-	1	1	1

9. Additional disclosure on subsequent event impact assessment arising from COVID-19 outbreak has been included in the management commentary on page 33 of the 2019 Annual Financial Report. As required under IFRS Note 7.4 has also been added on page 80 of the 2019 Annual Financial Report.
10. Following the external audit review, the External Auditor has confirmed they are able to issue unqualified audit opinions on the 2019 Annual Consolidated Financial Statements and 2019 Statutory Financial statements, also confirming:
  - i. The 2019 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 2019 Statutory Financial Statements:
    - a. The 2019 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**

11. Following the approval of the Decision Points proposed in this paper the Secretariat will:
  - i. publish the 2019 Annual Financial Report which includes the audited 2019 Consolidated Financial Statements, on the Global Fund's external website accessible by its stakeholders; and
  - ii. file the audited 2019 Statutory Financial Statements with the Surveillance des fondations under the Département fédéral de l'intérieur, in accordance with Swiss law and the Global Fund's Bylaws.

## **Recommendation**

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