

**FOR DECISION AND INPUT**

**BM.03/DOC.11: EXTERNAL AUDIT ARRANGEMENTS**

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**1. PURPOSE**

The purpose of this paper is to request from the Board an extension to the mandate of the external auditor. The Secretariat also wishes to receive input from the Board on suggestions on future audit arrangements.

**2. BACKGROUND AND REASONS FOR RECOMMENDATION**

*Current status*

2.1 At the 1st Board Meeting in November 2014, through its decision BM.01/DEC.12, the Board:

- confirmed the appointment of PricewaterhouseCoopers (“PWC”) as auditor until 31 March 2016; and
- authorised the Executive Director (to be appointed) to sign the engagement letter with PWC attached as Annex 3 to BM.01/DOC.02.

2.2 The engagement letter has been signed and the audit is scheduled to start on 28 March 2016. The audit will be conducted in line with international auditing standards as requested by the Board during the discussion of the appointment of the external auditor at the 1<sup>st</sup> Board Meeting.

2.3 While the audit work itself will be taking place in March and into April 2016, the auditors will be required to meet with the Board at its first meeting in 2016 which is likely to take place after 31 March 2016. The Secretariat is therefore asking for an extension of the mandate of the auditor and to simply refer to the year of the financial statements for which the audit will be conducted rather than provide an actual end date for the engagement in the text of the decision.

*Suggestions for future audit arrangements*

2.4 At the 1<sup>st</sup> Board Meeting, it was noted that the selection of the auditor for 2016 should be subject to a selection process.

2.5 The Secretariat would like to suggest a few basic principles upon which future audit arrangements could be based:

- The selection of external auditors by the Board would be made on the basis of an open, competitive bidding process conducted by the Secretariat in line with the Procurement Policy approved by the Board and any regulations issued thereunder. The selection criteria that would be applied would fall into the following categories:

- i. Compliance with legal requirements for auditors in Switzerland;
  - ii. The firm's international affiliation (tier 1 or tier 2 firm);
  - iii. The firm's international presence and clientele;
  - iv. The firm's independence;
  - v. The firm's audit methodology, approach and use of information technology;
  - vi. The composition, qualifications and experience of the proposed audit team; and
  - vii. The proposed cost.
- The performance of the external auditor will be appraised at the end of each yearly engagement. Performance indicators would include :
  - i. Quality of the audit plan;
  - ii. Compliance with the engagement letter and the audit plan;
  - iii. Timeliness and quality of communications;
  - iv. Competency and industry knowledge of external audit team;
  - v. Adequacy of resources provided to achieve the scope as outlined in the plan;
  - vi. Relevance and quality of findings and recommendations;
  - vii. Objectivity and independence of the auditor;
  - viii. Reasonableness of actual audit fees and expenses
- Removal of the external auditor will be by resignation, termination or term expiration.
- Rotation: The audit term shall be a maximum of four years. A firm of auditors may be reappointed for another four year term under the leadership of a different engagement (audit signing) partner.
- The external auditor would not be permitted to provide non-audit services which may jeopardise the objectivity and independence of the external auditor.

***Suggestion for the appointment of the external auditor for the 2016 Financial Statements***

2.6 In view of the stage of development of GCERF, the Board may wish to consider reappointing PWC for a further engagement for a total of two consecutive years without a competitive selection process if PWC's performance in relation to the audit of the 2015 financial statements is found to meet expectations.

**3. NEXT STEPS**

The audited financial statements will be presented to the Board for approval prior to 30 June 2016. At that time, the performance of the auditor will be assessed and the results presented to the Board and consideration can be made as to whether an extension of its mandate is warranted.

**4. FINANCIAL IMPLICATIONS**

The cost of the 2016 audit is included in the Proposed Budget for 2016.