



## Report to the GAVI Alliance Board

7-8 July 2011

<b>Subject:</b>	<b>Cash Programme Risk Management</b>
<b>Report of:</b>	Cees Klumper, Director of Internal Audit
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<b>Agenda item:</b>	09
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	SG2 - Health systems to deliver immunisation

### **Section A: Overview**

#### **1. Purpose of the report**

- 1.1 To present for the Board's consideration and decision Internal Audit's recommendations on further strengthening GAVI's management of fiduciary risk in its cash-support programmes. These recommendations reflect an evolution rather than a revolution in GAVI's approach and have been designed to achieve a level of risk management that is 'leading practice' in preventing, detecting and responding to possible misuse of GAVI funds, reflecting GAVI's 'zero-tolerance' policy towards such misuse.

#### **2. Recommendations**

- 2.1 The Internal Auditor recommends that the GAVI Alliance Board adopt the following resolutions:

*The GAVI Alliance Board resolved to:*

*Request the Secretariat to more actively engage Country Responsible Officers ('CROs')<sup>1</sup> in the area of fiduciary risk, including, through more frequent visits to implementing countries;*

*Request the Secretariat to engage in more frequent review and follow-up of programme reporting through its CROs and the Transparency and Accountability Policy ("TAP") Team;*

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<sup>1</sup> CROs are the Secretariat's 'interface' with implementing countries and maintain regular contact with government, CSO and other Alliance partner representatives in-country, among other duties.

*Request the TAP team to be more actively involved in the selection of the cash support programmes' external auditors and in the determination of their Terms of Reference;*

*Request the Secretariat to examine the possibility of establishing a central confidential reporting hotline;*

*Approve permanently positioning the TAP function within Internal Audit and in consultation with the Audit and Finance Committee update the Internal Auditor Terms of Reference accordingly.*

*Request the Secretariat to implement this resolution with a high degree of priority to avoid unnecessary risks, also considering that implementation will take some time and that total GAVI cash support is increasing.*

### **3. Executive summary**

- 3.1 The recommendations noted above are the outcome of an in-depth review of GAVI's current measures, conducted by Internal Audit in consultation with the relevant Secretariat staff, and taking into account, among other things:
- (a) The lessons learned from the first two years of implementation of GAVI's Transparency and Accountability Policy, including those drawn from the facts and circumstances that led to the decision to perform investigations into possible misuse of GAVI funds in Mali, Niger, Cote d'Ivoire and Cameroon;
  - (b) Consultations with donors and individuals at comparable organisations;
  - (c) Presentation and discussion at the Audit and Finance Committee meeting on May 11, the GAVI Alliance Board retreat in Oslo on April 13, and the GAVI Donor meeting in London on March 28;
  - (d) The GAVI Second Evaluation and other relevant external evaluations;
  - (e) Comparisons with the risk management measures in place at similar organisations;
  - (f) Feedback received on Internal Audit's draft review report that underlies this paper from Transparency International UK ('TI-UK'); the Offices of the Inspectors General from USAID and The Global Fund to Fight AIDS, Tuberculosis and Malaria (the 'Global Fund'); and from KPMG, GAVI's external audit firm.
- 3.2 The most relevant analysis and conclusions section of Internal Audit's detailed review report is attached. The complete report, and TI-UK's report thereon, are available upon request.

- 3.3 Besides strengthened management of fiduciary risks, other direct benefits are expected to be derived from the increased interaction of the CROs with in-country representatives from governments and in-country Alliance partners.
- 3.4 TAP at inception was organisationally positioned within the Programme Delivery department. However, in early April, 2011, the responsibility for TAP was temporarily moved to Internal Audit, principally to ensure that sufficient managerial capacity could be devoted to the function. After consideration of the alternatives, Internal Audit has concluded that, although there is no clearly preferable alternative, permanent placement of TAP within Internal Audit is the preferred option. The analysis underlying this recommendation is included in the attachment to this paper, section 8, under 'Organisational positioning of the TAP function'.
- 3.5 In order to obtain an independent view on its draft conclusions and recommendations, Internal Audit engaged Transparency International UK to act in an advisory and 'sounding board' capacity. Their comments, as well as those of the others who kindly agreed to review the draft conclusions and recommendations as enumerated in paragraph 3.1 (f) above, have been incorporated. The two main changes made as a result of this valuable external feedback were to (1) further expand the CROs' involvement and (2) examining the possibility of establishing a central confidential reporting hotline.
- 3.6 The further development and implementation of the Health Systems Funding Platform ('HSFP') will have an important impact on how GAVI manages the fiduciary risks associated with cash support programmes in the future. However, this impact is not yet fully determinable and will take several years to take effect. In any event, it is estimated that adoption of the proposed measures will help to further align GAVI's risk management profile to that of the other HSFP partners.
- 3.7 Alternative measures that have been considered but are not being recommended, because of cost/benefit and other considerations, include:
- (a) The 'outsourcing' of the risk management measures to Alliance partners with a presence in the implementing countries such as the World Bank and/or one or more bilateral donor countries, and/or through
  - (b) Engaging locally-based fund agents such as currently employed by the Global Fund.

## 4. Context

- 4.1 The risk of misuse of funds in GAVI's cash support programmes has consistently been assessed as one of the highest Alliance risks. This is in part due to the reputational damage that could result from a perception that GAVI does not do enough to prevent, detect and respond to instances of misuse.

- 4.2 When Internal Audit was established in 2009, one of the prominent elements of its terms of reference was “to review the operation of GAVI’s Transparency and Accountability Policy and provide assurance to the GAVI Alliance Board as to the adequacy of GAVI’s policy and the application thereof”. Consequently, Internal Audit decided early on to perform the review that is summarised in this paper.
- 4.3 Late 2010 and early 2011, TAP identified, and proceeded to investigate, instances of (potential) misuse in cash-support programmes in four implementing countries.
- 4.4 Developments in early 2011 surrounding the Global Fund's experiences with misuse in its programmes have further underscored the importance of this topic to GAVI's stakeholders.
- 4.5 Internal Audit, over the past several months, has responded to questions from many donors on the subject of misuse and GAVI's measures to mitigate this risk.
- 4.6 Accordingly, Internal Audit's review and resulting recommendations are timely in supporting GAVI's Board and management in considering how to further strengthen measures in this important area.

### **5. Next steps**

- 5.1 The proposed measures, if approved by the Board, would be implemented in a phased approach which would require up to two years to take full effect. As noted above in paragraph 3.6, besides strengthening fiduciary risk management in current cash support programmes, they would also help to position GAVI optimally for its participation in the Health Systems Funding Platform.
- 5.2 In response to a number of questions from various stakeholders, it is Internal Audit’s intent to perform a similar review of GAVI’s measures to mitigate the risks associated with the procurement and distribution of vaccines and related supplies.

### **6. Conclusions**

- 6.1 As outlined above, the proposed measures would further strengthen GAVI’s management of the fiduciary risks associated with programmes receiving GAVI cash support to leading-practice. In addition, other benefits are expected to be derived from the proposed increased Secretariat engagement at the country level. The incremental cost of doing so would be relatively small. The impact on countries would be modest and is expected to be, on balance, positive.

## **Section B: Implications**

### **7. Impact on countries**

7.1 Countries would be impacted in the following ways should the recommendations be approved:

- (a) More frequent visits by CROs would require some additional time on the part of government representatives as well as other in-country Alliance partner organisations. In 2010, the 8 CROs combined carried out 20 country visits; for 2011 this is planned to increase to 32. Under the proposed measures, this would increase further to between 50 and 60 visits per year.
- (b) In addition, more frequent other contacts (mostly through telephone calls and emails) between the CROs/TAP and countries would also require some additional time.
- (c) The requirement to provide more regular programme reporting to the Secretariat would also involve some additional time. However, it is important to note that it is not intended to require countries to prepare such periodic reports according to a GAVI-specific format but, rather, for countries to share with the Secretariat reporting that they already use for their own purposes in managing the programmes, so this requirement would not add to countries' administrative burden.
- (d) Some time would also be involved in liaising with the GAVI Secretariat on the selection and appointment of the programme's external auditors, and the establishment of their terms of reference.
- (e) On the positive side, more frequent interaction with CROs and TAP will create more opportunities to exchange valuable information between the countries and the Secretariat which should, among other things, further facilitate the sharing of best practices. The GAVI Second Evaluation highlighted GAVI communication at country level as a current weakness. Also, having leading-practice risk management measures in place will help to enforce countries' governance mechanisms. Finally, more frequent interaction and visibility of CROs to programme progress and potential bottlenecks should have a favorable impact programmatically as well.

### **8. Impact on the Business Plan / Budget / Programme Financing**

8.1 The impact of the proposed measures would be on the business plan/budget rather than on programme financing, as follows:

- (a) The cost of the additional headcount that would be necessary to implement the proposed measures;

- (b) Increased travel costs as a result of more frequent visits to implementing countries.

### **9. Risk implications and mitigations**

- 9.1 The main purpose of the proposed measures is to further strengthen GAVI's management of the fiduciary risks associated with its cash support.
- 9.2 As described in section 8 of the appendix to this paper, positioning the TAP function within Internal Audit would result in Internal Audit no longer being able to provide independent assurance about the activities carried out by TAP. In Internal Audit's view, this limitation would be outweighed by the various positive effects outlined in the appendix such that, in the end, GAVI's risk exposure will be reduced.

### **10. Legal implications**

- 10.1 If the recommendations outlined in this paper are approved, the grant arrangements with countries, which are being updated with the dual aim of simplifying and harmonizing the grant arrangements and minimizing fiduciary risks to GAVI funding, would have to be updated to reflect:
  - (a) GAVI's involvement with the selection of, and Terms of Reference for, the programme's external auditors; and
  - (b) More frequent programme reporting to the Secretariat.

### **11. Consultation**

- 11.1 Internal Audit has consulted widely in performing the review and developing the recommendations included in this paper, as described in paragraph 3.1.

### **12. Gender equality implications**

- 12.1 There are no issues contained in this report that have gender equality implications.

### **13. Implications for the Secretariat**

- 13.1 As outlined above, the Secretariat would be impacted in the following ways:
  - (a) Expanding headcount;

- (b) Developing specific terms of reference for CROs that set out their responsibilities vis-à-vis fiduciary risk management and the associated activities they would be expected to carry out;
- (c) Implementation of a programme to better 'equip' the CROs to be able to perform these activities, including training and coaching where necessary;
- (d) Undertaking with the implementing countries to become involved in the selection of external auditors as well as in the determination of their Terms of Reference;
- (e) Undertaking with the implementing countries to identify the periodic programme reporting that should be submitted to the Secretariat;
- (f) Revision of the grant arrangements with countries to implement the proposed measures;
- (g) Possibly the establishment of a central reporting hotline;
- (h) Updating of Internal Audit's Terms of Reference, should the Board decide to approve the recommendation to place TAP permanently within Internal Audit.



Appendix – section III of Internal Audit’s review report, dated June 22, 2011, on ‘Management of fiduciary risks in cash-support programmes’.

The full report, as well as Transparency International UK’s review report thereon, are available upon request.



## Section III of Internal Audit’s review report: Management of fiduciary risks in cash-support programmes

### Analysis of risk management measures

The table below contains an overview of the risk management measures currently in place along with a (necessarily subjective) assessment of the level of assurance currently being derived from each measure, the potential for further strengthening, and the relative effort that would be involved in realising that potential strengthening (on a scale of 1 to 10, 10 being the highest):

Element		Current level of assurance		Additional potential	To total	Level of effort required <sup>1</sup>
#	Description	#	Description			
1	In-country partners (WHO, World Bank, UNICEF)	1	low	1	2	8
2	In-country coordinating and oversight committees	1	low	1	2	
3	Country responsible officers	2	low	2	4	
4	Quarterly reporting	n/a		4	4	4
5	Internal auditors	3	low to moderate	2	5	
6	External auditors	4	low to moderate	3	7	
7	Financial management assessments and other TAP activities (follow-up visits, pre-screens, investigations)	9	high	0	9	
8	GAVI Internal audit	2	high <sup>2</sup>	n/a	2	n/a
sub-totals		22		13	35	12
9	GAVI whistleblower hotlines	n/a		4	4	14
10	No-objection procedure for large expenditures	n/a		2	2	4
sub-totals		0		6	6	18

<sup>1</sup> Items 1-4 and 4-7 have been combined because, in practice, their realisation would be through logically combined additional activities in Programme Delivery and TAP, respectively; item 4 would be shared between the two functions.

<sup>2</sup> The ‘high’ rating does not stem from the absolute ‘volume’ of the assurance derived, but from its more *qualitative* nature, which is seen as high relative to the risk management approach followed and overall assurance on the execution of that approach, from a Secretariat-independent viewpoint.

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Below are analyses and summary conclusions on each of the measures listed in the table.

Absent from the table is the engaging of third parties in-country to execute fiduciary oversight-type activities, similar to the Global Fund's use of Local Fund Agents. The main reasons for this are:

- it would be a significant departure from 'the GAVI model'
- the Global Fund's experience in this respect is not convincing
- the costs would be very significant
- Internal Audit feels that it is precisely the in-country presence that is an important limiting factor on any entity's ability to act with the necessary independence
- GAVI's cash support programmes are less complex and much smaller in size compared to the Global Fund's, allowing a different mix of risk mitigation measures that rely more on 'distant monitoring' and requiring less on-going monitoring.

### 1. In-country partners (WHO, World Bank, UNICEF)

As pointed out in several GAVI evaluations (see chapter IV), GAVI's in-country partners, most notably UNICEF, the World Health Organization and the World Bank but also donor countries and civil society organisations with a presence in-country, by and large limit their role in oversight of the management of GAVI funds to participation in coordinating and oversight committees. This has been acknowledged before and was one of the factors that led to the establishment of the Transparency and Accountability Policy and TAP team. Although there is an inherent logic to expecting partners with in-country presence to be more active as stewards of GAVI funds and performing the kinds of activities that TAP carries out, in practice there are various practical reasons why their appetite and/or ability to do so is limited. At the time leading up to the establishment of TAP, the possibility of having the World Bank perform the 'TAP role', was specifically explored with Bank officials and a conscious decision was made by the Bank at the time not to undertake to do this. The reasons were formal, related to the risks the Bank would be taking on, and also because, as pointed out under item 8 ('GAVI Internal Audit', under the sub-heading 'Organisational positioning of the TAP function'), separating the monitoring of programmatic issues, which would have remained with the Secretariat, from the financial aspects, was considered undesirable.

Also, the possibilities of in-country partners to effectively 'watch over' how GAVI's funds are being managed are in fact limited, particularly in situations of potential fraud, where perpetrators in practice tend to have many opportunities to cover up wrongdoing from in-country partners.

Accordingly, the level of assurance that is being derived from in-country partners is judged as low. Nevertheless, there are opportunities to increase this, and at relatively low cost. Experience has shown that, from time to time, representatives of in-country

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partners do have information that could point to possible misuse. Oftentimes, they are willing or eager to share this information with GAVI, but on an informal basis. The preference to do this informally rather than formally can be for various reasons, ranging from a judgment that the information is just not sufficiently concrete to a desire to not unnecessarily harm relationships within the country. Whatever the reason, Internal Audit believes that, by undertaking to have more frequent face-to-face contact with in-country representatives, Country Responsible Officers (as more fully described under item 3, CROs are the Secretariat staff, within Programme Delivery, who are the main liaison with implementing countries and in-country partners) will create more opportunities for receiving this relevant information. This would most probably apply not only to financial management issues, but also programmatic issues, which would increase GAVI's understanding of programmatic issues and challenges.

### Conclusion

By more actively engaging with in-country partners through more frequent face-to-face and other contacts, it is expected that relevant information will be passed onto the Secretariat more often.

### 2. In-country coordinating and oversight committees

Experience, as documented in several independent evaluation reports, Financial Management Assessments, and from Internal Audit's own observation in-country, has shown that the committees established to assist with programme coordination and exercise oversight over programme execution, do not always function optimally. The Global Fund's OIG has reported similar issues. The most significant problem is lack of true engagement which manifests itself in 'form over substance', low-level representation, infrequent meetings and 'rubber-stamping' of countries' Annual Progress Reports. Also, conflicts of interest sometimes occur. There are of course also examples of committees that function well. Nonetheless, on the whole there is room for improvement. Strong oversight committees reduce fiduciary risks and paying more attention to their functioning, predominantly by the Country Responsible Officers, should result in noticeable improvements. Engaging more actively and more frequently with Committee members, reviewing the Committee meeting minutes and attending meetings from time to time all will help to strengthen these committees.

### Conclusion

Having the Country Responsible Officers more actively engaged with coordinating and oversight committees is expected to result in improvements in both the committees' effectiveness as well as the Secretariat's insight into potential programmatic and financial management issues.

### 3. Country responsible officers

Currently, the 8 Country Responsible Officers ('CROs') at the Secretariat are each responsible for between 5 to 12 countries (on average 9). In addition, most CROs

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have other functional responsibilities and 3 CROs have their country-facing responsibility as an additional task to their original job.

The number of countries handled by any one CRO is influenced by other thematic responsibilities. The intensity of engagement with a country is influenced by population size; the number of funding windows a country is accessing; and the potential for (or actual) misuse of funds. Francophone countries in Africa tend to require a higher level of engagement. Responsibility by regional cluster provides coherence to a CRO portfolio.

Mostly as a result of the high number of countries per CRO, the level of engagement with their individual countries is surprisingly limited. In 2010 for example, all CROs combined carried out less than 20 country visits. At this frequency, the average country would be visited only once approximately every 3,5 years. For 2011 this is planned to increase to 32, however this still results in a visit not more often than once every two years. Of course, physically going to their countries is not the only way that CROs stay in touch with what is happening in programmes – but it is a very important way, from both fiduciary risk management as well as programmatic and other perspectives.

Purely from the fiduciary risk perspective, it should be noted that first-hand observation and face-to-face interaction with programme- and other government officials, in-country partners, oversight committee members, civil society representatives and other relevant individuals is key to being able to expect the sharing of oftentimes sensitive and judgmental information on possible 'red flags' and suspicions of misuse. This kind of information is quite simply far more likely to be relayed when there is a personal relationship based on mutual trust than through formal and impersonal institutional channels. Therefore, Internal Audit considers more frequent face-to-face interaction at country level very important to enhancing GAVI's measures to mitigate fiduciary risk in cash-support programmes.

As to the number of additional CROs that would be necessary to implement the measures proposed in this report, Programme Delivery at the time of finalising this review indicated that it would be performing its own comprehensive analysis at some later date.

It should be noted that, until either the proposed measures or an equivalent set of alternative measures are implemented, GAVI's risk exposure is higher than probably desirable.

In addition to having a sufficient number of CROs, it is also important that their skillsets allow them to adequately perform their monitoring activities. So far, there has been some variety in how CROs execute their roles, although Programme Delivery has started to harmonise this as from early 2011. Should the measures proposed in this paper be adopted by the Board, it is envisaged that their implementation will involve close cooperation among Programme Delivery and TAP, as well as with the Monitoring and Evaluation unit within Policy and Performance, in defining the

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necessary detail activities and related required skillsets. Likely, some element of training will be involved.

### Conclusion

Increasing interaction with countries, including through more frequent in-country visits, should result in a number of important benefits, not only in terms of strengthening fiduciary risk management but also from a programmatic perspective and for other processes within GAVI. To this end, the number of CROs should be increased. It is important to note that the measures proposed in this report cannot be implemented so long as the number of CROs is not increased, exposing GAVI to greater risk than probably desirable.

### 4. Quarterly reporting

Currently, GAVI receives only annual progress reports, five months (or longer) after the end of each programme year and at a relatively aggregated level. With CROs visiting only once every few years, and without having a true in-country presence, this low reporting frequency further limits the possibilities for the Secretariat to pick up on potential 'red flags' from a fiduciary risk perspective or on potential programmatic bottlenecks.

In line with the recommendation to increase the level of engagement that the CROs and TAP have at the programme level, and to provide them with sufficient and timely information to do so, it is proposed to require cash-support programmes to share with the Secretariat their periodic *internal* reporting. In other words, the programmatic and financial reporting that the programme managers use to manage the activities being carried out. Programme Delivery has already started to pilot this approach in a few countries, for example DRC. So the requirement would not be to produce reports using any GAVI-specific format, but simply to send a copy of the already existing, internal management reports.

It cannot be ruled out that some programmes in fact do not produce such reports on a regular enough basis. This would be a significant internal control weakness in and of itself, and it would be better to identify such situations sooner rather than later.

The 'default' frequency of reporting would be quarterly within a reasonable timeframe after each quarter. For lower-risk programmes, a lower frequency may be appropriate, although not less than bi-annually. Both the CRO as well as TAP would receive the reports and review them, following up with the country on unusual or unexpected developments.

Besides being a detective control, such a review, and the mere need to submit quarterly reports, would also serve as a preventative control.

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### Conclusion

Cash-support programmes should be required to share with the Secretariat their periodic internal management reports to enable the CROs and TAP to have early visibility to possible indications of heightened risk.

### 5. Internal auditors

One of the more or less standard features of recipient country governments' fiduciary arrangements in place for GAVI-funded programmes is the periodic execution of internal audits by appropriately qualified and independent audit professionals within the Ministry of Health's internal audit departments. However, as is also the case with programmes' external auditors as described in the point below, these arrangements are not always satisfactory. Although they are reviewed in the context of Financial Management Assessments carried out by TAP (and should also be reviewed by the programmes' external auditors), GAVI has so far not sought to stay informed of internal audit activity and outcomes on a more ongoing basis. It is expected that having TAP be more actively engaged in this area will more readily identify gaps in (the quantity or quality of) internal audit coverage. It would also reinforce and help strengthen the importance of these functions which, in turn, should lead to better risk management and reduced risk.

### Conclusion

By having TAP more actively engage with internal auditors on a regular basis, which should not cost an inordinate amount of time, it is expected that their involvement and value-add to the fiduciary risk management can be enhanced.

### 6. External auditors

GAVI requires each cash-support programme to have an independent audit performed of its financial statements each year by appropriately qualified auditors who are truly independent from the programme management. GAVI *should* be able to derive a high degree of assurance on the management of its funds as, ordinarily speaking, such audits should be effective in identifying and reporting material amounts of ineligible or fraudulent spending and thus serve as a preventive measure as well.

Unfortunately, experience in both GAVI-funded programmes as well as at the Global Funds shows that this is not always the case. The root causes include lack of capacity and independence issues.

In its 15 March 2011 'Lessons Learned' report, the Global Fund's Office of the Inspector General notes:

"There is scope to strengthen oversight by ... revisiting the audit arrangements followed by the recipients to ensure that they provide adequate assurance on grant implementation"

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Thus far, GAVI has not involved itself in the selection of, and the setting of the Terms of Reference for, external auditors. However, given the failure of some external audits to detect situations of material misuse, it is proposed to change this. By becoming involved in the appointment and setting of deliverables, GAVI can expect to significantly improve the quality of this aspect.

There are also opportunities to create some synergies: for example, a standard requirement for financial statement audits is that the auditor should perform a regular assessment of the key internal controls that are expected to be in place – which is the main objective of the Financial Management Assessments carried out by TAP. One possibility that is worth exploring is for TAP and the local external auditors to collaborate on this assessment. This would reduce overlaps, could potentially reduce the amount of time TAP needs to spend on Financial Management Assessments, while at the same time providing some degree of insight into the capacity of the external auditor to perform a quality audit as well as help build relationships between the external auditors and the Secretariat that could facilitate the sharing of information on potential 'red flags' or other relevant financial management or performance issues.

### Conclusion

By becoming actively involved in the selection of, and Terms of Reference for, the programmes' external auditors, it is expected that their effectiveness can be significantly enhanced without incurring an inordinate amount of time and with the potential for creating synergies.

### 7. Financial management assessments and other TAP activities (follow-up visits, pre-screens, investigations)

During the two and half years of implementing the Transparency and Accountability Policy, it has become apparent that the Financial Management Assessments conducted by TAP have been the main fiduciary control mechanism that provide GAVI with the assurance that its cash-support programmes are managed in a transparent manner and in accordance with the grant arrangements in place.

Throughout this period, there have been key learnings (including from the four cases of misuse of funds identified to date by TAP) that have led to an evolution from, broadly speaking, a predominantly 'top-down', country public financial management assessment approach to a more 'bottom-up', investigative assessment approach.

TAP's current activities can be segmented into preventative and detective categories that encompass the following activities:

#### Preventative activities

**Desk Financial Assessments** of proposed funding mechanisms in the early draft proposal stage. This desk-based review pre-assessment is performed in close cooperation with Programme Delivery and can look at potentially ineligible activities in the draft proposal. Recommendations are communicated in written form to

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Programme Delivery which in turn interacts with the country to review the draft proposal before it is finalised and communicated to the Proposal Independent Review Committee ('IRC').

**Financial Management Assessments** ('FMAs'). After the approval of the proposal by the IRC and prior to any funds being transferred to a country, an FMA is undertaken to gain knowledge of the strengths and challenges posed by a country's public financial management systems and to select the appropriate funding mechanism to channel GAVI cash support with a view to reducing potential fiduciary risks. The main output of the FMAs is the issuance of a report and Aide-memoire with the recipient country.

### Detective activities

**Programme Audits:** All countries that receive GAVI cash grants in excess of US\$ 100,000 are subject to a regular (in principle, bi-annual) Programme Audit. The main objective of these audits is to provide assurance that GAVI cash grants have been managed in the most transparent manner and in line with the approved proposal. Audits result in reports that include any significant control deficiencies, areas of fiduciary risks as well as potential losses that might be uncovered.

**Monitoring IRC Screening:** TAP provides support to the Monitoring IRC by completing in-house screenings of all financial returns and external audit reports submitted by countries with their Annual Progress Reports. The main output of the screenings is a report which can lead to requests for clarification in the decision letters from the Secretariat to the recipient country. The TAP Team also provides support to other Secretariat teams in areas like bank vetting, CSUs clearing, etc.

**Investigations:** Any concern that is brought to the attention of the TAP team either following a Program Audit or from an internal or external source may result in an investigation in accordance with the Protocol for Suspected or Actual Misuse of Funds.

**Follow-up:** All aide-memoires and program audit reports result in a follow-up visit after a period of one to two years, depending on the risk profile of the country and/or program and the seriousness of the issues reported by the initial assessment work.

No changes are deemed necessary to the current approach at this time. However, as experience continues to build, it is likely that further refinements will continue to be made. Also, in consultation with Transparency International, it has been decided that they will review the detailed approach with the Head of TAP in the third quarter of 2011 which may lead to some enhancements.

### Conclusion

At the present stage, no modifications are deemed necessary to the existing TAP activities. It should be noted however that the new activities contemplated by the



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measures described under items 4, 5 and 6 would require the addition of two FTEs, subject to a simultaneous and adequate increase in the number of CROs as described in item 3.

### 8. GAVI Internal audit

GAVI created the office of Internal Audit during 2009 and the Director of Internal Audit started in the function on November 1, 2009. He is the sole internal auditor within the Secretariat but can hire external resources for short-term needs. The Terms of Reference for Internal Audit describe the mandate and scope of the function as follows:

"Internal Audit ("IA") is an independent and objective assurance and consulting activity designed to add value and improve the operations of the GAVI Alliance ("GAVI"). IA assists GAVI in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

The scope of IA's work extends not only to the Secretariat but also to the programs and activities carried out by GAVI's grant recipients and partners."

With regards to the independence of the function, the Terms of Reference state the following:

"The Director of IA reports to the Chief Executive Officer and to the Board, who appoints and terminates the Director upon recommendation of the Board's Audit and Finance Committee. The Audit and Finance Committee also assesses IA's organisational structure, mandate and operating budget to ensure that these are appropriate and sufficient to meet agreed activities. The Director of IA has free and unrestricted access to the Chair and Vice-Chair of the Board and to the Chair of the Audit and Finance Committee.

All IA activities shall remain free of influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in performing the function.

IA shall have no direct operational responsibility or authority over any of the activities it reviews. Accordingly, it shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be considered management or staff's responsibility."

Both the Audit and Finance Committee and the Board have asked the Director of Internal Audit to consider the adequacy of the function's staffing to ensure that it is sufficient to carry out its responsibilities and fulfill its mandate, and to request

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additional resources if deemed necessary. Based on his ongoing assessment of how management mitigates risk, so far the Director has not felt it necessary to pose such a request. Similarly, the Director has considered the dual reporting lines to have worked well thus far in assuring independence while at the same time facilitating the necessary collaborative working relationships within the Secretariat.

As described above, Internal Audit is designed to add independent assurance over how the Secretariat's management manages risk. In the case of managing the risk of misuse of funds in cash-support programmes, Internal Audit reviews the approach and methodology applied, including through spot-checks and reperformance, but does not carry out these activities itself.

Accordingly, this report contains Internal Audit's assessment, conclusions and recommendations based on, among other things:

- an audit of the Programme Delivery department (in progress);
- a review of the TAP Policy and the TAP Implementation Plan;
- 'routine' in-country visits to Indonesia, Ethiopia (in connection with the preparations for the Health Systems Funding Platform), and DRC, in order to observe how both TAP as well as the CROs operate when in-country;
- and accompanying TAP (usually together with the CRO) on visits to Mali, Niger and Cameroun in connection with investigations into suspicions of potential misuse of GAVI funds in those counties;
- review of the documents excerpted in chapter IV.

### Organisational positioning of the TAP function

At its inception, in early 2009, the Transparency and Accountability Policy Team was positioned within the Programme Delivery department. This arrangement stayed in place until 2 April 2011 when GAVI's Interim CEO, Helen Evans, communicated the following to staff:

"I want to inform you that, in consultation with Mercy Ahun and Cees Klumper<sup>3</sup>, I have decided to temporarily move the responsibility for the TAP (Transparency and Accountability) Team from Programme Delivery to Internal Audit, with immediate effect. The principal reason for this is to ensure that sufficient managerial capacity can be devoted to this very important function when the country reviews and grant renewal team in Programme Delivery is still understaffed and especially at the current time when so much attention is focused on how GAVI deals with its risk oversight over cash-based programmes. The work in this area is already aligned to a high degree between TAP and Internal Audit.

This arrangement will stay in place until the outcome of the review of our transparency and accountability process that is currently underway, for

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<sup>3</sup> Mercy Ahun is the Managing Director of Programme Delivery and Cees Klumper is the Director of Internal Audit.

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discussion at our upcoming Board meeting, in July. This review will also address what the most appropriate permanent positioning of TAP will be going forward."

As announced in the Interim CEO's message, Internal Audit has considered the alternatives of where the TAP function could be positioned in the organisation from different perspectives, as summarised below:

**Programme Delivery** – irrespective of where the TAP function is positioned, close collaboration with the CROs will always be paramount. This is because the programmatic oversight role that is one of the CROs' core responsibilities is inextricably linked to the oversight over financial management in cash-support programmes. This was the main driver for positioning TAP within the Programme Delivery function at the outset.

The most important consideration for positioning TAP anywhere else within the Secretariat is one of -perception of- independence and objectivity. Strictly speaking the two functions (programmatic and financial oversight) act side by side and complement each other.

Many stakeholders however consider how organisations such as GAVI monitor the use of their funds, and respond to concerns about possible misuse including through investigations, as critically important to the integrity and reputation of the organisation. It could be argued that TAP's work not only reflects on how recipient countries manage GAVI funds, but also on how the Secretariat monitors this use. In that view, positioning TAP outside of the function that is primarily responsible for monitoring programme implementation by countries would serve to strengthen the actual and perceived independence and objectivity of TAP.

Thus, while positioning TAP within the Programme Delivery department would be preferable from a collaboration standpoint, from an independence and objectivity perspective it is less than optimal.

**Finance** – as a department with extensive expertise in financial management and internal control, the Secretariat's Finance function could be a 'home' for TAP. Being separate from Programme Delivery would enhance the independence from the programmatic oversight function. It should however be noted that, at the present time, within Finance there is almost no practical knowledge of nor experience with the cash-support programmes in-country. So far, Finance has not become materially involved with the way the programmes are designed, implemented or managed 'on the ground'. Rather, Finance's role has been more or less limited to that of a treasurer, making lump-sum payments to the designated country bank accounts. This can of course be changed and repositioning TAP to Finance would have the effect of drawing Finance much closer to the programme execution side of GAVI.

**Internal Audit** – in contrast, since its creation at the end of 2009 and flowing from its mandate and its stakeholder expectations, Internal Audit has been closely involved in

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developments concerning fiduciary risks in cash-support programmes. Internal Audit is also independent from the Secretariat. The main argument against positioning TAP within Internal Audit is that maintaining oversight over fiduciary risks in cash-support programmes can be considered to be a *management* responsibility. Internal Auditors should not assume management responsibilities, as this precludes them from being able to objectively evaluate them. One could say that one of the arguments that speaks in favor of positioning TAP under Internal Audit (the optimal independence from the Secretariat) is at the same time the most significant drawback, as it precludes Internal Audit from being able to express an independent opinion about the work that TAP does.

Permanent positioning under Internal Audit *could* have a chilling effect on the collaboration with Programme Delivery, which is so important to maintain. However, collaborations like these are not only influenced by the formal organisational positioning but also (and heavily) by the operating styles and personalities of the key individuals involved. So far, the working relationships with Programme Delivery have consistently remained positive and constructive (has been the case with the other Secretariat departments).

An important consideration is that, no matter where TAP will be positioned permanently, Internal Audit will continue to stay closely involved in the main developments and activities that affect TAP, mainly because of the risks involved and to satisfy stakeholder expectations, particularly the Board's and donors'. Positioning TAP under Internal Audit from that perspective would be more efficient than positioning elsewhere.

Finally, when looking at comparable organisations, most (including for example the Global Fund, USAID, DFID, the World Health Organization and UNICEF) include TAP-like activities and investigations within their Inspector General or equivalent functions.

While no alternative is perfect, weighing all of the above considerations, Internal Audit prefers maintaining the current arrangement (TAP under Internal Audit).

### Conclusion

No changes are considered necessary to Internal Audit's role vis-à-vis fiduciary risk management of cash-support programmes, other than assuming permanent responsibility for the TAP function.

### 9. GAVI whistleblower hotlines

Whistleblower programmes are considered an effective way to detect fraud. The International Association of Certified Fraud Examiners' most recent bi-annual study into occupational fraud<sup>4</sup>, the 2010 Global Fraud Study, states the following:

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<sup>4</sup> Occupational fraud is defined in the study as: *The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.*

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"Tips were by far the most common detection method in our study, catching nearly three times as many frauds as any other form of detection. This is consistent with the findings in our prior reports. Tips have been far and away the most common means of detection in every study since 2002, when we began tracking the data. Management review and internal audit were the second and third most common forms of detection, uncovering 15% and 14% of frauds, respectively. It is also noteworthy that 11% of frauds were detected through channels that lie completely outside of the traditional anti-fraud control structure: accident, police notification and confession. In other words, 11% of the time, the victim organization either had to stumble onto the fraud or be notified of it by a third party in order to detect it."

The GAVI Alliance, since June 2009, does have a Whistleblower policy. However, this policy does not extend outside of the Secretariat. Internal Audit, early 2010, performed an in-depth review of GAVI's whistleblower policy including a comparison with other organisations' whistleblower policies. Of the organisations reviewed (World Health Organization, UNICEF, World Bank and Global Fund), only the Global Fund has a whistleblower programme that actively solicits tips from individuals outside the organisation: "any individual who has observed reportable misconduct" is encouraged to report through local-language, toll-free 24-hour hotlines that are provided through a third party service provider.

The Global Fund's experience, as published in the Office of the Inspector General's 'lessons learned' reports and other documents, has been that useful tips have been generated through this programme, although a minority and that the quality and quantity of the tips received has dropped off. At the same time, implementing and administering such a broad and far-reaching programme is expensive and very time-consuming, even when the 'front end' is outsourced to a third-party service provider. The main reason for this is that every single tip has to be taken seriously and assessed on its merits, while experience has shown that many of the tips commonly received ultimately do not yield the kind of information that is desired.

Another factor to be considered is that implementing such a programme would in effect create a mechanism that would be parallel to what is commonly already in place in the countries that receive GAVI cash support. Most if not all GAVI-eligible countries have national anti-corruption programmes that seek to accomplish the same objectives that a dedicated GAVI-programme would. Accordingly, setting up parallel whistleblower hotlines would not be in line with GAVI's principle of aligning as much as possible with country systems. Instead, GAVI could explore to what extent national programmes do cover GAVI programmes, how actively they are promoted, and could agree on communication protocols with the relevant country government authorities that would provide some assurance to GAVI that tips received that concern GAVI-guessed programmes are relayed to the Secretariat.

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This definition is very broad, encompassing a wide range of misconduct by employees at every organizational level

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A final consideration is that, although GAVI does not actively solicit tips in-country, one of the elements of the suggested measures to further strengthen GAVI's risk management measures in this area as described elsewhere in this report is for CROs to spend more time meeting face-to-face with relevant actors in-country (government officials, in-country partners, and internal and external auditors) and staying in touch on a more regular basis through other means. One of the most important intended benefits of this additional investment is to strengthen our personal relationships with in-country actors who are typically in a position to pick up 'red flags' and situations of heightened risk. Our experience has shown that tips often come through these personal, more or less informal, contacts rather than through the more formal channels.

Balancing these arguments against launching its own whistleblower hotline are the comments received on this paper from the US AID Office of the Inspector General and from Transparency International. Both made strong cases for the consideration of some form of hotline that would be manageable and would, in their view, likely add value.

### Conclusion

It is recommended to not implement in-country, local-language whistleblower hotlines, as the incremental benefits are expected to be outweighed by the incremental costs, both in the form of out-of-pocket costs as well as expanded headcount. However, the establishment of a single, central hotline in the two or three most commonly spoken languages and possibly in collaboration with local governments, donors operating in the health sector and Alliance partners, to pool resources, should be explored.

### 10. No-objection procedure for large expenditures

Practised by some organisations, such as the World Bank, pre-approving larger expenditures before they are committed to can be a good preventive control. However, in order to be effective this would involve a fair amount of time and attention on the Secretariat's part. It would necessarily slow down the procurement processes in projects. Perhaps most importantly, it would represent a significant departure from GAVI's 'light touch, hands-off' approach.

Given these considerations, and assuming the other strengthening measures being proposed will be adopted, Internal Audit recommends not to implement this particular measure as the desired level of control can be achieved in better ways as outlined above.

### Conclusion

It is recommended to not implement a no-objection procedure for large expenditures provided the other measures are implemented.