
Subject **Audit & Finance Committee Chair Report**

Category **For information**

Section A: Introduction

- This report provides the Board with an overview of the activities of the Audit and Finance Committee (AFC) since the Committee Chair last reported to the Board in December 2022.
- Since the last Board meeting, the AFC met three times (14 February, 11 May and 8 June) to consider Gavi recurring matters in accordance with the standard workplan for Gavi 5.0 and the Office of the COVAX Facility.
- In addition, the Committee Chair held several technical sessions in relation to financial risk management with IFFIm and the Secretariat Treasury team.
- The Chief Operating Officer briefed the Committee at each meeting on progress with the work on Operational Excellence.
- Subjects reviewed are noted under Section B and matters to be reviewed in upcoming meetings are presented under Section C.
- AFC recommendations to the Board are attached as Annex A.

Section B: Subjects reviewed

1. *Financial Update*

Management reporting

- The AFC was presented with the Balanced Scorecard, December 2022 and Q1 2023 Management reporting. The AFC acknowledged the excellent work performed by the Secretariat to bring transparency on data in response to stakeholder expectations.

2022 Annual Financial Report (AFR)

- The AFC reviewed the draft AFR and the report of the external auditor (Deloitte) for the year ended 31 December 2022 at its meetings in May and June.
- The accounts for the 2022 Fiscal Year continue to reflect the complexities associated with COVAX activities as well as the impact of a significant increase in interest rates. As a result, the committee chair held several sessions with the Secretariat and the external auditors to ensure financials reflect the appropriate

accounting treatment of the arbitration case and other technical topics (hedging, fair value, etc. - where the year-on-year changes in values is very substantial).

- No material issues or adjustments were raised by Deloitte who anticipate issuing an unqualified audit opinion.
- The AFC delegated to the Chair the authority to review and approve any further amendments necessary to finalise the 2022 Gavi Alliance Annual Financial Report and the 2022 Gavi Alliance Statutory Financial Statements before submission to the Gavi Alliance Board for approval.

Financial Forecast

- The AFC reviewed the consolidated **Financial Forecast of Gavi 5.1** strategic Period (2021-2025) and COVAX AMC forecast (2020-2023) including the COVID-19 immunisation programme (2024-2025). The forecast shows sufficient financial flexibility with US\$ 109 million available for future investments with Qualifying Resources at US\$ 10.2 billion (US\$ 161 million lower compared to December 2022) and Expenditures at US\$ 10.1 billion (US\$ 86 million lower compared to December 2022 including US\$ 39 million of new investments submitted for approval to the Board.
- The updated Gavi 5.1 forecast highlighted a decrease in programmatic expenditure due to the rephasing of cash programmes (HSS and EAF) into the next strategic period offset by vaccine cost increases, mainly driven by Measles Rubella outbreaks.
- The AFC reviewed a Gavi 6.0 illustrative financial projection noting that the forecast has been prepared in accordance with the Programme Funding Policy to enable the Secretariat to allot funding to existing and approved programmes and does not prejudice future donor contributions or future investment decisions.
- The AFC reviewed the **Financial Forecast for COVAX AMC** noting the decrease in expected expenditure of US\$ 1 billion due to lower vaccine demand, CDS extension of US\$ 320 million from 2023 to 2024/25 and the cost of a COVID-19 programme of US\$ 711 million. The AFC further noted COVAX AMC resources exclude a potential upside related to projected interest income on the cash balances (estimated at US\$ 496 million for 2023-25), pending consultation regarding use with donors.

COVAX Facility

- The AFC reviewed and provided guidance on specific instruments and initiatives related to the COVAX facility with a focus on the risk framework associated to these mechanisms:
 - Update on COVAX Portfolio

- Update on SFP 1.0 close-outs
- Update on Cost-sharing

Other topics

- The AFC reviewed and recommended Board approval of amendments to two Treasury policies: Treasury Governance policy and the Treasury Risk Management Policy.
- The AFC was updated on the status of the Treasury Action plan set after the 30 November 2022 meeting and acknowledged that the majority of items were completed and on track.
- The AFC noted the currency hedging strategy and concluded it was aligned with Gavi policies.

2. *Audit & Investigations*

- Audit and Investigations provided routine updates covering activities against the 2022 and 2023 plans previously approved by the AFC. The updates covered country-focused audits, Secretariat-focused audits, advisory work, investigations and counter-fraud and whistle-blower reporting. The AFC was updated on significant issues arising from audit work internal to the Secretariat and Gavi Secretariat management's responses to those issues. Notably since the last AFC Chair's report to the Board, these addressed Secretariat processes and guidance for Targeted Country Assistance under the Partners' Engagement Framework.
- The AFC received reports from Audit and Investigations on the Secretariat's implementation of audit recommendations addressed to Gavi management, and in May 2023 this regular reporting was enlarged to cover also implementation of recommendations addressed to Gavi implementing countries.
- The AFC received reports from Audit and Investigations on Gavi's recovery of misuse, which may be identified in programme audits and/or by other Gavi Secretariat teams. Following through on misuse ensures that accountabilities are maintained both at country level and by extension at the level of the Gavi Secretariat. It was noted that misuse was below accounting materiality thresholds but still notable in size (US\$ 45 million in total over the period 2015 to April 2023) but that non recovered misuse was negligible (\$US 3 million due but not yet paid as of April 2023).

3. *Risk Management*

- The AFC received an update on major changes in Gavi's risk profile since December 2022 and discussed key activities and deliverables in the risk

function. Overall risk exposures as defined in the last Risk & Assurance Report remain elevated, with the risk Vaccine-Preventable Diseases (VPD) outbreaks now assessed as outside of Gavi's risk appetite.

4. Knowledge Management and Technology Solutions (KMTS)

- In February 2023, the AFC received an update on the IT Project Portfolio, key accomplishments for 2022, IT Metrics, and Cybersecurity. This did not include an update on the EVOLVE project which will be reported on separately later in the year.

5. Legal Update

- **Novavax:** The Novavax arbitration remains in an early and more procedural stage. At this time, both parties have submitted an overview of their claims to the Tribunal. The Tribunal has now appointed the final arbitrator, who will serve as the President of the Tribunal for the case. The parties will then need to agree with the arbitrators the timelines for various submissions, the terms of reference for the Tribunal and other procedural matters. Once this process is complete, the parties will begin to prepare their more substantive filings, including witness affidavits. These will be time-consuming to prepare, with the first deadline for Gavi expected at some time mid-summer. In parallel, Gavi is in negotiations with Novavax to attempt to achieve a mutually acceptable negotiated settlement.
- **Self-Financing Participant (SFP) close-outs:** As of 2 June, we have signed termination agreements with 38 countries, out of the original total of 73. The 38 closed out countries account for US\$ 304 million of the original total SFP exit costs ("Exit Costs") of US\$ 455 million (this number was reduced from the original US\$ 508 million by the reduction of the SFP liability under the Pfizer APA and the AZ price reduction). We hope and expect that a further 19 countries (accounting for a further US\$ 67 million in Exit Costs) will close out via a bilaterally agreed arrangement by 30 June 2023 (which is a Gavi target programme date only and which was notified to countries in March 2023). That would leave a total of 16 countries (with the combined Exit Costs of US\$ 84 million), whose close out is not currently expected to be resolved by 30 June 2023. We continue to engage with the 19 countries that we consider to be on track to close out, and we are seeking specific targeted dialogue and action with the remaining 16 countries, which have the more complex close outs.
- Countries that are considered to be at risk of not closing out by 30 June 2023 have all been notified that if they do not close out via a bilaterally agreed arrangement by the final deadline of 14 September 2023, Gavi will send a unilateral termination notice to close them out on 15 September. These dates are driven by the fact that, under the Terms and Conditions of the SFP Facility, the term of the Facility naturally ends on 17 September 2023. We hope and

expect that the number of countries that are subject to this procedure should be less than 10, and we are working to ensure as many bilaterally agreed close outs as possible before the final deadline of 14 September 2023.

- **Former employee misappropriation case:** With respect to Gavi's former employee who had misappropriated funds from Gavi in 2018, in May 2023, the Swiss prosecutor has (finally) issued an indictment for several charges, including computer fraud, misappropriation, forgery and money laundering. The prosecutor will reveal the sought-after sentence at the trial, but it is expected to be no more than two years in prison. The case will be assigned to a judge, who will set a trial date and allow the parties to make submissions. The trial will be public and we are liaising with our Communications Team.
- **Washington DC office move:** Given the favourable market conditions, an opportunity has been identified that would result in lower rental costs over time. There is no longer a similar need in terms of space due to hybrid working models in place and therefore a smaller office space is warranted. The current lease will extend for nine more years but early termination is an option allowing Gavi to leave the premises as of 31 July 2024. In that case notice will need to be given by 31 July 2023. A new location with a nine-year term has already been identified in Washington DC with favourable terms on offer, including a two-year rent-free period and based on calculations, this would generate a US\$ 1.9 million reduction in absolute cash flow.

Section C: Subjects to be reviewed in upcoming AFC meeting of 17 October 2023 to be held in person in London

- Strategic, Programmatic and COVAX update
- Operational Excellence Update (incl EVOLVE)
- Financial update (incl Financial Forecast 2021-25 approval)
- Programme Funding Policy
- Quarterly Management review
- IRS Form 990 (2022)
- Risk Management Update (incl. Risk and Assurance report)
- Audit and Investigation report + 2024 plan
- Treasury update
- Insurance and Legal update
- Review of decisions and any other business

Annexes

Annex A: AFC recommendations to Gavi Alliance Board

Annex A: AFC recommendations to Gavi Alliance Board

Decision Set One (14 February 2023)

The Gavi Alliance Audit and Finance Committee recommend to the Gavi Alliance Board that it:

Approve the revised Independent Auditor Selection and Evaluation Policy as set out in Annex B to Doc 02c, as amended by discussions of the AFC.

Decision Set Two (10 May 2023)

The Gavi Alliance Audit and Finance Committee recommended to the Gavi Alliance Board that it:

Approve the Treasury Governance Policy as set out in Annex A of Doc 06b.

Approve the Treasury Risk Management Policy as set out in Annex C of Doc 6b.

The Gavi Alliance Audit and Finance Committee recommend to the Gavi Alliance Board that it:

- a) **Note** that the Audit and Finance Committee reviewed the financial implications of the recommendations to be made to the Programme and Policy Committee (PPC) and concluded that, should the PPC support the recommendations relating to the current strategic period, they could be approved by the Gavi Alliance Board in accordance with the Programme Funding Policy, however the recommendations relating to the next strategic period (Gavi 6.0) are contingent on additional funding being made available.
- b) **Note** that the Financial Forecast appropriately reflects Gavi's expenditure needs (as set out in the Gavi Alliance Board's spending plan) and available resources.
- c) **Approve** the updated Financial Forecast for the Gavi 5.1 (2021-2025) Strategic Period of Qualifying Resources of US\$ 10.2 billion and Forecast Expenditure of US\$ 10.1 billion noting that future investment return on the Long-Term Investment Portfolio is not included in the Financial Forecast, pending review of the Programme Funding Policy scheduled to be tabled for Gavi Alliance Board approval in December 2023.
- d) **Approve** the updated Financial Forecast for the COVAX AMC (2020-2023) and the COVID-19 programme (2024-2025) of Qualifying resources of US\$ 12.5 billion and Forecast Expenditure of US\$ 12.5 billion (made up of US\$ 9.9 billion base expenditure and US\$ 2.5 billion pandemic vaccine pool and dose sharing

ancillary, after funding the COVID-19 programme), noting that projected interest income is not included in the Financial Forecast pending alignment of use with donors.

- e) **Approve** the illustrative Financial Forecast for the Gavi 6.0 (2026–2030) Strategic Period of Qualifying Resources of US\$ 8.8 billion and Forecast Expenditure of US\$ 6.3 billion noting that only existing Approved and Endorsed programmes have been forecast and the forecast has been prepared to enable the Secretariat to allot funding to these programmes in accordance with the Programme Funding Policy and does not prejudge future donor contributions or future investment decisions.

Decision Set Three (8 June 2023)

The Gavi Alliance Audit and Finance Committee recommend to the Gavi Alliance Board that it:

Approve the 2022 Gavi Alliance Annual Financial Report and the 2022 Gavi Alliance Statutory Financial Statements, as amended by discussions at the Audit and Finance Committee.

In relation to this, the Audit and Finance Committee

Delegated to the Audit and Finance Committee Chair the authority to review and approve any further amendments necessary to finalise the 2022 Gavi Alliance Annual Financial Report and the 2022 Gavi Alliance Statutory Financial Statements before submission to the Gavi Alliance Board for approval.

The Gavi Alliance Audit and Finance Committee recommend to the Gavi Alliance Board that it:

- a) **Approve** up to US\$ 8 million in capitalised expenditure in relation to the new lease arrangement for the Gavi Washington DC office, noting the majority of this expense relates to the capitalisation of future lease payments which is consistent with the prior accounting treatment of current lease commitments; and
- b) **Delegate** to the CEO the authority to negotiate and execute the contractual arrangements necessary to relocate the Gavi Washington DC office.