GAVI Alliance Audit and Finance Committee Meeting

24 March 2011
Teleconference

FINAL MINUTES

1. Chair's report

Finding a quorum of members present, the meeting commenced at 10.00 Washington time on 24 March 2011. Wayne Berson, Audit and Finance Committee Chair chaired the meeting.

Standing declarations of interest were tabled to the Committee (Doc #1a in the Committee pack). Next the Committee reviewed the minutes of its meeting on 29 November 2010 (Doc #1b). Finally, the Committee reviewed its forward workplan (Doc #1c).

Decision One

The GAVI Alliance Audit and Finance Committee moved to:

- **Approve** the minutes of its meeting on 29 November 2010.

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2. KPMG audit strategy

Pierre Henri Pingeon and Karina Vartanova from GAVI's external auditor KPMG outlined their plan and strategy for the audit of the 2010 consolidated financial statements (Doc #2). They highlighted key risk areas; KPMG's focus, workflow, and timing; and communication among its audit professionals in Switzerland, the United States, and United Kingdom.

- KPMG confirmed it would liaise with the World Bank, which serves as treasury manager for IFFIm among other responsibilities, on the audit timeline.

- KPMG and the Committee are comfortable not consolidating the financials of the GAVI Campaign into the GAVI Alliance financial statements given, among other reasons, that the Alliance does not appoint the board members of the Campaign, nor does the Alliance control the Campaign.

- KPMG confirmed it did not have reason to request an executive session at this meeting. It would meet with the Committee in camera as it normally does during the initial review of the year-end financial statements.

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3. Audit calendar

Louis Mkanganwi, Director of Financial Reporting reviewed the 2010 audit calendar, including enhancements to be made to financial reporting practices (Doc #3). The Secretariat intends to publish an "Annual Financial Report" to include the GAVI Alliance, IFFIm, and the GAVI Fund Affiliate financial positions; a discussion and analysis section; and supplemental donor information. This compilation is not mandatory but it would help to achieve best practice.

- The Committee reviewed the approval process for the annual financial statements. The Committee noted that the Board has a variety of methods it can use to approve the financials, including no-objection voting (see Section 2.7.3 of the By-Laws).

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4. Accounting policies

Mr Mkanganwi reviewed with the Committee updates the Secretariat had made to accounting policy documentation since the Committee's last review (Doc #4). He confirmed that no changes to accounting positions are made as a result of the updates and that the Secretariat had had initial consultations with KPMG regarding these policies. Mr Mkanganwi also requested that the Secretariat receive the authority to update the financials if an unlikely "subsequent event" occurs after the Board receives the financials for approval.

- The delegation is not intended to address errors in the financials. It would be limited only to "subsequent events" that occur after the financials are sent to the Board. ("Subsequent events" are defined under US Generally Accepted Accounting Principles as events occurring after the balance sheet date but before the date the financial statements are issued.)

Decision Two

The GAVI Alliance Audit and Finance Committee moved to:

- **Recommend** to the Board that it delegate to the Secretariat the authority to update the 2010 financial statements in the unlikely event that unforeseen "subsequent events" occur between the date the financial statements are sent to the Board for approval and the date they are published on GAVI's website.

5. Programme funding plan

Tony Dutson, Senior Director, Finance and Chief Accounting Officer reported that the Secretariat intends to request endorsement of adjustments to programme budgets and approval of adjustments to near-term financial commitments (Doc #5). In all, the Executive Committee will be asked to endorse a net reduction of multi-year programme budgets in the amount of US$ 152,314,120 and a net reduction to near-term programme liabilities in the amount of $169,669,380.

- Whilst some increases were driven by accelerating Meningitis A programme approvals, the reductions were driven by changes to Pentavalent pricing and Pneumococcal vaccine supply constraints. There were also disclosures of variances and other financial adjustments.

- Pneumococcal vaccines supply constraints are not expected after 2011. The related reductions in 2011 reflect only that certain programmes will not be starting this year and are thus costs that will be incurred down the road.

- At the next meeting, the Secretariat expects to table a long term financial forecast update that will reflect these changes to endorsed programmes and approved near-term liabilities.

Decision Three

The GAVI Alliance Audit and Finance Committee moved to:

- **Note** that it reviewed the financial implications of the programme funding plan and that it could be endorsed and approved by the Executive Committee in accordance with the Programme Funding Policy.

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6. Cash programme risk management

Cees Klumper, Director of Internal Audit and Bernardin Assiene, Head of the Transparency and Accountability Policy (TAP) team reported on the review of fiduciary risk associated with cash support programmes (Doc #6). As one of the top three risks GAVI has identified, the Secretariat is performing the review to ensure that these programmes take on only a level of risk that is commensurate with the Board's risk appetite and that risk oversight is performed at the lowest possible cost. With the Committee's guidance, the Secretariat intends to table a decision paper at the Board's meeting in July 2011.

- Recent media attention on the Global Fund's cash programmes has underscored the importance of this review. GAVI has worked with colleagues at the Global Fund on propagating and sharing good practice. The Committee requested information on this review to see if there are areas in which GAVI can be more proactive with its own practices.

- GAVI already has an “early warning system” in place. For example, the TAP team is part of the clearance procedure prior to programme approval and disbursement. The TAP team also monitors reputable fraud indices and visits GAVI countries to review a government’s internal controls over GAVI cash programmes.

- Vaccine programmes were not part of this review; the nature of those risks are comparatively lower because they are not cash programmes. However, it would be worthwhile for the Committee to look at this area of risk separately given it accounts for the vast majority of expenditure.

- Some countries tried vaccine self-procurement in the past. However, these countries no longer do this given the complexity of the undertaking and that they could secure a better price through UNICEF.

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7. Report of the internal auditor

Mr Klumper summarised his main activities since his last update in October 2010 (Doc #7). One particular area of focus had been on the business plan and budgeting process, and he proposed several ways that process could be optimised. In addition, he reported that the dual reporting line to the Board and to the CEO continued to work well and that he would inform the Committee if that changed.

- The Committee inquired if Internal Audit was still staffed appropriately in relation to its workload. Mr Klumper is confident that capacity is not currently an issue and that he would come back to the Committee should the need arise.

- KPMG confirmed that Mr Klumper’s programme was appropriate and that it will spend more time with Internal Audit and the TAP team over the course of 2011.

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8. Backstop facility

Quinton Ng, Senior Manager, Innovative Finance and Tim Nielander, a consultant reviewed the principles and approach for the creation of a US$ 300 million credit facility in favour of GAVI, guaranteed by the Bill & Melinda Gates Foundation (Doc #8). Currently, the Cash Reserve Policy requires GAVI to hold in reserve resources equivalent to eight months worth of expenditures. At present, this entire reserve consists of cash and investments. (For example, using 2011 numbers, given that projected expenditures are $1.2 billion, GAVI has to have $800 million in its cash and investments reserve, as a prerequisite to approving new programmes.)

It is proposed that the backstop facility would serve as part of the reserve, thereby freeing up for spending on programmes a corresponding amount of the resources

currently held in the reserve. (For example, using 2011 numbers, the $800 million reserve would be comprised of $500 million in cash and investments, plus the $300 million credit facility. Thus the $300 million previously held in reserve could be spent on programmes.) Consistent with the philosophy underlying the reserve, it is not the intention to draw down on the credit facility. Instead, it would be there as part of the reserve, so that GAVI can use more of its own cash on programmes rather than self-restrict that cash to maintain the reserve, while still preserving the same 'safely cushion' that the reserve currently provides.

- It was clarified that the credit facility is not meant to add to the reserve. (For example, it is not meant to have a reserve of $800 million in cash plus the $300 million credit facility.) It was asked whether a higher reserve could allow for a potentially more aggressive investment philosophy. However, Rob Lin from the Bill & Melinda Gates Foundation confirmed the facility was being guaranteed to free up the cash GAVI has to keep on hand to meet the reserve and not to effectively increase the reserve.

- The repayment term of the facility would be nine months following any drawdown and so there is little incentive for GAVI to draw down on the facility except as a last resort.

- The Committee also discussed costs associated with the credit line and the nature of the guarantee. The Secretariat will come back with a final proposal at the next meeting.

- The Committee noted its thanks to the Bill & Melinda Gates Foundation for its support and leadership of the facility.

Decision Four

The GAVI Alliance Audit and Finance Committee moved to:

- **Endorse** the principles of the proposed Backstop Facility, the Secretariat's approach to the negotiations, and the steps to be taken to obtain Board approval for the Facility and updated Cash Reserve Policy.

There being no further business, the meeting was brought to a close.

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Mr Kevin A. Klock
Assistant Secretary

Attachment A

Participants

Committee Members
- Wayne Berson, Chair
- Magid Al-Gunaid
- Dwight Bush
- Anne Schuchat

Regrets
- Clarisse Paolini

Secretariat
- Debbie Adams
- Bernardin Assiene (Items 1-4, 6-7)
- Tony Dutson
- Cees Klumper (Items 1-4, 6-7)
- Barry Greene
- Quinton Ng (Item 8)
- Kevin A. Klock

Guests
- Natalia Antsilevich, World Bank
- Rob Lin, Bill & Melinda Gates Foundation
- Tim Nielander, former General Counsel (Item 8)
- Pierre Henri Pingeon, KPMG (Items 1-4, 6-7)
- Karina Vartanova, KPMG (Items 1-4, 6-7)