



GAVI Alliance Audit and Finance Committee Meeting

11 April 2012

Washington, DC, USA

FINAL MINUTES

1. Commencement

- 1.1 Finding a quorum of members present, the meeting commenced at 10.04 Washington time on 11 April 2012. Wayne Berson, Audit and Finance Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 1a in the Committee pack).
- 1.3 The Committee reviewed the minutes of its meetings on 28 October 2011 (Doc 1b) and 3 November 2011 (Docs 1c). In addition, the Committee reviewed its action sheet (Doc 1d) and its forward workplan (Doc 1e).

Decision One

The GAVI Alliance Audit and Finance Committee:

- **Approved** the minutes of its meetings on:
 - 28 October 2011
 - 3 November 2011.

2. KPMG audit strategy

- 2.1 Pierre-Henri Pingeon and Karina Vartanova from GAVI's external auditor KPMG outlined their plan and strategy for the audit of the 2011 Annual Financial Report (Doc 2). They highlighted the purposes and objectives of the audit; key dates, deliverables, and audit areas; and risks.

Discussion

- KPMG confirmed that the audit of the financials for the IFFIm Company, which are consolidated into GAVI's financials, had not yet commenced.

- KPMG and the Secretariat confirmed that they are liaising as appropriate and that neither foresaw an issue that would trigger a management letter comment.
- Louis Mkanganwi, Director of Financial Reporting, noted that the audit of the GAVI Campaign had progressed well and was concluding.

3. Audit calendar

- 3.1 Louis Mkanganwi reviewed the 2011 audit calendar (Doc 3). This year's Annual Financial Report will consolidate the financial position of the GAVI Campaign in addition to the IFFIm Company and the GAVI Fund Affiliate (GFA). The audit is scheduled to conclude in September 2012.

Discussion

- The Secretariat and KPMG each confirmed that it was comfortable meeting the dates incorporated into the audit calendar.
- The Secretariat noted that GAVI would not be required to file an A-133 report with USAID for 2011.

4. Legal matters

- 4.1 Debbie Adams, Managing Director of Law and Governance reported the progress made to date on removing GFA from the IFFIm structure (Doc 4a). A major remaining question involves allocating GFA's responsibilities between GAVI and the IFFIm Company, particularly determining the initial beneficiary of donor grants. It is envisioned that the GAVI Board may be in a position to approve the revised IFFIm structure during its June 2012 meeting.
- 4.2 In addition, Debbie Adams reviewed GAVI's insurance coverage, including its level, scope, and cost (Doc 4b).

Discussion

- The Secretariat hopes that the new structure will be in place by the end of 2012. However, it first requires the assent of all parties to the IFFIm Finance Framework Agreement.
- The Committee conferred on the risk to GAVI's tax exempt status in the US by taking on GFA's responsibility to be the initial recipient of donor grants to IFFIm. The Secretariat projected that the tax exempt status would not be threatened by failing the US IRS "public support test," but that the major risk associated with the entire project was that this projection was incorrect. The Committee discussed the financial analysis underpinning the projection, and

the associated risk. Subsequently, the Committee asked the Secretariat to share a few relevant portions from legal opinions received on this matter with the Board when it comes time for its decision.

- The Committee discussed the result of negotiations with the insurance underwriters. It noted that it had reviewed the coverage and costs of the various insurance policies and the Secretariat's intention to purchase the policies. It also confirmed that Committee review of insurance coverage was sufficient, and that there was no need to make similar reports to the Board.

5. Programme funding approvals/forecasting

- 5.1 Tony Dutson, Senior Director of Finance and Chief Accounting Officer, informed the Committee of the updated financial forecast for 2012-2016, and that the Secretariat intended to request from the Board endorsement of programme budgets and approval of near-term financial commitments from programme budgets (Doc 5). In all, the Board will be asked to endorse multi-year programme budgets in the amount of US\$ 512,083,141 and near-term programme liabilities in the amount of \$141,618,440. He confirmed the Secretariat's opinion that GAVI could make these approvals in accordance with the Programme Funding Policy.

Discussion

- The Secretariat noted that projections incorporated demand for vaccines for which the Board had opened funding windows, including HPV vaccine. The demand projections did not include demand for vaccines incorporated into GAVI's vaccine investment portfolio but had not yet received Board approval for a funding window.
- The Committee noted that while some additional resources beyond the amounts currently forecasted would need to be raised to fully fund projected 2016 expenditures and also maintain the full cash reserve, the reserve would be sufficient to cover that need if it arose. The Committee also noted that while the Board endorses whole programmes, it only approves a component of those programmes for near-term financing. This is done for several reasons, one of which is to ensure there is sufficient cash available to place a near-term liability on the balance sheet.
- The Committee was comfortable proceeding and took note of ongoing risks and mitigation strategies. It posited that the most significant 'incoming resources risk' is posed by unfulfilled or late pledge payments; the most significant 'outgoing resources risk' is posed by higher than expected country demand.
- The financial forecast is reported on a cash basis, rather than on an accrual basis, because cash is required to pay near-term liabilities.

Decision Two

The GAVI Alliance Audit and Finance Committee:

- **Noted** that it reviewed the financial implications of the Programme Funding Plan, and that it could be approved by the Board or Executive Committee in accordance with the Programme Funding Policy.

6. Programme funding policy – enhancements

- 6.1 Barry Greene, Managing Director of Finance and Operations, proposed an arrangement for streamlining programme funding decisions (Doc 6). On a number of occasions in the course of each year, the Independent Review Committee (IRC) will recommend programmes for initial or continued support, the Audit and Finance Committee will review the programmes' financial implications, and the Board (or EC) will consider approving them. The current arrangement is responsive to countries but results in a burdensome meeting schedule for the governance bodies.
- 6.2 In response to guidance from the Board, the Secretariat developed options for streamlining the approvals process. The proposal would still require the Board (or EC) to directly approve all new requests for vaccine funding. However, funding for new Health Systems Funding Platform (HSFP) proposals extensions of existing programmes, and adjustments to programme budgets could be allotted by the Secretariat from within a Board-approved funding envelope, based on IRC recommendations and programme implementation. The Secretariat would be obligated to make periodic reports to the Board and Audit and Finance Committee on its actions, and would require affirmative approval for any funding allotment that exceeded the funding envelope.

Discussion

- The Secretariat confirmed that if the funding envelope approach was adopted, it intended to report to the Committee twice per year on funding decisions within the Board-approved funding envelope. It was also confirmed that the amount of funding that the Secretariat could allot would be affirmatively capped by the Board when the funding envelope was approved.
- The Committee highlighted that it would need to be able to monitor countries' drawdown of programme funds. The Secretariat noted that a "use it or lose it" policy was under development to govern slow drawdown.
- The Committee also inquired as to the process for approving additional doses for existing programmes. The Secretariat noted this would fall under either an extension or adjustment to existing programmes, and so the Secretariat could authorise funding of additional doses so long as this was in keeping with IRC recommendations and the cost was not so substantial as to breach the cap of the Board-approved funding envelope.

- The Committee agreed this was a sensible solution to streamlining approvals while providing appropriate Committee oversight and capping Secretariat discretion. It is a budget approach often found in the private sector. The Committee briefly considered whether to roll new proposals into the funding envelope process as well, but ultimately decided not to pursue that course for now.
- The Committee acknowledged the Secretariat's intention to formalise this process in a policy and present it to the Board for approval.

Decision Three

The GAVI Alliance Audit and Finance Committee:

- **Noted** that the Board should consider streamlining programme funding decision-making whereby:
 - The Board or Executive Committee would continue to directly approve all new requests for vaccine funding (i.e. all new proposals other than Health Systems Funding Platform [HSFP]).
 - For new HSFP proposals and for the extension and adjustment of existing vaccine and HSFP programme budgets, the Board or Executive Committee would each year approve a funding envelope from which the Secretariat would allot amounts to individual programmes in the course of the year and report back to the Audit and Finance Committee and the Board.

7. Report of the internal auditor

- 7.1 The Chair reported that Cees Klumper, Director of Internal Audit, had accepted the newly created position of Chief Risk Officer at the Global Fund and would be leaving GAVI on a full time basis at the end of the week. However, to ease GAVI's transition, he will continue to provide internal audit services on a part time basis until the new director is in place.
- 7.2 Subsequently, Cees Klumper summarised his main activities since his last update (Doc 7). One of these activities was to update the terms of reference for the internal audit function to highlight that (1) the Transparency and Accountability Policy (TAP) team reports to the Director of Internal Audit and (2) the Director cannot therefore provide independent assurance about certain aspects of TAP team activity given that reporting relationship. Mr Klumper asked the Committee to review the terms of reference and to consider approving them.

Discussion

- The Committee discussed the implication of the formal reporting relationship of the TAP team to the Director of Internal Audit. It acknowledged there are both benefits and drawbacks to this approach, but decided to approve the changes to the terms of reference as proposed. The Chair requested Cees Klumper to present a slide to the Board in June 2012 explaining the implications of having the TAP team report to the Director of Internal Audit.
- The Committee received a report on the investigation in Zambia and reasons for the slow pace of progress.
- The Committee inquired as to the role of countries' auditors-general when GAVI initiates an investigation in their countries. Cees Klumper highlighted that the TAP team often collaborates in investigations with an auditor-general's office, subject to an evaluation that its capacity and independence are sufficient for that purpose. Final judgment in these investigations always remains with TAP/Internal Audit.
- The Committee asked if and when the reports on Niger and Cameroon would be published. Discussions are in progress with the respective governments about the appropriate next steps, and the preference would be to publish the reports once agreements on, among other things, timing of restitution of misused funds have been reached. Should this take longer than a few weeks, publication will move ahead sooner.
- Cees Klumper reported that the TAP team had initiated certain changes to the practical application of the TAP policy in order to remove unnecessary bottlenecks in the flow of funds to countries that are mostly a carry-over from the initial implementation of the policy. Examples of these enhancements were requested.
- The Committee requested that Cees Klumper circulate to the Committee a list of the proposed Financial Management Assessments that have been or planned to be conducted during 2012.

Decision Four

The GAVI Alliance Audit and Finance Committee:

- **Recognised** Cees Klumper, Director of Internal Audit; expressed its appreciation for his efforts to create and build GAVI's internal audit programme; and congratulated him on his new role at the Global Fund.

Decision Five

The GAVI Alliance Audit and Finance Committee:

- **Approved** the proposed changes to Internal Audit's Terms of Reference as annexed in Doc 7.

8. Risk management

- 8.1 Helen Evans, Deputy CEO, updated the Committee on the key risks GAVI faces as identified by the Secretariat (Doc 8). This analysis incorporated input from Alliance partners, and was shared with the Executive Committee during its meeting on 9 March.

Discussion

- The Committee discussed factors that may impact the forecast of resources available to GAVI, particularly the impact of IFFIm's rating downgrade by S&P. The Secretariat explained how it is managing this risk.
- The Committee noted that the description of the risk associated with IFFIm's credit rating in the forecast paper is more comprehensive than the description in the risk paper, and should be incorporated into the latter.
- GAVI may wish to consider whether it should raise awareness in developing countries on TAP procedures, particularly with officials in ministries of health.

9. Accounting policy changes

- 9.1 Louis Mkanganwi explained several enhancements to the accounting policies (Doc 9). The Secretariat regularly reviews the policies and updates them as necessary, under the oversight of the Committee.
- 9.2 He explained changes to policies concerning the basis of consolidation; changes in reporting entity; expenses, accounts payable, and accrued expenses; cash, restricted cash, and cash equivalents; contributions and promises to give; and derivative instruments.

Discussion

- One consequence of these changes is that the GAVI Campaign financial position will be consolidated into the GAVI Alliance financials. The Alliance report will also include the Campaign's standalone financials. The Secretariat confirmed its belief that the consolidation of the Campaign will not affect the Campaign's US tax exempt status.
- The Committee also discussed the changes to the allocation of expenses, and their effects on the Overhead Administrative Expenses Ratio (Ratio). The Secretariat believes that the changed methodology will more accurately reflect activity. For clarity, the Secretariat is planning to disclose in the MD&A section the extent to which fluctuations to the Ratio are a result of changes in activity versus changes in methodology.
- The Committee acknowledged the enhancements to the accounting policies tabled as Doc 9.

10. Currency hedging

- 10.1 Tony Dutson informed the Committee on implementation of the Currency Hedging Policy, approved by Board in November 2011 (Doc 10). He reported that the Secretariat had received proposals from several banking institutions to help implement the strategy, and was narrowing the choices. He informed the Committee as to the names of the potential institutions, and the services they might provide.
- 10.2 Because a final selection was pending, the Secretariat suggested that the Committee may want to request authority from the Board to select the institutions and establish the banking relationships.

Discussion

- The Committee recognised the contribution of the World Bank, in working with the Secretariat on aspects of implementing the Policy.
- The Secretariat reiterated that the Policy served to mitigate currency exchange risk, and did not allow currency speculation. In short, because GAVI receives funds in various currencies and expends these mainly, but not exclusively, in US Dollars, it wants to mitigate the risk associated with keeping all its funds in US Dollars.
- The Secretariat confirmed that the banking institutions being reviewed have credit ratings that comply with GAVI's minimum credit quality requirement. One of GAVI's current banking institutions could have helped implement the Policy but as was reported to the Investment Committee on 28 March 2012, its credit rating had fallen just below the minimum requirement, and the Secretariat was considering new institutions to which to move funds already located at that bank.
- The Secretariat confirmed that the 2012 Business Plan budget incorporated hedging arrangements for Swiss Franc expenditures.

Decision Six

The GAVI Alliance Audit and Finance Committee:

- **Recommended** to the Board that it delegate to the Treasurer and the Audit and Finance Committee acting through its Chair, or any other such member of the Committee as decided by the Committee from time to time, the authority to establish new banking relationships in order to facilitate implementation of the Currency Hedging Policy, including the establishment of short-term investment accounts.

11. External auditor selection process

- 11.1 Louis Mkanganwi requested the Committee's initial input into the crafting of a formal external auditor selection policy as requested by the Board during its meeting in November 2011. He reminded the Committee of the historic rationale behind GAVI's selection process: that IFFIm Company and GFA represent the majority of GAVI's consolidated balance sheet; their treasury manager, the World Bank, has a policy that permits only its own external auditor access to financial records housed there; and that other major auditing firms have signalled that they cannot deliver clean audit opinions on IFFIm or GFA without sufficient access to those records.
- 11.2 As such, Louis Mkanganwi proposed several principles for the Committee's guidance prior to drafting a policy. First, GAVI should align its auditor rotation cycle with the World Bank's five-year rotation cycle. Second, the incumbent auditor should have the ability to bid for a successive cycle only once (for a total of ten years of audit services). Third, GAVI should communicate important issues to the World Bank for incorporation into the latter's auditor selection process. Fourth, GAVI's policy should reconfirm that its external auditor cannot generally provide consulting and non-assurance services.

Discussion

- The Committee discussed tax filing services that the external auditor currently provides, noting that these services are traditionally exempted from consulting prohibitions both in the general marketplace and at GAVI. The Committee felt it was appropriate for this carve out to remain.
- The Secretariat requested guidance as to whether the external auditor should be able to bid on TAP-related projects. The Committee determined that an external auditor may not bid for these projects because the TAP function is imbedded within the Secretariat's management structure.
- The Secretariat requested guidance as to whether GAVI should adopt a single auditor policy similar to the World Bank's policy. The Committee agreed that GAVI should have such a policy but that external requests for access to GAVI's financial records could be granted on an exceptional basis by the Audit and Finance Committee on the recommendation of the Secretariat.
- The Secretariat noted its intention to bring a policy on this matter to the Committee during the second half of 2012 for eventual recommendation and submission to the Board.

12. CEO reserve spending

- 12.1 In November 2011, the Board approved exceptionally US\$ 2.0 million for a one time CEO reserve, it being understood that expenditures from this

reserve would be made in consultation with the Executive Committee. The Secretariat reported that the reserve had not yet been used for any purpose.

After determining there was no further business, the meeting was brought to a close.

Mr Kevin A. Klock
Assistant Secretary

Attachment A

Participants

Committee Members

- Wayne Berson, Chair
- Dwight Bush
- Dirk Gehl
- Tom Hunstad
- Derek Strocher
- Anne Schuchat

Regrets

- Micheline Gilbert

Secretariat

- Debbie Adams (in part)
- Fabrice Dutin
- Tony Dutson
- Helen Evans (in part)
- David Ferreira
- Barry Greene
- Kevin A. Klock
- Louis Mkanganwi

Internal Audit

- Cees Klumper (in part)

Guests

- Rob Lin, Bill & Melinda Gates Foundation
- Pierre-Henri Pingeon, KPMG (in part)
- Karina Vartanova, KPMG (in part)