

Gavi Alliance Audit and Finance Committee Meeting

24 June 2019

Gavi Alliance Offices, Geneva, Switzerland

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee (AFC) members present, the meeting commenced at 12.18 local time on 24 June 2019. David Sidwell, AFC Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack) alongside the minutes of its meeting on 25 April 2019 (Doc 01b). AFC members noted that Teresa Ressel's Declaration of Interest will be updated promptly and that in the meantime she confirmed that she had no conflicts relative to the items to be discussed at this meeting.
- 1.3 The Committee also reviewed its action sheet (Doc 01c), noting that several actions will be addressed in this meeting.
- 1.4 The Chair outlined that the Committee had gone through the agenda for this meeting during the closed session, and highlighted the Committee's desire in advance of the Board meeting to ensure that they have a full understanding of the 2021-2025 forecast, some of the elements around risk appetite, as well as capacity building in countries.
- 1.5 The Chair expressed thanks to Ted Chaiban who was attending an AFC meeting for the last time as he would be taking on a new role within UNICEF later in the year.
- 1.6 Finally, he also acknowledged the work of Barry Greene, Managing Director, Finance and Operations, who was also attending an AFC meeting for the last time before his retirement. The Chair expressed appreciation for the way in which Mr Greene had been so attentive to responding to the needs of the AFC, mobilising his team in a constructive and positive way and devoting a huge amount of time to responding to challenges arising.

2. Financial management and corporate reporting

2a Audit update from Deloitte

- 2a.1 Fabien Bryois, Partner, Deloitte and Lisa Watson, Director, Deloitte, presented this item to the Committee (Doc 02a) reporting that the audit has been performed in accordance with the plan presented to the AFC at its February 2019 meeting with full support from Gavi staff and management throughout.

- 2a.2 Mr Bryois highlighted the key messages, reported that the audit work in relation to risk areas is substantially complete, that final conclusions from testing will be provided in the July 2019 report to the AFC and reported that there have not been any unadjusted or adjusted misstatements identified to date.
- 2a.3 He outlined the audit approach taken by Deloitte and reported that in relation to information presented to the AFC in February, both materiality and assessment of significant risks remain unchanged.
- 2a.4 Mr Bryois highlighted the work carried out with “component auditors”, namely Deloitte US and Deloitte UK due to the relationship between Gavi, IFFIm (International Finance Facility for Immunisation) and the World Bank.
- 2a.5 He provided an overview of significant risk areas (valuation of sovereign pledges; recognition/cut-off of revenues from governments and donors; management override of controls) and other areas of focus (valuation of bonds payable and derivatives; AMC receivables valuation; programme expenses; US GAAP compliance and new/updated accounting standards) which had been considered important for the audit of the consolidated financial statements as well as information on how they have been addressed.
- 2a.6 Mr Bryois reported that for each of the three significant risks identified, working with colleagues from the UK and the US, they have been able to confirm that controls identified within the organisation to mitigate the risks have been duly designed and implemented. In relation to risks involving judgement, position papers were received from the Secretariat, reviewed and challenged and Deloitte confirm that they are able to concur with the Secretariat positions.
- 2a.7 Ms Watson reported in more detail on the three areas of significant risk. In relation to the valuation of sovereign pledges she noted that the work primarily looked at the methodology in the grant payment conditions (GPC) model. Inputs into the model were tested and a valuation specialist was engaged to do an independent review. She noted that the World Bank had made an update to certain assumptions in the model in relation to reference portfolio countries, as well as an update to the probability of default related to these countries. She concluded that Deloitte agree with the judgements included in the model. She did note that the access around the model is highly controlled and it is recommended that Gavi and IFFIm could have more involvement and transparency in relation to changes in assumptions.
- 2a.8 In relation to the second significant risk, recognition/cut-off of revenues from governments and donors, Ms Watson reported that all relevant documentation had been reviewed and the appropriateness of the policy challenged for both Gavi and IFFIm. Deloitte were able to conclude that they are comfortable with the revenue reported during the period.
- 2a.9 Ms Watson reported that Deloitte has done significant journal entry testing in relation to the third significant risk, management override of controls, looking for evidence of management bias in judgements and unusual transactions. She noted that the work is in progress and is to be concluded by mid-July. She also noted

that work is also being done in relation to the findings of the Kroll report to understand what has been done to address the weaknesses identified there.

2a.9 Ms Watson reported briefly on the work being done in relation to the other areas of audit focus, noting that in relation to programme expenses work is ongoing with the Audit & Investigations (A&I) audit team.

2a.10 Mr Bryois concluded by providing a brief overview of the principal outstanding items which will be addressed prior to the July AFC meeting.

Discussion

- AFC members welcomed the fact that the audit work is proceeding on schedule and appreciated the time spent on consolidation with IFFIm and the World Bank.
- In relation to a question from the AFC Chair on access to documentation pertaining to the GPC model, it was confirmed that Deloitte US were able to access documentation and do detailed testing.
- In response to a question from the AFC Chair relating to the risk of potential management override of control and processes in place, it was noted that based on the work done to date there are no areas for concern.
- AFC members noted in relation to the Advance Market Commitment (AMC) receivables valuation that Deloitte had performed sensitivity on the supranational global curve used as discount rate and compared it to the World Bank's own forward curve. It was agreed that this is something that it would be useful for the Secretariat to do systematically going forward.

2b 2018 Draft Annual Financial Report (AFR)

- 2b.1 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, introduced this item (Doc 02b) highlighting that the first year working with Deloitte as external auditor has been very productive. He noted that IFFIm has already approved its own trustee report and financial statements. He reminded the Committee that the financial statements are presented on an accrual basis, which means that they will not show the same levels of expenditure as presented in the financial update paper where expenditures are presented on a cash-flow basis.
- 2b.2 Mr Dutson noted that a provision of US\$ 6 million has been taken against the Qatar pledge and that the assessment of all other receivables is that they are all fully recoverable.
- 2b.3 Pauline Caywood, Interim Head, Financial Accounting and Reporting, added that that there are no significant issues to report in relation to the Gavi standalone financial statements and that there are no outstanding matters relating to key accounting matters.

- 2b.4 Ms Caywood noted that in 2017, KPMG had raised challenges around a recoverable of US\$ 5 million from Brazil relating to the use of vaccines from the Gavi-funded yellow fever stockpile. She reported that it is considered that this remains recoverable, noting that written documentation has been received from Brazil acknowledging that the debt is owed to Gavi and discussions on how it can be recovered are ongoing, likely through the procurement of vaccines on behalf of Gavi through UNICEF.
- 2b.5 Finally, Ms Caywood noted, as had been presented to the AFC at its April meeting, that Gavi is adopting the new accounting standard ASU No. 2016-14.

Discussion

- AFC members were invited to share any detailed comments they might have on the draft AFR directly with the Secretariat.
- In response to a question from the AFC Chair, the Secretariat noted that while the adoption of ASU No. 2016-14 has required some additional manual collection of data for the preparation of the 2018 financial statements, the implementation of SAP will enable the enhancement of automation of this data collection with corresponding improvement and controls.

2c Financial Forecast update: 2021-2025

- 2c.1 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, reported on this item (Doc 02c) indicating that the information provided is consistent with that provided to the AFC at its April 2019 meeting, with some updates on the resource side due to the reprogramming of IFFIm funds and the inclusion of direct contributions for 2019 from the US. He noted that as all donors have now pledged for the 2016-2019 period, provisions for further donor pledges have been excluded for 2019.
- 2c.2 Mr Dutson noted that the amount available for future investments at the end of the current strategic period is now estimated at US\$ 255 million and that this is over and above the minimum amount that must be held at the end of 2020 to remain compliant with Gavi's Programme Funding Policy. He noted that the policy requires a minimum eight-months of unrestricted cash and investments to be available.
- 2c.3 Mr Dutson highlighted the indicative expenditure projections for Ebola and IPV for 2021-2025, namely US\$ 150 million and US\$ 800 million respectively, and reported that early indications are that assured resources for that period will be between US\$ 1.8 billion and US\$ 2.2 billion, drawn primarily from IFFIm, investment income and cash that can be drawn down from Gavi's cash investment reserves.

Discussion

- In relation to questions and comments from AFC members, the Secretariat noted that based on the current gearing ratio, the maximum proceeds possible from IFFIm for the 2021-2025 period have been included as assured resources.
- Noting that the large majority of remaining IFFIm proceeds will become available during the 2021-2025 period, and that there will only be some very limited funds available beyond that to 2028, AFC members noted that it would be desirable to keep IFFIm up and running as it could be important for future funding e.g. malaria vaccines.

2d Currency Hedging Update

- 2d.1 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, reported on this item (Doc 02d) noting that a recent review of the currency hedging policy had taken place, with the support of an external consultant, and that the AFC was subsequently being asked to recommend to the Board amendments to the policy. He also noted that the paper to the AFC includes an examination of the options for “valuing the next replenishment announcement”.

Discussion

- A number of AFC members commented on the proposal to hedge out to five years, rather than the two years currently in the policy, noting that the premium (counterparties margin and risk premium) for five-year forwards is approximately double that for two-year forwards. The Secretariat noted that this is being proposed in relation to obtaining predictability and the fact that a large proportion of funding raised in the next replenishment is not likely to be in US\$.
- AFC members noted that the Global Fund uses a “value at risk” model but this requires active management and their replenishment cycle is three years which makes a difference in how predictions are made.
- AFC members also noted that the current hedging policy provides guidance on the oversight mechanisms for hedging which includes a report to the AFC at least once a year. The AFC Chair proposes that going forward there should be a report to the AFC at least twice per year.
- It was also noted that the Secretariat will come back to the AFC with a specific hedging proposal which would discuss trade-offs between hedging options as to period and the procedures that would be followed.
- AFC members noted that work is being done in collaboration with the Global Fund and other organisations in this area.

Decision One

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

Approve amendments to the Currency Hedging Policy as set out in Annex C to Doc 02d.

3. Audit and Investigations

3a Audit and Investigations report

- 3a.1 Simon Lamb, Managing Director, Audit and Investigations (A&I), introduced this item (Doc 03a) indicating that Chrysantus Nyongesa, Head, Internal Audit, Edmund Grove, Director, Programme Audit, and Paul Catchick, Head, Investigations/Counter-Fraud would present the reports relating to their specific areas of expertise.
- 3a.2 Mr Nyongesa provided information in relation to the Internal Audit Issue Remediation Status, noting that at the time of writing the report to the AFC there had been 26 open issues, mainly related to issues within country programmes. A number of them have been closed in the meantime and there are now only 11 open issues for remediation. He indicated that management has been very responsive in working to address all issues and that there is overall satisfaction with progress.
- 3a.3 Mr Nyongesa also noted that the remediation of a number of the items related to finance and operations are linked to the implementation of SAP and it is therefore expected that they will be closed out once the system comes into place later in the year. In relation to procurement-related issues, he reported that the procurement policy and processes are currently being reviewed. Internal Audit has looked at the action plan and is satisfied that quite a number of the audit issues raised are being addressed.
- 3a.4 In relation to issues that remain open, Mr Nyongesa reported that most of these are in the area of IT and that he is confident that the risks are being mitigated to a large extent. This is being monitored closely and there are no concerns to report at this stage.
- 3a.5 Mr Nyongesa then provided information relating to the low risk verification review which has enabled a coverage of Gavi's activities which are seen as low risk to ensure that all processes are considered appropriately over the course of the four-year internal audit cycle.
- 3a.6 Edmund Grove, Director, Programme Audit, provided an overview of the Programme Audit Remediation Status, noting that in 12 countries recommendations are actively being followed up, in seven countries recommendations have been superseded by events requiring a more fundamental

programme of rebuilding institutional capacity, and that in five countries there is no data or incomplete data available.

Discussion

- In response to a question in relation to the design of the SAP system, the Secretariat noted that based on the information available the system will include fixes to address a number of open audit items, where relevant. The CEO noted that work is being done to change the culture overall within the Secretariat on how risk is managed and that this work is a continuation of including risk management in all of its work.
- AFC members noted that there is quite a robust process to follow up on open internal audit issues. Once the audit report is issued, actions are agreed with management with target completion dates. If internal audit is informed that issues have been closed they ask for evidence which is examined to confirm that they are satisfied that the issue can be closed. If not, it remains open.
- AFC members noted that there would appear to be an increase in the number of audit issues being identified. It was clarified that this is both due to the fact that in 2017 the processes being looked at were higher risk and included a number of full scope audits.
- AFC members agreed that going forward it would be useful for them to receive a more detailed list of the outstanding audit issues, including information in relation to issues where Internal Audit might have particular concerns.
- AFC members noted that the A&I team works closely with the risk team to ensure that work is calibrated. Risks reported on in the risk report are used to inform the audit plan.
- In response to a question from an AFC member, the Secretariat clarified that the audit universe is updated to align with Gavi's strategic period. It is therefore foreseen that during 2020 there will be a look at any major changes going into the 2021-2025 strategic period that might require the audit universe to be updated. It was also noted that each year as the annual audit plan is being prepared there are processes in place to ensure that there is nothing that falls off the radar.
- It was asked if in terms of audit remediation there is a way to look at the use of funds at the subnational level and how such funding might be predictable. The Secretariat noted that PCAs are the second line of defence, separate from A&I which is the third line, and that any such consideration would be better seen as part of their consideration. Programme Audit has raised the slow disbursement of funds to the subnational level as an issue but it is often an institutional issue more broadly, not just a Gavi issue.
- In the context of a request from an AFC member, the Secretariat confirmed that at a later meeting they will report back on the implementation of Programme Audit recommendations based on the level of risk.

- Finally, in relation to the country reimbursement schedule, AFC members noted that it would be useful to include in the table data in relation to the amount of funding put through the countries to frame what the reimbursements relate to. The Secretariat clarified that if this was to be looked, it should be represented in terms of the value of grants considered in the scope of the audit (being the most appropriate, matching denominator).

3b Counter-fraud framework

- 3b.1 Paul Catchick, Head, Investigations/Counter-Fraud, reported on his work, indicating that most of his work to date has focused on reactive investigations, both external and internal, and that there is now appetite to focus more on counter-fraud. He highlighted that counter-fraud is a function of the first and second lines of defence and that fraud risks should be owned by individual departments.
- 3b.2 Mr Catchick presented information in relation to proposed counter-fraud activity, in the shorter, medium and longer term, with a focus in the short term on reviewing the previously compiled draft fraud risk assessment, carrying out Conflict of Interest training across the Secretariat, carrying out fraud awareness training for staff interfacing with countries (particularly in audit, PCA and country programmes) and assessing the benefit of increasing awareness of the ethics hotline reporting facility.
- 3b.3 It is proposed in the medium term to consider country-level fraud risk assessments (potentially seeking synergies with the Global Fund, where available), to collaborate with Secretariat management on how assurance may be improved on higher risk activities such as purchases financed through Health Systems Strengthening (HSS) and campaigns, and to enhance monitoring by the Secretariat and partners.
- 3b.4 Longer-term activities could include sharing a proposed country-level fraud risk assessment approach with partners; facilitating ministries in building on Gavi's fraud risk approach to assessment and report fraud risks directly; build coalitions with the internal audit functions of Ministries of Health and National Audit Office to help inculcate a fraud risk culture; build coalitions with economic crime and anti-corruption agencies; and work with ministries to help them produce their own fraud and corruption prevention strategies.

Discussion

- In response to a question from an AFC member relating to the proposal to consider country-level fraud risk assessments, it was noted that this is in the very early planning stages and is likely to look first at countries seen as being high risk, noting that interaction with the country authorities will be key.
- AFC members noted that there are a number of donors and other organisations looking at similar issues in countries and highlighted the importance of ensuring coordination as you go into the country level. The Secretariat noted that there will

indeed be a desire to coordinate and explore operational efficiencies going forward.

- Some AFC members shared thoughts based on experience on how awareness and use of the ethics hotline reporting facility could be increased.
- AFC members agreed that the workplan is ambitious and noted that the Secretariat will be reporting back regularly on progress.

3c Information technology

- 3c.1 Pascal Barollier, Managing Director, Public Engagement and Information Services, introduced this item (Doc 03c). Rania Abou Chakra, Head, Enabling Technology, provided an overview of issues relating to KMTS (Knowledge Management & Technology Solutions) audit issues. She also presented the technology risk dashboard and information in relation to IT governance and control.
- 3c.2 In relation to KMTS audit issues, Ms Abou Chakra reported that the focus from April to June 2019 had been on governance, planning and resources, with work done to prioritise the high risks.
- 3c.3 She provided details in relation to the activities planned for the remainder of the year, namely completion and introduction of a business continuity management system; completion and introduction of an IT project management framework; and starting to carry out systematic controls as per the audit recommendations. This latter work will continue into 2020, by which time recurring control and oversight will be in place.
- 3c.4 In relation to IT governance and control, Ms Abou Chakra reported that a Business Continuity and IT Security Committee has been put in place to oversee business continuity disaster recovery (BCDR) initiatives and IT security related matters. A task force has been put in place to focus on resolving audit issues and all of this work is being done in accordance with industry standards.

Discussion

- AFC members noted that there is better acceptance within the Secretariat of the need for better processes and policies and that the implementation of SAP and the culture change it is bringing is helping in this regard.
- In response to a question from an AFC member, the Secretariat confirmed that there is function level access within the Secretariat to all IT applications and the relevant processes are in place to manage this.

4. Any other business

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

Philip Armstrong
Secretary

Attachment A

Participants

Committee Members

- David Sidwell, Chair
- Kwaku Agyeman Manu
- Craig Burgess
- Benjamin Carcani
- Ted Chaiban
- Emmanuel Maina Djoulde
- Irene Koek
- Tom Morrow
- Andreas Karlberg Pettersen
- Teresa Ressel

Regrets

- Gisella Berardi

Secretariat

- Seth Berkley (Items 1 and 2)
- Anuradha Gupta (Items 1-3a)
- Rania Abou Chakra (Item 3c)
- Philip Armstrong (Items 1-3a)
- Pascal Barollier (Item 3c)
- Pascal Bijleveld (Item 3a)
- Paul Catchick (Item 3)
- Pauline Caywood
- Assietou Sylla Diouf
- Tony Dutson
- Joanne Goetz
- Barry Greene
- Edmund Grove (Item 3)
- Hind Khatib-Othman (Item 3a)
- Simon Lamb
- Chrysantus Nyongesa
- Marie-Ange Saraka-Yao (Items 2c and 3a)
- Jacob van der Blij

Guests

- Fabien Bryois, Deloitte
- Lisa Watson, Deloitte