

## **Gavi Alliance Audit and Finance Committee Meeting**

7 February 2019

Gavi Office, Geneva, Switzerland

### **1. Chair's report**

- 1.1 Finding a quorum of Audit and Finance Committee (AFC) members present, the meeting commenced at 16.05 Geneva time on 7 February 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 26 November 2018 (Doc 01b).
- 1.3 The Committee noted the decision which had been taken by unanimous consent on 7 January 2019 (Doc 01c).
- 1.4 The Committee also reviewed its action sheet (Doc 01d) and Workplan (Doc 01e).

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### **2. Deloitte 2018 Audit Strategy and Planning**

- 2.1. Fabien Bryois, Group Audit Partner, Deloitte outlined the planned timings of the financial year 2018 audit. He confirmed that no other non-audit services will be provided to Gavi by Deloitte, with the exception of assessment of the SAP scope and the US tax declaration.
- 2.2. Lisa Watson, Group Audit Director, Deloitte, outlined the proposed scope of the audit, noting the two main components comprising the Gavi Secretariat and IFFIm. It was stated that the materiality will be set at US\$ 35 million, the same level used by the previous auditors.
- 2.3. Ms Watson noted that materiality for IFFIm will be set at US\$ 20 million, consistent with prior years, and that Deloitte colleagues in Geneva, the UK and the USA will work closely together and discuss any findings on IFFIm.
- 2.4. In relation to significant risks, Deloitte identified these as valuation of sovereign pledges, recognition and cut-off in relation to revenue from governments and donors, and management override of controls. It was noted that whilst the previous auditors did not classify revenue cut-off as a significant risk, Deloitte are keen to fully understand the context around this in their first year.
- 2.5. Ms Watson then outlined other areas of audit focus which have some level of judgement but which are considered a slightly lower risk. She highlighted in particular the preparation for the updated US GAAP accounting standards.

- 2.6. It was explained that whilst reliance would not be placed on the Gavi Audit and Investigations (A&I) work, Deloitte will work closely with that team to stay up to date on any issues. It was further noted that they will work closely with A&I on the SAP project to avoid duplication of effort.
- 2.7. Finally, it was noted that an independent partner from within Deloitte will work alongside the audit partners to challenge any judgements made.

#### *Discussion*

- When asked about the materiality cap of US\$ 35 million for 2018, Deloitte explained that this is the same as the previous year and next year's materiality will be discussed with the Secretariat and AFC early in the planning stage of the 2019 audit.
- In response to a question on taking into account the previous fraudulent activity, Deloitte noted that this has been discussed with the Secretariat and KPMG. It was explained that Deloitte have already reviewed the Kroll reports to understand their recommendations and started to look at design and implementation of new controls in SAP, including the approval process. Deloitte will assess whether the recommendations from the investigation are still being implemented during their audit in spring 2019.
- When asked about how they will look at staff gaps or programme management issues which may impact on SAP, Deloitte explained that they will work closely with the internal audit team to keep track of these potential issues.
- In response to a question on sharing of programme audit findings with Deloitte, the Secretariat confirmed that all relevant findings will be shared with Deloitte but noted that once funds are disbursed to countries, any issues after this point do not affect the financial statements.

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### **3. Q3 2018 Gavi Consolidated Financial Statements**

- 3.1. Tony Dutson, Senior Director, Finance and Chief Accounting Officer, reminded the Committee that the consolidated statements were originally scheduled to be presented at the December 2018 Committee meeting but this was postponed due to a delay in the IFFIm figures from their treasurer, the World Bank.
- 3.2. Mr Dutson noted that at the end of 2017 IFFIm represented 19% of net assets. He explained that revenue is significantly lower for the nine months ended 30 September 2018 when compared with the same period in 2017 and that this was expected due to the tapering off of signing new grant agreements late in the strategic cycle. He further noted that there was a spike in IFFIm's revenue in 2017 due to the French grant agreement of EUR 150 million as a multi-year pledge where no similar pledge was made in 2018.

- 3.3. Mr Dutson concluded by noting that the Secretariat projected net assets of US\$ 4.5 billion by year end which is consistent with expectations of the Gavi strategic cycle.

*Discussion*

- In response to a question from a Committee member, the Secretariat confirmed that they are still working from projections for the final three months of 2018 due to the long close-down of IFFIm final year-end figures.

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**4. SAP and Grant Management**

- 4.1. Barry Greene, Managing Director, Finance and Operations, explained to the Committee that the SAP system design phase is nearly complete and the build phase is expected to begin in March 2019. He noted that a quality assurance review by SAP had raised some issues which must be rectified before implementation and that the project was running two months late overall. He further noted that PwC have brought in a new project manager for the upcoming phase.
- 4.2. Mr Greene reminded the Committee that, similar to other organisations which bid for the work, PwC was only prepared to give a fixed cost for the first phase of the project due to the complexities around grant management. He however explained that PwC recently provided an estimate for their services for the next phase that would result in an overall project cost estimate of US\$ 6.9 million. As the previous Secretariat estimate was US\$ 5.3 million, Mr Greene confirmed that the Secretariat are looking at ways to reduce this cost by US\$ 1 million. This may include looking at a different implementer of analytics software.
- 4.3. David Nix, Chief Knowledge Officer, noted that in October the Secretariat had presented to the Committee on the coordination of grant management and SAP. He reminded the Committee that at that time they had believed that SAP would help resolve three of the key grant management audit findings. With much of the design thinking done, this is now confirmed. He explained that the core grant management functions could be included and the team will continue to explore how grant management in SAP would interact with other systems.

*Discussion*

- In response to a question from the Chair, the Secretariat confirmed that they are comfortable with the consultancy skills being provided by PwC for the upcoming phase and noted that some discrete areas of advice would likely be provided by SAP consultants.
- When asked about the US\$ 1 million cost savings which are being explored on the project, the Secretariat explained that the aim is to generate efficiency savings rather than reducing the functionality of the system. Savings are being sought

through potentially working with vendors other than PwC for certain functions such as change management and the analytics software.

- The Chair noted the importance of this project and that the Committee encourages the Secretariat to get the right resources in place and continue to push for high quality work without taking short-cuts or reducing the scope of the initiative too much.

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## **5. Information Technology Risk Level Update**

- 5.1. David Nix, Chief Knowledge Officer, noted that this is a follow up on the previous Committee meeting in November 2018 where the high-risk audit findings were discussed. Mr Nix reminded the Committee that the audit covered three main areas; disaster recovery, cyber security and project governance.
- 5.2. Regarding disaster recovery, Mr Nix explained that all audit findings in this area are resolved. He however noted that whilst the disaster recovery plans are in line with normal business standards, they are not aligned with business expectations so further internal discussions will take place.
- 5.3. Mr Nix then outlined progress on the results from the system penetration tests. He noted that all of the high rated issues have now been resolved, however the two medium rated issues will be closed by April 2019 due to the dependency on the roll-out of Microsoft Windows 10. He highlighted to the Committee that the tests were conducted at Gavi's previous offices in Geneva and that technology is significantly improved at the Global Health Campus where continuous scanning for issues takes place in Gavi's environment.
- 5.4. Mr Nix described the technology risk dashboard to the Committee. He stated that since November 2018 the Secretariat has been able to flag high risk use on Gavi devices so that malware infections can now be identified early. He highlighted that regular email phishing attempts were identified as well as three recent malware infections, all of which occurred whilst staff were in-country and because they were detected early, the risks were mitigated.
- 5.5. In relation to project governance and execution, Mr Nix confirmed that all high rated issues have been resolved. He explained that in the third quarter of 2018 a new IT project governance model had been put in place which involves greater financial control over each project by using individual purchase orders, a steering Committee and gate reviews. It was however raised that full financial control will be difficult to obtain until SAP is in place.

### *Discussion*

- In response to a query about the difference between the current disaster recovery capability and staff expectations, the Secretariat explained that there is an expectation that the Global Health Campus should to be functioning again within

24 hours in the event of a failure but the building is not set up to accommodate this. It was noted that in the event of a system failure, the IT back-ups would protect the mission critical data but the Secretariat would likely need to work from home for a time.

- The Committee acknowledged the utility of a gap analysis on disaster recovery and noted that whilst remediation can sometimes be expensive, cost can sometimes be shared with others.
- In response to a question from the Committee, the Secretariat noted that only the resolution of the issues relating to the penetration test have been verified by the A&I function whereas the other resolutions described by Mr Nix have not yet been verified.
- When asked by the Chair about the more robust IT project management system, the Secretariat confirmed that it has improved but whilst it is based on industry standards, there will likely need to be some maturity required around the process.
- In response to a question from the Chair on collaborating with the Global Fund, the Secretariat explained that they have been working on an IT governance model for decision-making structures which enable Gavi to operate effectively in the campus. The Secretariat noted that they are continuing to explore synergies with the other health campus organisations, such as a shared procurement process for mobile devices in order to collectively negotiate stronger terms.

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## **6. Audit and Investigations report**

- 6.1. Simon Lamb, Managing Director, Audit and Investigations (A&I) presented this item. He started by noting that a key theme for the A&I function in 2019 will be counter-fraud, with plans to refresh the fraud risk review conducted in 2016.
- 6.2. In relation to whistleblowing, Mr Lamb explained that seven items had been open at the time of the previous AFC meeting in November 2018 and six of those have since been closed and for which the Chair had received a briefing note. A briefing note will be circulated to the Committee shortly on one particular item which was discussed at the closed session of the AFC in November. It was further noted that one new whistle-blower report had been received the day before this meeting (and therefore not included in the analysis reported in the A&I paper).
- 6.3. Regarding the reporting dashboard, Mr Lamb highlighted that the rate of plan execution was 82% against a target of 80%. It was noted that staff capacity was reduced in 2018 due to staff turnover and consultants were used for support when appropriate. It was acknowledged that the departure of the heads of both Francophone Africa and Anglophone Africa programme audit teams in 2018 did impact the plan execution but that the second position (the Head of the Anglophone Africa programme audit team), was confirmed to be filled by March.

- 6.4. In relation to a recent audit in Lao PDR, Mr Lamb explained that concerns were sufficiently strong that A&I engaged with Country Programmes immediately on returning from the audit mission and that in-country funds previously disbursed have now been frozen so that they cannot be spent without Gavi approval. He explained that the draft report was sent to the country this week. It was noted that high risk issues were observed across all areas audited and the extent of questioned expenditure, subject to the process of review and validation, is provisionally US\$ 3.5 million.
- 6.5. Mr Lamb concluded by noting that further reimbursement of US\$ 80,000 from Zambia had been received since the papers were distributed to the AFC which brings the overall recovery rate of funds due on identified misuse to 99.4%.

### *Discussion*

- The Committee commended the A&I team on their work during 2018 considering the reduced resources.
- When asked about the audit results in Lao PDR, the Secretariat explained that whilst it is not unusual to find issues with systems and processes in countries, the results here are considered severe because problems were found across all areas and the issues found in testing were significant. It was explained that if the country responds to the draft report within the requested timeline of a month then the audit could be complete within three to six months. However, this timeline is very much dependent on the speed and quality of response from the country.
- The Committee discussed how the Lao PDR audit results are viewed from a strategic perspective; it was acknowledged that finding this level of issues within a non-fragile country was unexpected and highlighted the importance of Gavi providing support via targeted country assistance to improve country capabilities.
- In response to a question on any link between the loss of staff and lack of opportunities for progression, the Secretariat explained that the two heads of programme audit had left due to personal reasons but the issue of training and progression is something they are aware of and can be a challenge in a small team.
- In relation to counter-fraud, a Committee member requested that at the next Committee meeting more detail is provided on an action plan for counter-fraud activities, timings and if there is a gap between team resource and actions. The Secretariat noted that whilst there is specialist knowledge and skills in the A&I team, the role of the counter-fraud activity within A&I is mainly as a catalyst for the 1<sup>st</sup> and 2<sup>nd</sup> lines of defence, and that a large part of the counter-fraud activity will therefore focus on training and increasing awareness in the wider Secretariat.
- The representative from UNICEF offered to share with the Committee a report of an audit of its own immunisation function.

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## **7. Any other business**

- 7.1 The Chair concluded by noting that the priorities for 2019 for the Committee will include SAP and how this links with grant management, resolving any remaining technology issues, an increased focus on counter-fraud work, reflecting on Gavi 5.0 and looking at appropriately hedging funds in light of potentially volatile markets.
- 7.2 After determining there was no further business, the meeting was brought to a close.

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Mr Philip Armstrong  
Secretary



## Attachment A

### Participants

#### **Committee Members**

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

#### **Regrets**

- Craig Burgess

#### **Observers**

- Kelly Jarrett
- Jane Stewart

#### **Secretariat**

- Philip Armstrong (items 1-4)
- Pascal Barollier (items 4 and 5)
- Caroline Bradley
- Paul Catchick (item 6)
- Pauline Caywood
- Tony Dutson
- Barry Greene
- Simon Lamb
- David Nix (items 4 and 5)
- Chrys Nyongesa
- Jacob Van Der Blij

All attendees participated via telephone