INTERNAL AUDIT REPORT

Third-Party Expense Claims Reimbursement process
March 2024

Gavi The Vaccine Alliance

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Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the design and operating effectiveness of the key controls in the processes related to the management of third party (PEF partners) expenses and reimbursements.

Gavi engages partners to undertake PEF activities, mainly on technical assistance related work. In the three years 2019-2021, Gavi worked with 56 PEF partners (excluding core partners, such as WHO and UNICEF) incurring total PEF spending of USD 114M. Of this, USD 24.5M was invoiced as expenses and reimbursed to the third parties contracted for PEF projects. Expense reimbursements constituted 21% of the total PEF spending for the period reviewed.

Through our audit procedures, we identified control weaknesses which imply that Gavi could be reimbursing third-party expenses without proper verification and validation. It appears as if Gavi has taken on the responsibility of reviewing and providing assurance on the third-party expenses despite the fact that it does not have the capacity to do this effectively under the current arrangement. A summary of the key issues is provided below.

Summary of Key Audit Issues

Ref	Description	Rating*
1.1	**Process of managing Third-Party (PEF partners) Expenses**	
	Enhance controls in the current reimbursement-based system or adopt a simplified and less resource-intensive model that focuses more on service delivery/agreed milestones.	Red
1.2	**Transparency of Budgets and Eligibility of Expenses**	
	There should be more transparency in the budgets, and clarity regarding allowable expenses and the required supporting documentation.	Amber
1.3	**Third-Parties Expenses Review and Reconciliation Process**	
	Strengthen controls in the third-party expense review and reconciliation process.	Red
1.4	**Completeness and Eligibility of Submitted Expenses for Reimbursements**	
	Ensure that only eligible and properly supported expenses are reimbursed.	Amber
1.5	**Optimisation of Tools and Systems**	
	Optimise the available tools and systems to realise efficiencies and enhance controls in the third-party (PEF partners) expenses process.	Amber

**The audit ratings attributed to each section of this report, the level of risk assigned to each audit finding and the level of priority for each recommendation, are defined in annex 2 of this report.*

1. Summary of issues

Through our audit procedures, we have identified two high and three medium risk issues as summarised below. These issues point to the fact that Gavi has taken on the responsibility of reviewing and providing assurance on the third-party expenses despite that fact that it does not have the capacity to do this effectively under the current arrangement. In our opinion, management should critically review the risk-reward trade-offs of the current arrangement with the aim of implementing a more robust process that is cost-effective and fit-for-purpose and that does not expose the organisation to a higher-than-expected, or potentially unrecognised, level of risk.

1.1 Process of managing Third-Party (PEF partners) Expenses

Enhance controls in the current reimbursement-based system or adopt a simplified and less resource-intensive model that focuses more on service delivery/agreed milestones.

The current framework for managing PEF partners' expenses may not be fit for purpose in the current Gavi context. This is because most SCMs who are expected to review and validate the expenses against the supporting documentation before reimbursement are not able to effectively do this due to their limited bandwidth and capacity constraints. In addition, the *Gavi Travel & Expense Rules & Procedures for non-Gavi employees* document which forms the basis of the process for managing these expenses has not been updated since 2010 to reflect the most current practices and in-country cost structure.

The control weaknesses in the process imply that Gavi could be reimbursing PEF partners' expenses without proper verification and validation. In addition, unclear policies, procedures, and processes create a weak control environment and lack of consistency.

Management could consider changing from the current process for PEF partners' expense reimbursement, which is complex, time-consuming, and prone to error, to one where Gavi requires the partner to submit an expenditure statement certified by a senior member of their Finance team. The Gavi Finance team could conduct risk-based review of the submitted third-party expenses to ensure compliance. Gavi should retain the right to audit the expenses as and when required.

1.2 Transparency of Budgets and Eligibility of Expenses

There should be more transparency in the budgets, and clarity regarding allowable expenses and the required supporting documentation.

According to the *Gavi Travel & Expenses Rules & Procedures for non-Gavi Employees,* which is the basis of some of the clauses in the contracts with third parties, per diems are an ineligible expense. Meals, beverages, and accommodation should only be reimbursed based on actuals which are properly supported by expense receipts. However, review of a sample of budgets and submitted and reimbursed expenses revealed that this control has not been properly implemented.

There is lack of appropriate level of detail and consistency in cost description and activities across all budgets. In addition, the proportion of indirect costs is high and not in accordance with the 'Gavi Alliance Indirect Cost Policy for Grants & Contracts for Third-Party Applicants'. The lack of clear guidelines regarding budgets and allowable expenses increases the risk of reimbursing expenses which are not reasonable, appropriately incurred, necessary, and consistent with Gavi's business needs and mission. There is also increased risk of misuse, misappropriation, and/or fraud.

1.3 Third-Parties Expense Review and Reconciliation Process

Strengthen controls in the third-party expense review and reconciliation process.

There are no guidelines for SCMs and PMs on how to carry out the review of PEF partners' expenses. In addition, no capacity building or training is organised to orientate the SCMs and PMs on this, especially for those without a financial background. Consequently, the process is conducted in an inconsistent and informal manner based on individual judgement. There are no reconciliations to ensure that each expense on the itemised invoice or detailed expenditure report is supported with a proper expense receipt and that there is alignment with the budgeted expenditure. Financial reports are only obtained from partners with fees and expenses exceeding USD 1M, however, this arrangement is neither included in the policy nor in the contractual agreements.

The lack of effective review and approval of submitted expenses by contract owners increases the risk of undetected errors, misuse, fraud, etc. In addition, the lack of clarity regarding key controls and activities within the process increases the risk of approval and reimbursement of expenses which are unreasonable, inappropriately incurred, unnecessary, and inconsistent with Gavi' business needs and mission.

1.4 Completeness and Eligibility of Submitted Expenses for Reimbursement

Ensure that only eligible and properly supported expenses are reimbursed.

We were unable to obtain supporting documentation for about half of the reimbursed expenses we selected in our sample. This is not in line with the policy and the third parties' contractual agreement which require all actual expenses to be properly evidenced or supported.

The lack of clarity regarding key controls and activities within the process increases the risk of approval and reimbursement of expenses which are unreasonable, inappropriately incurred, unnecessary, and inconsistent with Gavi' business needs and mission.

1.5 Optimisation of Tools and Systems

Optimise the available tools and systems to realise efficiencies and enhance controls in the third-party (PEF partners) expenses process.

The tools and systems used to record, review and reimburse PEF partners' expenses are sub-optimal. Currently, the Country Support team relies heavily on manual processes which are time consuming, prone to error, and highly dependent on the skill levels of individuals. The manual nature of the process makes it difficult to perform valuable analyses of the data to generate trend reports on spending patterns, identify outliers and potential misuse.

In addition, the supporting documentation of submitted expenses is not maintained in a central document repository which makes it very difficult to locate documents in the event that the contract owner leaves the organisation. There is insufficient supporting documentation in SAP as well for all the expenses in our sample. The lack of adequate supporting documentation makes it difficult to independently determine whether the reimbursement of expenses to third parties is made following a rigorous process of review and verification of the same.

Use of manual processes and the sub-optimal use of the financial system (SAP) increases the risk of errors, discrepancies, potential misuse, misappropriation and/or fraud.

2. Background

Gavi engages partners to undertake different PEF activities, mainly on technical assistance (TCA) related work. Our analysis shows that Gavi worked with various PEF partners during the calendar years of 2019, 2020, and 2021 during which it incurred total PEF spending (actuals) of USD 114M. Of this, a total of USD 24.5M was claimed in expenses and reimbursed to third parties contracted for PEF projects. Actual expense reimbursements constitute 21% of the total PEF spending for the period reviewed.

In 2019, procurement carried out a project related to the "Expense Policy for 3rd Parties" with the following objectives as summarised in the table below:

As Is	To Be
Understand current Process/Challenges that Business Owners are facing in regards with current Expense Policy for 3rd Parties.	Develop and formalise a new process to facilitate the internal review/approval process.
Gather information to highlight what can be the option(s).	Create a consistent sustainable policy matching Gavi policy and best practice.
Ensure the options are aligned with Gavi policy	Gain efficiency and time

Due to the COVID-19 pandemic, priorities changed and consequently, this project was deprioritised.

3. Objectives and Scope

3.1 Audit Objective

The objective of the audit was to assess the design and operating effectiveness of key controls in the third-party expenses and reimbursement process to ensure that expenditures (PEF partners) were appropriately incurred, necessary, reasonable, and consistent with Gavi's business needs and mission.

3.2 Audit Scope and Approach

Our audit approach is risk based, informed by our understanding of GAVI’s business, governance, risk management processes and internal control systems as well as our assessment of the risks associated with the audit area.

This audit was conducted through interviews, observations, documentation review, process walkthroughs, assessing the design and operating effectiveness of key controls and assessing the governance and risk management processes.

The following key areas were reviewed in the period from 1 January 2019 to 31 December 2021:

- Process of third parties (PEF partners) expense reimbursements and
- For selected sample of partners, reimbursed expenses, review of contractual agreements*, goods receipts, invoices, and expense receipts.

**NB: The contractual agreements which are legally binding with third parties (PEF partners) make explicit reference to the following requirements regarding expenditure which is reimbursable by Gavi:*

- *Gavi’s prior written approval is required,*
- *Contractor should abide by the Gavi Travel & Expenses Rules & Procedures for non-Gavi Employees,*
- *Actual expenses should be properly evidenced, and*
- *Expenses should be listed separately on every invoice.*

Consequently, when assessing the design and operating effectiveness of key controls, governance, and risk management processes, we based our criteria on the abovementioned requirements included in the contractual agreements.

We will continue to work with management to ensure that these audit issues are adequately addressed and required actions undertaken.

We take this opportunity to thank all the teams involved in this audit for their on-going assistance.

Director, Internal Audit

Annexes

Annex 1 – Methodology

Gavi's Audit and Investigations (A&I) audits are conducted in accordance with the Institute of Internal Auditors' ("the Institute") mandatory guidance which includes the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the audit activity's performance. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers are also adhered to as applicable to guide operations. In addition, A&I staff adhere to A&I's standard operating procedures manual.

The principles and details of the A&I's audit approach are described in its Board-approved Terms of Reference and Audit Manual and specific terms of reference for each engagement. These documents help audit staff to provide high quality professional work, and to operate efficiently and effectively. They help safeguard the independence of the A&I's staff and the integrity of their work. The A&I's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

In general, the scope of A&I's work extends not only to the Secretariat but also to the programmes and activities carried out by Gavi's grant recipients and partners. More specifically, its scope encompasses the examination and evaluation of the adequacy and effectiveness of Gavi's governance, risk management processes, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve stated goals and objectives.

Annexe 2 – Definitions: audit rating and prioritisation

Issue Rating

For ease of follow up and to enable management to focus effectively in addressing the issues in our report, we have classified the issues arising from our review in order of significance: High, Medium, and Low. In ranking the issues between 'High', 'Medium' and 'Low', we have considered the relative importance of each matter, taken in the context of both quantitative and qualitative factors, such as the relative magnitude and the nature and effect on the subject matter. This is in accordance with the Committee of Sponsoring Organisations of the Treadway Committee (COSO) guidance and the Institute of Internal Auditors standards.

Rating	Implication
High	At least one instance of the criteria described below is applicable to the finding raised: • Controls mitigating high inherent risks or strategic business risks are either inadequate or ineffective. • The issues identified may result in a risk materialising that could either have: a major impact on delivery of organisational objectives; major reputation damage; or major financial consequences. • The risk has either materialised or the probability of it occurring is very likely and the mitigations put in place do not mitigate the risk. • Fraud and unethical behaviour including management override of key controls. Management attention is required as a matter of priority.
Medium	At least one instance of the criteria described below is applicable to the finding raised: • Controls mitigating medium inherent risks are either inadequate or ineffective. • The issues identified may result in a risk materialising that could either have: a moderate impact on delivery of organisational objectives; moderate reputation damage; or moderate financial consequences. • The probability of the risk occurring is possible and the mitigations put in place moderately reduce the risk. Management action is required within a reasonable time period.
Low	At least one instance of the criteria described below is applicable to the finding raised: • Controls mitigating low inherent risks are either inadequate or ineffective. • The Issues identified could have a minor negative impact on the risk and control environment. • The probability of the risk occurring is unlikely to happen. Corrective action is required as appropriate.