

INTERNAL AUDIT REPORT

Management of external audit processes
December 2020






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1. Executive Summary

1.1. Summary of key audit issues

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** The audit ratings attributed to each section of this report and the level of risk assigned to each audit issue are defined in annex 3 of this report.*

1.2. Summary of issues

Through our audit procedures, we have identified two high risk issues and one medium risk issue relating to the management of the external audit processes as summarised below.

1.3.1 *Development of an overarching financial assurance strategy*

External audits are identified as the primary source of assurance within Gavi's grant agreements. Over the years, Gavi's focus on in-country fiduciary risks increased, in part due to the work of Programme Audits and Programme Capacity Assessments, which revealed the extent of risk exposure.

Measures were taken to minimise fiduciary risks, for example by channelling funds through Gavi Alliance partners or introducing additional safeguards such as monitoring agents, fiduciary/fiscal agents or programme monitoring units. Nevertheless, there remained instances where these measures did not sufficiently mitigate the risk. This includes cases where Gavi's funds, initially disbursed to Alliance partners instead of directly to the Government, were sub-granted back to the Government for which Gavi placed reliance upon UNICEF and WHO's assurance processes. There are also some instances where funds disbursed to Alliance partners were not fully accounted for. This means that the development of assurance mechanisms and safeguards may not adequately address known fiduciary risks present across Gavi's differentiated portfolio of countries.

Development of an overarching financial assurance strategy would direct the mitigation of the fiduciary risks for Gavi-supported country programmes and consider what assurance measures would provide Gavi with a minimum standard of in-country fiduciary risk management including the intrinsic value of external audit relative to other assurance providers.

1.3.2 *Closing gaps in the review of timeliness and quality of reports*

Over the period 2015-2017, the submission of external audit reports increased to a 73% rate of expected reports. However, this improvement in volume does not reflect either the quality or timeliness of audit reports received, nor whether these audits were factored into Gavi's decision making processes. Thereafter, over the period 2018-2020 the submission rate reduced to 32%, as progressively fewer audit reports were received, in part due to the Covid-19 pandemic and Gavi offering countries leniency on the timeliness of their report submission.

Gavi should reinforce one of the Partnership Framework Agreement's core principles, namely that every cash programme (where the government is a beneficiary) should be subject to an annual audit, undertaken by auditors with the necessary capabilities to deliver an appropriate opinion. Equally, a robust process for monitoring the conduct, quality and timeliness of audits should be implemented.

Closing the gaps in the review of timeliness and quality of external audit reports submitted to Gavi would enable continuous improvement and support learning and sharing of good practices across the Gavi portfolio.

1.3.3 *Effectiveness of follow up on audit recommendations*

Many country-level audits and reviews are undertaken within Gavi's operationalisation of the three lines model, resulting in a wide range of recommendations. With respect to the in-country annual external audits, there was no requirement for Gavi-supported countries to prepare action plans, prioritise actions and ensure that root causes were systematically addressed. As a result, there is insufficient identification of and focus on high-risk issues and fiduciary risk management gaps which remained outstanding for extended periods.

Gavi management agrees with the recommendations made in the audit. We will continue to work with management to ensure that these audit issues are addressed and required actions undertaken. The status of implementation of recommendations will be reported to Gavi's Audit and Finance Committee.

Audit and Investigations

2. Objectives and Scope

2.1. Audit Objective

The objective of this audit, as approved by the Audit and Finance Committee (AFC) in 2020, was to assess the adequacy and effectiveness of the controls the design and operation of the key processes governing the management of the external audit processes of in-country Gavi supported programmes.

2.2. Audit Scope and Approach

We adopted a risk-based audit approach informed by our assessment of the system of internal controls. Our audit approach included:

- Reviewing applicable guidelines and policies including: the Transparency and Accountability policy (TAP); the Partnership Framework Agreement (PFA); Guidelines on Financial Management and Audit Requirements (FM guidelines); Operational Guidelines: Secretariat Risk Management based on the Three Lines of Defence (OG 3LoD); Memoranda of Understanding (MoU) with alliance partners; Gavi risk documents; and Board minutes. The audit assessed if the design and operating processes regarding the annual external programme audit met the expectations and requirements set out in these documents.
- Reviewing relevant documents for a sample of countries. The audit team examined annual audit reports and correspondences related to 17 Gavi supported countries. Additional reference documents included: Programme Capacity Assessment reports; the roles and responsibilities of relevant teams; Programme Finance's 'ABC' risk classification of countries and annual compliance review report (started in 2015); team performance metrics; operational risk registers; and programme audit reports for select countries.
- Reviewing the Gavi Funds Channelling Review report (2019) completed by the Programme Finance team.
- Conducting interviews with a sample of ten individuals from Country Support (CS) and the previous Programme Finance teams, to obtain an understanding of both the theoretical and practical aspects of managing fiduciary risk using the annual external audit reports.

This audit was designed to assess:

- The adequacy of policies, resources and tools used within these processes;
- The adequacy of processes and structures currently in place for the review of timeliness and quality of external audits submitted by countries (including the criteria used to determine the rating and what action was taken where these elements are not met); and
- The adequacy of processes for the follow-up of critical issues and recommendations raised in external audit reports.

Our review of the Programme Finance team's roles and responsibilities was limited to those audit activities set out in the scoping section (above) and did not include any other management activities done by this team or its members.

Following Gavi's reorganisation in 2021, the Programme Finance and Programme Capacity Assessment teams merged to form the Portfolio Financial Management (PFM) team as part of the Finance & Operations department. The PFM team has a mandate to ensure end-to-end financial management processes to support the oversight of Gavi's grants are established and operate effectively. As a result, any actions referenced in this report to Programme Finance will be taken forward by PFM.

3. Background

3.1. Context of the audit

Fiduciary risk is high for cash programmes which account for 25-30% of Gavi's programmatic expenditure – the remainder being vaccines and ancillary items procured through UNICEF Supply Division. Since 2015, Gavi Secretariat has prioritised managing its fiduciary risk by instituting three lines of defence, developing guidelines for financial management, and exploring new mechanisms to obtain fiduciary assurance.

In July 2017, Gavi Board defined its risk appetite statement that “Gavi has a low appetite for risks related to fiduciary oversight and control while recognising the risks inherent to its model of channelling support through country systems where these are sufficiently robust”. It also stated that “The Alliance has a low appetite for the risk of misuse. When government systems are insufficiently robust, it will utilise alternative mechanisms to ensure strong fiduciary oversight. At the same time, it will provide support to strengthen country systems to ensure they are fit for purpose.” Therefore, in the event of significant fiduciary risks, identified through regular supervisions by the Senior Country Manager or through Programme Audit and Programme Capacity Assessment teams, Gavi Secretariat increased channelling grant funds through its core alliance partners. Cash grants can be channelled through partners due to material fiduciary risks, incidents. This also applies to fragile states where partners were effectively the principal option that was viable, or in the case where there was a specific government request – such as for example: India and Pakistan.¹

During the period 2016 – 2018, a total of 72² countries received cash grants from Gavi. The total cash disbursed during this period was US\$ 944,637,241 of which, 66% was channelled through alliance partners, 27% to governments, 4% to UN organisations (non-core partners) and 3% to local non-governmental organisations and international developmental agencies (mainly in DR Congo).

3.2. Evolution of Gavi's fiduciary assurance model

Additional context is provided to give understanding of Gavi's assurance model. As noted in the executive summary, the main high-risk factor is the lack of an updated Transparency and Accountability Policy to consolidate the years of learning over Gavi 4.0 strategy period. However, the audit notes that several incremental assurance measures have been taken year by year and by country risk profile.

The three lines of defence (3LoD) model was taken up in 2014. Prior to this, Gavi relied on a “light touch approach” with financial assurance responsibility primarily resting with countries. While external audits had been identified in the PFA as a key pillar of financial assurance, there were limited complementary checks in place to determine their effectiveness. Since 2015, several instances of material weaknesses at country level were highlighted by the newly formed Programme Audit team. The Programme Capacity Assessment team also built on the financial management assessments and expanded its scope of country-focused capacity assessments, resulting in grant management requirements (GMRs) as a formal part of the Gavi's grant agreements and replacing the “Aide Memoires” component of the PFA. As with the Financial Management Assessments, the Programme Capacity Assessments assessed the means through which Gavi funds were channelled to countries and relevant aspects of assurance. There have been gradual changes in financial assurance measures as the Programme Finance team became integrated within Country Programmes in a part-advisory, part-implementation capacity. The relevant measures of assurance resulting from assessments included channelling funds through Gavi alliance partners, United Nations (UN) agencies, use of

¹ Total Funds channelled through partners during the period 2016 - 2018 was US\$ 131 million for Pakistan and US\$ 101 million for India.

² Excludes Syrian Arab Republic which became eligible for Gavi's portfolio of support as of 1 January 2019.

fiscal/fiduciary agents, and in some countries programme management units were set up by countries to ring fence management of donor programmes. In this situation, in accordance with MoUs signed between Gavi and Alliance Partners, the reliance is on partners to ensure that such funds are audited under the “one audit principle”; In parallel, the Programme Finance team commenced external audit compliance reviews in addition to other grant management measures to improve adherence to reporting requirements.

In 2018, Gavi Board members noted with concern, the increasing proportion of Gavi funds which were being channelled away from governments and requested the Gavi Secretariat to examine this by suggesting suitable mechanisms aimed at reverting funds to government systems as the primary channel. Gavi Secretariat responded that it was currently focusing on leveraging countries' own systems and ensuring that funds are ‘on budget’, as well as building the capacity of the national oversight mechanisms.

In 2019, the Programme Finance team shared the Funds Channelling report with the Executive Office to illustrate the current status of Gavi’s portfolio and frame the issues regarding reorientating fund flows. This led to the Funds Channelling workstream which helped to determine Gavi’s priorities in this area for the new Gavi 5.0 strategic period.

Actions after the receipt of the draft report: In June 2021, the Board considered and approved, “Gavi’s strategic approach on financial management” which sets out a framework to progressively channel Gavi funds back through country systems and assurance mechanisms. In addition, Gavi’s strategic approach on financial management was considered at a Board meeting held on Wednesday 23 and Thursday 24 June 2021 following discussions at the AFC and PPC.

Annexes

Annex 1 – Acronyms

AFC	Audit and Finance Committee
CS	Country Support
FM	Financial Management
LoD	Lines of Defence
MoU	Memoranda of Understanding
PFA	Partnership Framework Agreement
PFM	Portfolio Financial Management
PPC	Programme and Policy Committee
TAP	Transparency and Accountability policy
UNICEF	United Nations Children's Fund
US\$	United States Dollars
WHO	World Health Organisation

Annex 2 – 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 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.

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 our auditors to provide high quality professional work, and to operate efficiently and effectively. They help safeguard the independence of the A&I's auditors 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 Gavi 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.

Annex 3 – Definitions: opinion, audit rating and prioritisation

A. Overall Audit Opinion

The audit team ascribes an audit rating for each area/section reviewed, and the summation of these audit ratings underpins the overall audit opinion. The audit ratings and overall opinion are ranked according to the following scale:

Effective	No issues or few minor issues noted. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.
Partially Effective	Moderate issues noted. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.
Needs significant improvement	One or few significant issues noted. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.
Ineffective	Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised.

B. 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	<p>At least one instance of the criteria described below is applicable to the finding raised:</p> <ul style="list-style-type: none"> 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. Management attention is required as a matter of priority. Fraud and unethical behaviour including management override of key controls.
Medium	<p>At least one instance of the criteria described below is applicable to the finding raised:</p> <ul style="list-style-type: none"> 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	<p>At least one instance of the criteria described below is applicable to the finding raised:</p> <ul style="list-style-type: none"> 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.