

Gavi Alliance Audit and Finance Committee Meeting

27 April 2017

Gavi Offices, Washington, DC, USA

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee (AFC) members present, the meeting commenced at 9.03 Washington, DC time on 27 April 2017. David Sidwell, AFC Chair, chaired the meeting.
- 1.2 The Chair noted that the Committee met for a closed session on 26 April to discuss various matters including the role, responsibilities and information needs of the Committee as reflected in its Charter.
- 1.3 The Chair reiterated his request, as was made at the closed session, for the June AFC meeting to take place at the Gavi Geneva offices and allow for dial in facility to include AFC members who may not be attending the Board meeting.
- 1.4 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack). Ted Chaiban representing UNICEF informed the Committee that based on his organisational interest, he would recuse himself from the first decision of the Committee involving approval of UNICEF fees for 2018.
- 1.5 The Committee noted the minutes of its meeting on 9 February 2017 (Doc 1b), which had been approved by no-objection on 24 March 2017.
- 1.6 The Committee also reviewed its action sheet (Doc 1c) and its forward workplan for 2017 and 2018 (Doc 1d).

2. Finance update

- 2.1 Barry Greene, Managing Director, Finance and Operations, summarised the objective of the paper. He invited Tony Dutson, Senior Director, Finance and Chief Accounting Officer, to outline financial implications of decisions that the Gavi Board may be asked to consider at its meeting in June, and the resources available to meet those needs to ensure that the decisions taken by the Gavi Board are in line with the Gavi Programme Funding Policy (Doc 02).
- 2.2 Mr Dutson, while presenting the Finance Update paper and its recommendations, informed the AFC that it was being requested to make recommendations to the Board to approve UNICEF procurement fees for 2018. He provided context for the procurement fees as well explaining the basis for the change in fees. He also highlighted to the Committee that UNICEF had informed Gavi of their intention to

refund Gavi US\$ 1.8 million in procurement fees for 2016 as a result of their internal review.

- 2.3 As part of the review of the Finance Update, Mr Dutson also highlighted Gavi's value for money metrics of operating expense and overhead ratios.
- 2.4 Mr Greene thanked the AFC for its input that facilitated the Secretariat in producing a more succinct paper. He added that the annexes added to the core paper were intended to provide the AFC with the detailed information for its decision-making process, whereas the information will be kept at a higher-level for the Board.
- 2.5 Mr Greene provided a verbal update about Gavi's planned move to the Health Campus. He noted that the move has a projected payback period of 4-5 years based on the most recent cost estimates that include cost savings on rental as well as the one-time cost associated with the move.
- 2.6 Mr Dutson provided a verbal update of the ongoing review of the financial systems infrastructure. He explained that the RFP process for identifying a vendor to support Gavi was close to completion and that it was hoped that the project would kick-off in June.

Discussion

- The Chair appreciated the format of the Finance Update paper and was appreciative that the annexes demonstrated drivers of change which provided clarity.
- AFC members noted that while the multiyear forecast was unchanged, the underspend in 2016 meant that more resources were available for 2017 and future years, and advised that the cash flow should translate into the forecast accordingly.
- In response to a question about how an action plan would be determined if there is a consistent underspend, the Secretariat clarified that these programmatic issues would be looked at by the PPC and, in most cases, the underspend related to delays in disbursing funds is due to audit and risk considerations and/or programmatic bottlenecks.
- A Committee member sought explanation on how the resources allocated to a funding envelope may be reallocated in case they are not spent. The Secretariat informed the Committee that in such cases, the money goes back to the general pool and may be reallocated to other activities.
- Discussing the difficulty in understanding the funding envelope concept, the Chair suggested that not only should the information related to the funding envelope be presented in an easy-to-understand format, but also requested the Secretariat to discuss how the funding envelope concept could be reduced to exceptional circumstances. Mr Greene proposed to the Committee that a major simplification would be for removal of the annual programme envelope given the confusion it

was causing. The Chair asked Mr Greene to explore this idea further and bring back a proposal for the Committee to consider.

- In response to a question from a Committee member, the Secretariat clarified that Gavi had Memoranda of Understanding (MoUs) with all principal Alliance partners. While the overall PEF budget is approved by Gavi Alliance Board, the operationalising of this takes place at the Secretariat level. The proposed allocation of PEF funding to partners is reviewed and overseen by the PEF Management team.
- In respect of expense and overhead ratios, it was noted that the prevailing trend is upwards; and that this is likely to continue as a result of planned recruitment for programme management and monitoring roles, and further reductions in vaccine prices. Given that strong value for money is a core part of Gavi's external offer, both to existing donors and to attract new ones, a Committee member suggested that the Secretariat prepare a defensive/explanatory narrative in advance of further rises, and consider thresholds that could trigger action aimed at controlling or lowering the ratios
- The Committee sought information on Gavi's tenancy arrangement vis a vis the Health Campus. The Secretariat explained that The Global Fund would be the head tenant in the arrangement and Gavi would be a subtenant. It was further clarified that there were discussions underway between Gavi and The Global Fund to determine the rent allocation model.

Decision One

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

- a) **Approve**, within the overall Partnership Engagement Framework, a budget of:
 - I. US\$ 19.0 million for UNICEF Supply Division fees for the procurement of vaccines and related devices in 2018; and
 - II. Up to US\$ 3.4 million for UNICEF Supply Division fees for the procurement of cold chain equipment in 2018.
- b) **Note** that the Audit and Finance Committee reviewed the financial implications of these proposed decisions, and concluded that these decisions could be approved by the Board in accordance with the Programme Funding Policy.

Ted Chaiban (UNICEF) recused himself and did not vote on Decision One above.

3. Financial Risk Management – Currency hedging

- 3.1 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, provided an update on Gavi's currency hedging arrangements and activities (Doc 03). He

referenced Annex A that recapped the key elements of the Policy and best practice for implementing currency hedges.

- 3.2 Mr Dutson provided an overview of Gavi's estimated contributions when valued at various foreign exchange rates - spot, forward and forecast rates, as requested by the Committee at its December 2016 meeting.
- 3.3 Finally Mr Dutson informed the Committee that the Secretariat was working to establish new banking relationships to increase competition and mitigate counterparty risk, and also investigate which banks may be willing to execute currency forward contracts beyond two years.
- 3.4 Mr Greene informed the Committee that within the Secretariat a Currency hedging committee had been created which, in addition to Mr Dutson and himself, also included Gavi's Chief Investment Officer and Director of Innovative Finance. He also advised the Committee that the Secretariat intended to undertake a full review of Gavi's currency hedging policy with external support.

Discussion

- The Chair reminded the Committee that the current methodology used for currency hedging was the result of consultation through creation of a task force in 2015, to help align with best practice for implementing currency hedges.
- The Secretariat reminded the Committee that at the Berlin pledging conference in 2015, it was agreed with the donors to use Bloomberg published average forecast FX rates to translate non-US dollar denominated pledges into US dollars.
- The Secretariat further explained that in spite of some recent forex losses, the Gavi strategic targets are intact and not threatened.
- The Committee supported the formation of a Secretariat hedging committee, expressing that currency hedging is a crucial activity. The Committee encouraged the Secretariat to not only engage with outside experts, but also discuss with the Global Fund the results of their recent hedging activities' review.

4. Accounting and external audit

- 4.1 Louis Mkanganwi, Director of Financial Accounting and Reporting presented this item and informed the Committee about the status of Gavi Alliance 2016 audit.
- 4.2 Mr Mkanganwi noted that KPMG Geneva and KPMG USA had recently wrapped up field work on IT systems audit and the IFFIm audit respectively; and the financial report audit work was to begin shortly.

- 4.3 Mr Mkanganwi informed the Committee on the status of the winding up of Gavi Campaign and reported that the transfer of all Gavi Campaign assets and liabilities to Gavi Alliance had been completed as scheduled by the end of December 2016.
- 4.4 Mr Mkanganwi also provided the summary of Secretariat's annual review of Gavi's accounting policies documentation, informing the Committee of the updates made to this documentation since April 2016, as presented in Doc 04.
- 4.5 Finally, Mr Mkanganwi provided an overview of the Accounting Standards Updates (ASU) issued by FASB which would have potential implications on Gavi's financial reporting, noting that these have effective dates in 2018 and 2019 and would accordingly be adopted by Gavi at that time.

Discussion

- The increased level of detail presented in the paper was appreciated by the AFC members.
- The Secretariat explained that while no material or significant issues were raised by the Gavi IT systems audit or the IFFIm audits, one of the issues of a lower significance pertained to the difference in valuation of derivatives on IFFIm accounts due to the World Bank's practice of treatment of collateral. The Chair moved that the KPMG position on valuation of derivatives will be used as the basis for the external reporting purposes.
- The Chair reminded the AFC members that it was agreed previously to keep any overlap between the Gavi Annual Financial Report (AFR) and the Gavi Annual Progress Report at a minimum, with AFR being largely focused on the financials. He also mentioned the agreement to base the AFR on US GAAP and noting any changes/variances in the description.
- The Chair also reminded the AFC members that it was agreed for the draft consolidated financial statements to be circulated to them for their review as part of the meeting pack of AFC's June meeting, immediately preceding the Gavi Alliance Board meeting. At the June Board meeting, the Board will be provided a commentary on the draft consolidated financial statements. The AFC will then receive the Gavi Annual Financial Report (AFR) by early July, which it will review and recommend to the Board for its approval, conducted via a teleconference meeting in the usual way. Board members will be invited to listen in on the call.
- In response to a question from a Committee member, the World Bank confirmed that they would not call collateral, and that a formal letter noting this will be provided in May.
- The Secretariat clarified that KPMG had provided assurance that they are comfortable with Gavi's accounting policies, as these are subject to the audit review.

5. Managing Conflict of interest

- 5.1 Philip Armstrong, Director of Governance and Secretary and Eelco Szabó, Director of Legal reviewed with the Committee the principles behind the Conflict of interest (COI) Policy and process at Gavi Alliance (Doc 05).
- 5.2 Mr Armstrong presented the policy framework as it applied to Gavi persons who had a continuing obligation to disclose any actual, perceived or potential interest. He explained how the policy was practically deployed during the course of Gavi's decision making process.

Discussion

- The Chair highlighted that there was a need to have regular process through which it could be ensured that the COI Policy was aligned with the best practice in managing conflicts. He requested the Secretariat to discuss this with the Governance Committee, with a view to updating the COI Policy, given that the Policy was five years old and in the meantime there have been significant developments of Gavi's strategic and operational direction.
- In response to a question from the Chair, the Secretariat responded that there is no formal training conducted for staff or Board/Committee members on COI. However, each year when the forms for Declaration of interest (DOI) are sent out, the COI and Ethics policies are attached with the forms to remind recipients of the policy framework within which they are expected to declare personal/financial or organisational interests. It was suggested by the AFC that a formal training was important to ensure effective implementation of the COI Policy, especially once the policy was updated.
- Committee members noted that it was best practice for Board/Committee members with an actual, perceived or potential conflict to not only recuse themselves from the vote but also to remove themselves from the discussions and also noted this was the original practice. This had been subsequently modified on account of concerns of some Alliance stakeholders that this approach was unnecessarily inflexible.
- It was suggested by the AFC that a closer look be given to the management of conflicts at the country level during decision making processes as well, where by definition, every party in the decision making process is an interested party.

6. Audit & Investigations report

- 6.1 Simon Lamb, Managing Director, Audit and Investigations (A&I), provided a comprehensive update to the AFC as set out in his paper on activities of Internal Audit, Programme Audit, and Investigations and Counter Fraud (Doc 06).

- 6.2 Having briefed the Committee on the results of the audit of the grant closure process in February, and having since circulated the draft audit report, Mr Lamb updated the Committee on actions agreed with management for the remediation of the issues with the intention that these will be completed by December 2017.
- 6.3 Finally Mr Lamb outlined the steps being taken for the development of the Audit and Investigations function, focusing on the development of a strategic alliance with UNICEF for collaborating on key audits in 2017, as well as the rolling out of a new IT application for use in managing the conduct of internal and programme audits.

Discussion

- The Chair highlighted that during the closed session of the AFC the previous day, it was agreed that the June meeting of the AFC would include a session on the work of the audit team to consider the level of information that needs to be provided to the AFC for its consideration given the typical duration in finalising audit reports, as well as a joint session with Country Programmes and the Programme audit team. These would be conducted in addition to the usual A&I update. The Secretariat agreed to draft a short agenda and background materials to help shape that discussion.
- In response to a question from a Committee member, the Secretariat clarified that, in the absence of an operational grant management database, insight on the extent of residual balances remaining in countries is dependent on country reporting, the quality of which is not consistently reliable across Gavi countries.
- Committee members noted that the role of the Senior Country Manager (SCM) in conveying situations of misuse and reimbursement to country, as the first line of defence, is challenging and may need to be clarified further. The Committee also sought clarification on the training and on-boarding provided to SCMs to help them understand their role to help mitigate the risk inherent in grant oversight and management. It was suggested that clarification on this may be obtained from Hind Khatib-Othman, Managing Director, Country Programmes, at the June meeting.
- It was noted that given the time it takes in closing some of the more complex programmatic audits, any significant findings are communicated to the relevant SCMs and Gavi's executive leadership, even before the conclusions of the audit are finalised, to enable management to mitigate risks or take corrective actions at the earliest opportunity.
- In response to a question from the Committee, the Secretariat acknowledged that since the restructuring of the audit function, the increased risk coverage of A&I activities has enhanced the quality and extent of insights obtained. This needs to be utilised for the increased efficiency of Gavi's internal processes and programmatic initiatives, and also should be shared with Gavi-supported countries to help their capacity building and systems enhancement.

- The Committee members emphasised the need to ensure that there is clarity at the country level on the expectations from the Alliance partners in terms of their oversight responsibility.
- The Committee also underscored how important it was for programme audit to follow up with country management on the themes that had emerged over the course of a number of audits.
- In respect of extended audit work carried out in DRC (Fedecame) and Bangladesh, one member asked whether Gavi recovers the costs for such additional work or other investigations from partners once fraud is identified; and whether the Secretariat considered the length of time it took for these questions to come to light (in DRC) to be indicative of weak first and second line controls. It was confirmed by the Secretariat that costs are not recovered as such follow-up and investigations are generally treated as part of the Audit and Investigations activity. As regards Fedecame the issues were highlighted following a change of country management with now dedicated staff as part of Gavi's transition from a 'lighter touch' model. The Secretariat did not believe there to be fundamental systemic weaknesses in oversight and informed the AFC that this stemmed from prior models of country engagement going back ten years or more.
- The Secretariat confirmed to the Committee that discussions on the collaboration with UNICEF were progressing well with regard to the conduct of programme audits planned for 2017, and the agreements reached would potentially be used as a model for further discussions on collaboration with WHO. Further discussion needed to take place on the collaboration necessary for the effective conduct of the vaccine programme management audit originally planned for 2016 but now intended to be undertaken in 2017.

Decision Two

The Gavi Alliance Audit and Finance Committee **approved** one proposed change to the 2017 Programme Audit plan, the deferral of the audit of programmes in Mozambique until 2018.

7. Risk management

- 7.1 Jacob van der Blij, Head of Risk, provided an update to the Committee on major changes in Gavi's risk profile since December 2016, and on progress in strengthening risk management across the Alliance. He also presented current coverage of top risk areas in recent and planned Board discussions.
- 7.2 Mr Van der Blij then presented the proposed update of Gavi Alliance's risk appetite statement (Doc 07) and requested the Committee to recommend it to the Board for approval. Furthermore, the Committee's guidance was requested on how the Secretariat had translated the risk appetite statement into specific appetites for

each top risk identified in the Risk & Assurance report, with an emphasis on the risks overseen by AFC.

Discussion

- The Chair highlighted that progress had been made over the last two years in defining and managing risk and noted that there was a need to ensure that the momentum is sustained at the level of risk owners as well as at the Board Committee level.
- The Committee advised the Secretariat to keep the risk appetite statement high-level and not try to account for every situation, while having systems and processes to ensure that risk owners manage the risks in their specific context within the overall risk appetite. It should be made clear that risk appetite is the aspirational target exposure and not current risk exposure.
- Committee members noted that the risk appetite statement could be made clearer and less ambiguous. Some risk appetite levels need further calibration and it was suggested that some need to be adjusted to make them realistic and achievable given inherent exposure, e.g. *Misuse by countries* may need to be higher than low if country systems are used.
- The Chair requested the Secretariat to circulate the finalised risk appetite statement to the AFC before submission to the Board.
- The Secretariat, in response to a question from the Chair, informed the Committee that discussions on top risk areas have been undertaken with the Board, e.g. cyber risk and financial risk at the AFC, and sustainability during the recent Gavi Board retreat. In response to a question from a Committee member, the Secretariat clarified that while the top risk areas for Gavi do feature in discussions of programmatic nature, there is a need to include a specific risk lens when discussing these issues.
- The Chair suggested that *Misuse by countries* may be better overseen by the PPC as a programmatic risk. He requested regular reporting back from each Committee on how risks allocated to them for oversight are being managed within the agreed appetite.

Decision Three

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

Approve the updated Risk Appetite Statement, as modified according to discussions in the course of the meeting.

8. Review of decisions and any other business

- 8.1 Philip Armstrong, Director of Governance and Secretary, reviewed and agreed that the language of the decisions with the Committee, making an agreed modification to Decision Three which would be shared with the AFC for its approval.

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

Mr Philip Armstrong
Secretary

Attachment A

Participants

Committee Members

- David Sidwell, Chair
- Alexandru Cebotari
- Ted Chaiban
- Marcus Koll (by phone until agenda item 6)
- Clarisse Loe Loumou
- Emmanuel Maina Djoulde
- Heidi Malene Nipe
- Chris Taylor

Secretariat

- Philip Armstrong
- Seth Berkley (until agenda item 3)
- Jacob van der Blij
- Tony Dutson
- Barry Greene
- Anuradha Gupta (Agenda items 2- 4)
- Edmund Grove (item 6 only)
- Alex de Jonquières
- Mahwesh Bilal Khan
- Simon Lamb
- Louis Mkanganwi
- Eelco Szabó (item 5 only)
- Chrysantus Nyongesa (item 6 only)

Observers

- Kelly Jarrett, Bill & Melinda Gates Foundation
- Susan McKinney, USAID
- Elizabeth Noonan, USAID (Items 6 and 7)