

Gavi Alliance Audit and Finance Committee Meeting

25 April 2019

Gavi Office, Washington DC

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee (AFC) members present, the meeting commenced at 08.57 local time on 25 April 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 7 February 2019 (Doc 01b).
- 1.3 The Committee also reviewed its action sheet (Doc 01c), noting that several actions will be addressed in this meeting, as well as the Workplan (Doc 01d).
- 1.4 The Chair outlined topics discussed by the Committee at the closed session, including an update on whistleblowing and a follow-up on the 2018 fraud case. He also noted that the Committee discussed upcoming priorities in 2019 such as the Gavi replenishment, currency hedging, the ongoing work to address the IT audit findings from 2018, looking at how the audit and investigations work links to programme management, and defining risk appetite.

Discussion

- The new Managing Director, Finance and Operations was introduced to the Committee, alongside the Interim Head, Financial Accounting and Reporting.

2. Financial update

2a Financial update: 2018 actuals and 2019 forecast

- 2a.1 The Chair introduced the item, highlighting that reviewing the financial forecasts is one of the most important responsibilities of the Committee. He reminded the Committee that there had been some confusion amongst the Gavi Board members during 2018 on how the forecast for the next strategic period had been generated and emphasised that clearly signalled forecasts enable a well understood baseline.
- 2a.2 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, outlined to the Committee the estimated expenditure for the period 2016-2020 and the tentative estimate for 2021-2025 taking into account decisions for consideration at the June 2019 Gavi Board meeting.

- 2a.3 Mr Dutson explained that the forecast to be presented at the June Board meeting will consist of the baseline figures provided at the November 2018 Board meeting plus an additional proposed amount relating mostly to the Papua New Guinea strategy that the Board will consider in June 2019.
- 2a.4 Mr Dutson then outlined how the estimated expenditure compares against the indicative resources for the future strategic period, 2021-2025, which indicates that there would be sufficient resources available to cover the proposals for consideration at the June Board meeting. He explained that cash inflows were 101% of the amount projected in 2018 and in 2019 it is currently projected that 105% of the resource projections will be realised.
- 2a.5 Mr Dutson then, at the request of the AFC Chair following discussions in the closed session the previous day, presented a breakdown of the different categories of expenditure comprising the baseline for 2021-2025. This comprised expenditures based on prior Board decisions for all existing programmes, including PEF (Partners' Engagement Framework) and Secretariat plus estimates for future demand based on approved programmes for which applications are anticipated in the next strategic cycle. This totals US\$ 7.4 billion.
- 2a.6 The next category comprises future investments already approved by the Board (in November 2018) including VIS (Vaccine Investment Strategy) and polio which brings the total to US\$ 8.6 billion. The final 4th category comprises provision for future strategic investments and Ebola and ranges between US\$600 million and US\$1.65 billion as the Board has not fully decided on these and further information is awaited to obtain more precise estimates e.g. price for the licenced Ebola vaccine, whether the Malaria implementation pilot leads to a recommendation for use, etc.
- 2a.5 Finally, Mr Dutson outlined the recent mid-term evaluation of the Memorandum of Understanding between Gavi and UNICEF procurement services which concluded that it is generally working well.

Discussion

- Several Committee members concurred with the Chair's opening comments around more clarity on the forecasts for the next strategic period and concurred with the Chair that this would be helpful in making strategic choices at the June Board meeting where the Gavi 5.0 strategy will be presented for approval. It was noted that a lack of clarity in previous Board discussions had meant that members were unable to accurately understand funding trade-offs in relation to programmatic decisions.
- The Secretariat acknowledged this, however cautioned that certainty on the resources for the next strategic period will not be available until we finally determine spend, tally resources and determine the carry forward sometime after the 2020 pledging conference, once the donor contribution agreements have been signed.

- In response to a question from the Committee, the Secretariat explained that the potential future investment opportunities and Ebola (which range from US\$ 0.6 - 1.65 billion for the 2021-2025 strategic period) include a malaria pilot, an ambition to reach the 'unreached child' such as those in fragile countries, and further support for countries which have already transitioned out of Gavi funding. It was also explained that each of these has its own range of individual costs.
- The Committee found the indicative expenditure information presented by the Secretariat to be useful and recommended that the Secretariat also provide detailed background information on how the high-level figures are built and how this compares with forecast revenue.
- In response to a question from a Committee member, the Secretariat explained that the actual figures for 2018 are almost finalised and that usually the actuals are known by May once the third parties have confirmed their costs.
- There was some discussion around the value of the carry-over from current strategic period into next period and on how the assured resources for the next period are comprised and request for transparency on these numbers recognising that there are variables as is typical of any forecast/estimated projection.
- In response to a question on the two-year Secretariat spending, the Secretariat confirmed that the underspend from 2018 would only be used in 2019 in the case that it is absolutely necessary.

Decision One

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

- a) **Approve**, within the overall Partners Engagement Framework:
- i. A budget of US\$ 19.0 million for UNICEF Supply Division fees for the procurement of vaccines and related devices in 2020, and
 - ii. A budget of US\$ 4.3 million for UNICEF Supply Division fees for the procurement of cold chain equipment for 2020.
 - iii. That the budgetary amounts approved by the Board in the Board Meeting of 29-30 November 2017, for each component of the Gavi Engagement Framework and Budget for Partners and Secretariat for 2018 and separately for 2019, be now treated as an overall Budget amount which may be utilised over both years.
 - iv. That capital expenditure of the Secretariat in excess of the capital expenditure budget can be incurred within the overall amount of the Secretariat Engagement Framework and Capital Expenditure budgets for both years.

- b) **Note** that the Audit and Finance Committee reviewed the financial implications of the recommendations as set out in Figure 1 in Doc 2a and concluded that these could be approved by the Board in accordance with the Programme Funding Policy, if so recommended by the Programme and Policy Committee.

Ted Chaiban, UNICEF, recused himself and did not vote on Decision One a) i. and ii. above.

2b Format changes to 2018 Annual Financial Report

- 2b.1 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, introduced the item, noting that the draft pro forma was presented for the Committee's information in Annex B to Doc 02b.
- 2b.2 Pauline Caywood, Interim Head, Financial Accounting and Reporting, explained that, following a review of the accounting standards update, the Gavi Secretariat have concluded that the changes are non-material for the 2018 and they propose to re-state previous years' figures in accordance with the requirement to adopt the accounting standard ASU 2016-14 on a retrospective basis. It was confirmed that the assessment and pro forma had been shared with Deloitte.

Discussion

- The lead audit partner from Deloitte confirmed that they had reviewed the proposed changes and concur with the proposals. Deloitte further explained that the reclassified net assets figure of US\$ 78 million will be audited.
- In response to a question from the Chair, the Secretariat confirmed that the new standard ASU 2016-14 must be adopted but they propose not to early adopt the other upcoming accounting standards.
- In response to a question from the Committee member, the Secretariat confirmed that any financial indicators which may be impacted by these changes will be amended as appropriate.

2c SAP implementation update

- 2c.1 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, outlined the SAP project activities since the previous Committee meeting in February 2019. He noted that the build phase had commenced and several important contracts had been signed. New project staff from PwC had been assigned, which together with other recommendations from the internal audit report, it was expected that project management should be much more effective going forward.
- 2c.2 Mr Dutson highlighted progress on reducing the overall project costs estimates from US\$ 6.9 million to US\$ 6.5 million, which included using a new specialist firm

for SAP Analytics Cloud (SAC) implementation and a change management consultant. He then explained that target dates have now been agreed for 1 October 2019 for Phase 1 completion and 31 December 2019 for Phase 2 completion.

- 2c.3 Mr Greene highlighted to the Committee that the timelines are aggressive, and reassured the Committee that management is taking appropriate actions to mitigate the risk resulting from the increased workload.

Discussion

- The Chair emphasised the Committee's previous comments encouraging the Secretariat to take advantage of the new functions of SAP and not to cut corners due to cost or to meet scheduled implementation deadlines.
- The Secretariat highlighted that the Audit & Investigations team had reviewed the governance structures of the SAP project and suggested corrective measures regarding roles and responsibilities. The management are now taking on board this feedback.
- When asked by the Committee about the timing of the work potentially clashing with routine financial activities in the final quarter of this year, the Secretariat explained that if the work is not completed by October there would be a risk of significant delay hence they will actively try to mitigate the timing risks.
- When asked if the Secretariat will look to leverage the underspend from last year to help with resourcing in the Finance team for this year, the Secretariat confirmed that this is being explored but that they are conscious of the balance between additional costs and additional resources.
- When asked about the recruitment process for the new Chief Information Officer role, the Secretariat explained that they are now at the shortlist stage with several strong candidates and are confident of bringing someone on board by the end of the summer 2019.

2d Accounting policies update and management paper

2d(i) Accounting policies update

2d(i).1 Pauline Caywood, Interim Head, Financial Accounting and Reporting, explained that the changes for 2018 were already discussed under item 2b, so only the 2019 amendments will be discussed under this item. It was noted that Accounting Standard Update (ASU) 2018-08 will have a material impact on the financial report for 2019.

2d(i).2 Ms Caywood explained that ASU 2018-08 is designed to ensure greater consistency across not-for-profit organisations in recognising contributions and determining whether a contribution is conditional. It was explained that Gavi will

now defer the recognition of liability until vaccines are being procured and the CTN has been received from UNICEF. Additionally, under the new guidance, Gavi will not be able to recognise certain multi-year pledges up-front but instead such pledges will need to be spread across the individual years of the agreement, which will be more consistent with cash flows.

2d(i).3 It was proposed that this approach be adopted on a modified prospective basis for the year ending 31 December 2019 which will result in a significant dip in expenditure for 2019 when compared with 2018.

2d(i).4 Ms Caywood confirmed that the Secretariat is confident that this change in standards has been correctly assessed (a consultant was also utilised) and further discussions with Deloitte will be conducted throughout 2019.

Discussion

- In response to a question from the Chair on the need to change the wording in the grant agreements, the Secretariat explained that as long as such is communicated effectively to stakeholders, they do not anticipate the need to change the wording.
- When asked by a Committee member about the grant conditions, the Secretariat explained that they relate to annual confirmation of delivery on the Gavi strategy and achieving KPIs, as well as improving risk management. It was highlighted that, because these conditions are considered as more than simply administrative, the accounting guidance states that the grant can no longer be considered unconditional and recognised up-front.
- The representatives from Deloitte confirmed that they will look at this closely during 2019, working alongside the Secretariat.
- The Secretariat highlighted that it will be important to understand the potential political implications for donors resulting from the changes to this accounting standard that Gavi must adopt and that resource mobilisation colleagues will need to work closely with the finance team in explaining the consequences to donors if possible.

2d(ii) Management paper: 2018 significant risks

2d(ii).1 Pauline Caywood, Interim Head, Financial Accounting and Reporting, noted that Deloitte had raised three expected areas of significant risk of misstatement for the 2018 financial reports at the AFC meeting in February 2019. She explained that Deloitte had requested management papers on the valuation of sovereign pledges to IFFIm and the recognition and cut off of contribution revenue.

2d(ii).2 Ms Caywood highlighted that, following a review by the Secretariat, they had concluded that Gavi's accounting policies were compliant with US GAAP and had been appropriately applied. She noted that the IFFIm Audit Committee had already been updated on this in March 2019.

2d(ii).3 In terms of the valuation of sovereign pledges, Ms Caywood explained how the valuation process works as well as how the fair value adjustment for the Grant Payment Conditions is conducted via a World Bank model. She noted that Gavi views the obligations made by donors to be comparable to their obligations on sovereign debt, as they are legally binding.

2d(ii).4 Ms Caywood then outlined Gavi's accounting policies in relation to revenue recognition and noted that this is based on existing US GAAP and not the changes to new US GAAP discussed under agenda item 2d(i).

2d(ii).5 Ms Caywood noted that the results of the review had been shared with Deloitte and that, following some checks on the World Bank model, there are currently no outstanding issues or questions from Deloitte with the Secretariat.

Discussion

- Representatives from Deloitte confirmed that they had received the position papers and the US team had reviewed the World Bank models and all questions had been satisfactorily answered.
- It was further noted that the issues around revenue recognition and the IFFIm processes will be covered in more detail during the audit in Geneva, which will start in the coming weeks.

Benjamin Carcani, World Bank, recused himself from discussion on items 2d(i) and (ii).

2e Approach to currency hedging

2e.1 Tony Dutson, Senior Director, Finance and Operations, explained that currency hedging is essential for Gavi because whilst 95% of Gavi expenditure is in US dollars, much of the donations pledged are received in currencies other than US dollars. Hedging helps to provide certainty on the amount of US dollars that Gavi will realise from those pledges.

2e.2 Mr Dutson explained that the Secretariat will work with a consultant to review whether the currency hedging policy is still fit for purpose and will revert to the Committee in June to discuss the findings.

2e.3 Mr Dutson further noted that the Secretariat, in consultation with individual donors, will seek to hedge part of the anticipated pledges ahead of the replenishment with a view to locking in the US\$ amount and hedging out any forex exposure as quickly as possible to reduce any currency risk.

Discussion

- The Chair noted the importance of this issue and the benefits of reducing risk by entering into hedges as soon as possible.
- Committee members agreed with the principle of locking in the spot or forward rate for valuing pledges and avoided any approach that speculated future forex rates.
- It was agreed that the Secretariat will come back to the Committee in June 2019 to further discuss options in relation to the hedging policy.

3. Audit and Investigations

- 3.1. Simon Lamb, Managing Director, Audit and Investigations (A&I), presented the item. Mr Lamb referred the Committee to the open issue remediation status, noting a significant increase in the number of open issues due to recently adding those from the 2017 audits, particularly the technology audits. Mr Lamb explained that the positive tone with which the Chief Information Officer presented the IT open issues to the Committee in February 2019 was not consistent with the findings of the A&I team, which had since noted that only six of 21 issues have been successfully closed (all in relation to cyber security).
- 3.2. Pascal Barollier, Managing Director, Public Engagement and Information Services, acknowledged that a number of IT issues remain outstanding. He explained that the first priority had been given to cyber security and half of the actions have been completed and the other half rely on Windows 10 deployment which is due at the end of April.
- 3.3. In relation to the issues from the audit on IT processes and project management, Mr Barollier acknowledged that more work is needed to be conducted to complete the recommended actions and that the delays were due to competing priorities with SAP and other projects. He explained that the IT team aims to close all audit recommendations, including those relating to the business continuity audit, by Q1 2020 (SAP will play a role in this).
- 3.4. In terms of the amended Terms of Reference for A&I, Mr Lamb explained that the changes are mostly form rather than substance with the exception of the remuneration of the Managing Director A&I on appointment, which is to be agreed by the AFC Chair.
- 3.5. In relation to low risk verification review process, Mr Lamb noted that the substance of the work is complete and has validated that those areas are indeed still low risk. When presented recently to the Gavi risk committee, one theme identified in the review, Gavi's control culture was considered worthy of further focus. Risk and A&I will liaise in following through with this.
- 3.6. With regards to collaboration with the audit functions of UNICEF and WHO, Mr Lamb explained that whilst there has been very good engagement and momentum

achieved with partners, an end-to-end view of vaccine management will not be possible due to the different nature and processes of the partner audit functions. He did note, however, that UNICEF have now increased their audit scope to include vaccine management, as influenced by the Gavi A&I team.

- 3.7. Mr Lamb provided an update on several programme audits. He explained that, after not receiving the appropriate reassurance from the Ministry and liaising with Gavi country support colleagues, the A&I team plan to return to Lao PDR to conduct a document review. Mr Lamb then reviewed the status of an outstanding amount to be reimbursed which was identified by Country Programmes in the Democratic Republic of Congo and noted that the US\$ 750,000 owed to Gavi had now been repaid.
- 3.8. Finally, it was outlined that a counter-fraud plan will be presented to the Committee in June 2019.

Discussion

- In response to a question from the Chair on the extended timeline for resolving the IT audit issues, the Secretariat explained that they would prefer to be realistic about how long it will take to write all the policies and the weight of other work such as the SAP project. They reiterated that the high-risk issues have been prioritised and additional resources will be brought on board to support the documentation.
- It was also highlighted that work had already started such as developing the new IT investment policy and it was in the process of being signed off and these guidelines were being used in relation to SAP management. The Chair requested that the Secretariat present a more detailed timeline against the remediation and resources to address these actions at the AFC meeting in June.
- A Committee member asked the Secretariat to share with the Committee a high level review of the low risk verification audit.
- When asked about the collaboration between Gavi and other organisations, the Secretariat explained that the operational overlap with the Global Fund is very limited but that positive engagement had been made with UNICEF and WHO audit colleagues. A Committee member asked about collaboration with in-country partners and inspector generals to which the Secretariat noted that they had worked several times with the in-country partners and had positive experiences and would like to extend that model if feasible.
- In response to a question from the Chair on controls around in-country exchange rates, the Secretariat agreed to look into this further but opined that the volatility of currencies and the lack of liquidity in many Gavi-supported countries means that it can be difficult to obtain assurance on exchange rates used. The Secretariat will review and revert to the Committee.

Decision Two

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

Approve the revised Audit and Investigations Terms of Reference as set out in Annex F to Doc 03.

4. Risk Management update

- 4.1. Jacob van der Blij, Head, Risk, outlined the progress made on risk over the past few years and how the risk function continues to build on this foundation in the areas of instilling a risk aware culture, active top risk management, embedding risk management, engaging partners on risk and experience sharing.
- 4.2. Mr van der Blij outlined how the Secretariat Risk Committee maintains oversight of the top risks and how actions are attributed to risk owners. He also highlighted that the role of partners in risk management had been discussed during the recent Partner Retreat and that discussions on risk appetite trade-offs for Gavi 5.0 have started following from the Gavi Board Retreat in March.
- 4.3. It was noted that going forward, in the context of Gavi 5.0, Gavi will develop a longer-term vision for the next phase of risk management, and review its three lines of defence model. This would include looking at whether it appropriately covers all types of risks and sufficiently enables prevention and early detection of issues, Gavi will, furthermore, conduct a reassessment of top risks and review the risk appetite statement in the context of Gavi 5.0.
- 4.4. Finally, Mr van der Blij briefed the Committee that no substantial changes to Gavi's risk profile had occurred since the last Risk & Assurance Report.

Discussion

- In response to a question from the Chair on how the Secretariat became aware of the delay in actions on the KMTS high risks (reflected in the related top risk not having decreased as expected), the Secretariat acknowledged that this was picked up by the Internal Audit team, with second-line oversight not being clearly defined for corporate risks, and that this underlines the need for the planned review of the three lines of defence model in Gavi.
- The Committee discussed the risk appetite for Gavi 5.0. The Committee acknowledged that there are risks associated with the new strategy due to the focus on equity and working more in fragile and complex settings. This requires an explicit discussion on risk appetite. It was noted that the Gavi Board has already had several discussions in relation to this but there remain challenges around different perspectives between implementing countries, partners and donors. It would be useful to have an open and honest discussion between the constituencies to achieve a common understanding and enable risk sharing.

- The Chair highlighted that some risks remain outside of risk appetite for long periods and that this is the right moment to force a choice between aligning risk appetite with current exposures or stepping up mitigation. A Committee member highlighted that some risks are inherent to the nature of Gavi's mission with limits to Gavi's ability to mitigate and that it may be a matter of refining definitions of risk appetite. Another member added that this may include a more differentiated risk appetite.
- In response to a question on the status of channelling funds through country systems and building financial management capacity within Gavi-supported countries, the Secretariat explained that this is on the agenda to be discussed by the Board at the end of 2019. The Committee discussed the tension between low risk appetite for misuse of funds and the Board having expressed that public financial management is not Gavi's core mandate.
- One member raised the issue that as Gavi moves into working more in fragile countries and complex settings such as urban slums, this will likely require working more closely with non-governmental organisations and expanded partners. It was proposed that the Secretariat look at some options for the Board on how the risks could be managed in this situation. The Secretariat confirmed that a significant part of the Gavi 5.0 planning will indeed look at options for operating models in fragile settings as well as potentially increasing the risk appetite of working in difficult areas.

5. Insurance update

- 5.1. Eelco Szabo, Head, Legal, outlined that in 2018 the Secretariat reviewed its insurance portfolio for cyber security risks, as requested by the AFC, and subsequently conducted a gap analysis. He explained that the Secretariat then engaged with the insurance broker on putting in place appropriate cover for any gaps.
- 5.2. It was explained that, following detailed discussions with the Secretariat, the insurance broker proposed that Gavi undertake comprehensive cyber risk insurance, comprising protection against first party loss including cover for any interruption and data restoration, third party loss including privacy liability and network liability, and response management.
- 5.3. Mr Szabo outlined that the broker sought quotes for cyber security insurance based on Gavi's profile and received three quotes overall. He explained that the broker particularly recommended one quote based on the broad terms, competitive pricing and lower deductible and invited the Committee to comment on the two options within the quote.

Discussion

- The Committee noted the utility of having this additional insurance cover and invited the Secretariat to select the most appropriate option.

6. Any other business

- 6.1 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
- Gisella Berardi
- Craig Burgess* (item 2a onward)
- Benjamin Carcani
- Ted Chaiban
- Emmanuel Maina Djoulde
- Irene Koek
- Tom Morrow
- Andreas Karlberg Pettersen
- Teresa Ressel

Regrets

- Kwaku Agyeman Manu

Observers

- Kelly Jarrett, Bill and Melinda Gate Foundation
- Jane Stewart*, WHO (item 2a onward)

Secretariat

- Philip Armstrong
- Pascal Barollier* (items 1-3)
- Jacob van der Blij
- Caroline Bradley*
- Pauline Caywood* (items 1-2e)
- Adrien de Chaisemartin (items 1-2a, 3, 4)
- Assietou Sylla Diouf
- Tony Dutson
- Barry Greene
- Edmund Grove*
- Katherine Hudak* (item 4 only)
- Simon Lamb
- Marie-Ange Saraka-Yao* (items 1-2e, excluding 2c)
- Eelco Szabo* (item 5 only)

Guests

- Lisa Watson, Deloitte
- Fabien Bryois, Deloitte* (items 1-2e)

*Denotes participation via telephone