

SUBJECT: AUDIT & FINANCE COMMITTEE CHAIR REPORT

Agenda Item: 4

Category: For Information

Section A: Introduction

- This report provides the Board with an overview of the activities of the Audit and Finance Committee (AFC) since the Gavi Alliance Board last met in December 2019.
- The AFC met twice (13 February and 6 May) and will be meeting on 22 June and 23 July 2020. Closed session and calls were also held to discuss AFC procedural matters and briefings on specific topics including regular updates on the risks and operational management of COVID-19.
- Subjects reviewed in February and May are noted under Section B and matters to be reviewed in upcoming meetings (22 June and 23 July) are under Section C.

Section B: Subject matters reviewed

1) Financial review

- Noted that the Secretariat has effectively managed its operations in a business continuity mode.
- Regular engagement of the AFC with the respective teams in the Secretariat involved in the COVID-19 operational response to ensure that systems, processes and procedures operate effectively to ensure team health & safety, business continuity and safeguarding of Gavi's assets. No significant issues raised.
- Noted that preparation of 2019 Financial Statements is well underway with no significant issues raised.
- Newly effective accounting policies required by US accounting rules have been implemented.
- New regulatory requirements under the Swiss Code of Obligations (SCO) comprising of standalone financial statements for Gavi and documentation of internal control system processes have required significant effort, including by the World Bank (WB).
- Noted the productive collaboration between the Secretariat and the WB to accommodate the requirements.

- Deloitte confirmed that the audit is on track for on-time completion with no significant issues identified to date.
- Discussed with Deloitte audit strategy, planning and coordination between the Swiss, UK and US teams.
- Deloitte confirmed that the remote working conditions would not impact the ability to meet deadlines.

2) Financial Update

- Received an update on the programme allotment for the year 2019.
- Reviewed the revised financial update covering the period 2016-2020 financial projections for 2021-2025, considering:
 - i. 2019 actual results
 - ii. Due to the high level of uncertainty and dependencies on decisions from the Board on prioritisation, neither the impact of COVID-19 on routine immunisation programmes nor direct COVID-19 implications were reflected in the forecast.
 - iii. Revised the budget request the Board is being asked to consider for UNICEF procurement fees for vaccines and CCEOP for 2020 and proposed budget for 2021. Noted that 2021 procurement fees will likely be adjusted once the new Memorandum of Understanding is finalised and approved (December 2020) and the impact of COVID-19 is included.
- The AFC was presented with Gavi's programmatic response on COVID-19 pandemic and support in Gavi's eligible countries, as well as impact to date on routine vaccinations, including delays in campaigns.
- The AFC enquired about the mechanisms to track and report on COVID-19 expenditures including Secretariat approval process for Board-granted flexibilities.
- The AFC requested
 - i. Future discussion on Secretariat processes around COVID-19 decisions,
 - ii. the Secretariat to revise the Forecast when more is known about the implications of COVID-19,
 - iii. keeping the Board frequently updated on decisions taken in line with the approved flexibilities. The AFC recognised given high level of uncertainty frequent revisions of the forecast may be necessary.
- The AFC concluded that qualifying resources remain available to fund future programme funding decisions in accordance with the Programme

Funding Policy, and that AFC would recommend to the Board the proposed UNICEF procurement fees.

3) Financial Risk Management

- Received an update on Gavi's foreign currency exposure and related hedging activities in 2019 for the Gavi 4.0 period.
- Advised on Gavi's strategy for mitigating currency exposure for the 2021-2025 strategic period, with a continued recommendation to disclose pledges at spot exchange rate and to actively manage exposure.

4) Technology review

- SAP was launched 1 October 2019. With six months of execution of new process and system, areas for optimisation have been identified and discussed with the AFC. An SAP optimisation project is planned for July 2020 kick-off. The SAC platform with analytical capability is to be launched in July.
- SAP has significantly improved the Secretariat processes and controls.
- Remediation for cybersecurity penetration test is complete as of April 2020.
- Remediation for project governance is nearing completion. The Project Management policy and manual is now approved with standard work defined and in use for Project Portfolio Governance.
- Remediation for Data Security, Business Continuity, and Disaster Recovery is nearing completion. The Business Continuity, Cybersecurity, and Data classification policies are approved with standard work defined and in use. The remaining focus is on documenting the practices in place and testing the different Business Continuity and Disaster recovery plans.
- There was a successful phishing event in February 2020. There was no loss of money and prior work in setting up a security organisation, tools and processes enabled a quick reaction in both the assessment and containment of the situation. Additional steps to strengthen defences have been implemented.
- Gavi's replenishment brought additional visibility to the organisation, as did the pandemic and Gavi's role in the COVAX response. In this environment, cyber-criminals are looking to take advantage of the crisis. Accordingly, Gavi's cyber risk profile is increased. Gavi's Secretariat moved to full remote working in mid-March which increased the use of collaboration and communication tools and blurs the lines between professional and personal connectivity. The work done previously on security, processes, and tools is being fully leveraged to strengthen Gavi's security. Specifically, with:

- i. Increased monitoring of cyber traffic and quarantined emails to spot trends.
- ii. Increased use of systematic controls such as alerts if someone were to access our systems without Multifactor authentication.
- iii. Increased user awareness through multiple channels – mandatory cyber security training, all staff meetings awareness session, staff newsletters with tips and reminders of cybersecurity safety.
- iv. Enhancement of the security of Gavi's social media accounts and public facing websites.

5) Audit & Investigations (A&I)

- Reviewed and approved A&I's reworking of its 2020 plan to take account of the changed operational circumstances of Gavi resulting from the pandemic and A&I's inability to conduct programme audits in supported countries, and the risk implications (covered further in A&I's separate Board report).
- Received a report from the assessors commissioned to undertake an independent External Quality Assessment (EQA) of A&I's audit activities. The audit activity 'Generally Complies' with required professional standards (the top rating) and satisfied all 62 criteria without qualification (covered further in A&I's separate Board report).
- At the AFC's request received a report and analysis on the historic coverage achieved by Programme Audit since 2015.
- Approved a proposal by A&I to evaluate and enhance its reporting and issue tracking processes to streamline and enhance these core activities (implementation in progress).
- Reviewed execution status of internal and programme audit plans and A&I's staff capacity to achieve them.
- Reviewed execution status of the counter-fraud action plan previously reviewed by the Committee.
- Reviewed A&I performance using the A&I reporting dashboard.
- Received updates on the receipt of reimbursements resulting from programme audits and investigations.

6) Risk Management

- Received an update on major changes in Gavi's risk profile since December 2019, which is significantly affected by the COVID-19 pandemic.
- Discussed the need for an increased risk appetite under these circumstances to avoid risk aversion.

- Reviewed progress made on risk management, including pandemic preparedness and business continuity, and the review of the three lines of defence model in Gavi.

7) Other information updates

- Reviewed a framework to facilitate the funding of the Coalition for Epidemic Preparedness Innovations (CEPI) COVID-19 using IFFIm, assessing the financial implications and risks for Gavi. No issues were raised.
- Received an update on whistle-blower complaints

Section C: Subjects to be reviewed in upcoming AFC meetings (22 June 2020 and 23 July 2020)

- Financial update: COVID-19 impact on the Secretariat financial forecasts
- Presentation on the internal processes governing the monitoring and reporting of COVID-19 revenues and expenditures
- Update on Currency Hedging activities
- Audited 2019 Annual Financial Report (AFR)
- Review and recommend for approval by the Gavi Alliance Board a revised version of the A&I Terms of Reference to incorporate certain changes resulting from observations made in the recently conducted External Quality Assessment

Annexes

Annex A: AFC recommendations to Gavi Alliance Board

Annex B: Financial Forecast update: 2016-2025

Annex A: AFC recommendations to Gavi Alliance Board

Recommendations for consideration at this Board meeting

Decision One (May 2020) : The Gavi Alliance Audit and Finance Committee, noting the recommendations do not include COVID-19 considerations and recognising the recommendations may require adjustments as needed, **recommended** that the Gavi Alliance Board:

- a) **Approve**, within the overall Partners Engagement Framework:
 - i. An increase of US\$ 2 million to the already Board-approved 2020 UNICEF Supply Division fees for the procurement of vaccine and related devices in 2020.
 - ii. A budget of US\$ 21.4 million for UNICEF Supply Division fees for the procurement of vaccines, related devices and yellow fever surveillance and diagnostics equipment in 2021; and
 - iii. A budget of US\$ 4.3 million for UNICEF Supply Division fees for the procurement of cold chain equipment for 2021.

- b) **Note** that the Audit and Finance Committee reviewed the financial implications of the recommendations as set out in Figure 1 in Doc 3a and concluded that these could be approved by the Board in accordance with the Programme Funding Policy.

Decision Two (May 2020) : The Gavi Alliance Audit and Finance Committee:

Approved a revised version of the previously approved Audit and Investigations plan for 2020 reflecting amendments necessary to reflect the changing operating circumstances of the A&I function following the coronavirus outbreak and the dislocation to normal work arrangements, Annex B of Doc 04.

Annex B: Financial Forecast update 2016-2025

I- Financial capacity to approve funding decisions

As seen in Figure 1 below, assuming all donors honour their existing commitments, Gavi has US\$ 417 million available for potential funding decisions through 2020. Therefore, there is enough resources to approve the funding decisions requested at the June 2020 Board meeting. Any financial capacity subsequent to 2020 will be determined through the replenishment process for 2021-2025. In advance of that, application of the Programme Funding Policy which stipulates including an allowance for potential future contributions based on current levels, indicates that the potential funding decisions could be approved.

Cashflow Basis, US\$ m	2016 – 2020			2021 – 2025	
	Updated Forecast (May 2020)	Implications June 2020 Board Decisions	Including proposed decisions (June 2020)	Implications June 2020 Board Decisions	Indicative Projections 2021-2025
(A) Assured Resources	9,314		9,314		2,048
(B) Allowance for further Direct Contributions	280		280		7,443
(C) = (A) + (B) Qualifying Resources	9,593		9,593		9,492
(D) Forecasted Expenditure	9,174	2.0	9,176	2.0	9,446
= (C) – (D) Net Available for Future Investment			\$417m		\$45m

Decisions for consideration by the June 2020 Board - US\$ million	Decision amount	Already in Forecast	Incremental to Forecast		Board Document
			2016-2020	2021-2025	
(a) UNICEF 2020 Procurement fees - vaccines	2.0	0	2.0		tbd
(b) UNICEF 2021 Procurement fees - vaccines & yellow fever diagnostics	21.4	19.4		2.0	tbd
(c) UNICEF 2021 Procurement fees - CCEOP	4.3	4.3		-	tbd
			2.0	2.0	

II- Overview of the 2016-2020 and 2021-2025

Expenditure to meet demand	2016	2017	2018	2019	2020	Indicative					2016-20	2021-25
						2021	2022	2023	2024	2025		
Total Expenditure	1,454	1,793	1,558	2,249	2,120	1,855	1,897	1,888	1,922	1,883	9,174	9,444
Programmes Funding Decisions for considerations June 2020 Board					2.0	2.0					2	2.0
Total Expenditure - per Board June 2020	1,454	1,793	1,558	2,249	2,122	1,857	1,897	1,888	1,922	1,883	9,176	9,446
Resources Available												
Direct contributions - confirmed	1,468	1,469	1,485	1,611	1,152	45	5	1	1		7,185	52
Direct contributions for IPV	93	74	74	22							264	
IFFIm proceeds	100		50	315	200	295	295	295	295	295	665	1,475
AMC contributions	107	35	57	69	263						530	
Investment income & Other	104	110	1	126	25	25	25	25	25	25	367	125
Total Inflows	1,872	1,687	1,667	2,145	1,640	365	325	321	321	320	9,011	1,652
Amount available from Cash & Investments Reserve (beyond the minimum required)	(254)	176	(518)	97	199	(31)	7	(25)	29		(300)	(21)
Assured Resources	1,619	1,863	1,149	2,242	1,838	334	331	296	350	320	8,711	1,631
Allowance for Further Contributions*					280	1,454	1,494	1,498	1,498	1,499	280	7,443
Qualifying Resources	1,619	1,863	1,149	2,242	2,118	1,788	1,826	1,794	1,848	1,819	8,992	9,074
Additional available / (required) - cumulative	1,619	1,863	1,149	2,242	2,118	1,788	1,826	1,794	1,848	1,819	8,992	9,074
Opening Cash & Inv. Balance												
Change in cash flows	1,694	2,112	2,007	2,116	2,012	1,809	1,772	1,694	1,625	1,522	1,694	1,809
Closing Cash & Inv. Balance	418	(105)	109	(104)	(202)	(38)	(78)	(69)	(103)	(64)	115	(351)
Additional available / (required) - cumulative	768	838	429	421	417	349	278	184	110	45	417	45
→ 2022 → 2025												
Minimum Cash & Inv. Balance required	1,344	1,168	1,687	1,591	1,393	1,423	1,416	1,441	1,412	1,412	1,393	1,412
Months cover - unrestricted	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Months cover - restricted	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Months cover - Unrestricted + Restricted	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0