
Subject **Audit and Finance Committee Chair Report**

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 Committee Chair last reported to the Board in December 2023.
- Since the last Board meeting, the AFC has met three times (14 February in Copenhagen, 7 May and 30 May) to consider Gavi recurring matters in accordance with the standard workplan for Gavi 5.1 and the Office of the COVAX Facility as well as to consider new initiatives and Gavi 6.0 plans.
- In addition, the committee chair held several sessions with Secretariat staff in relation to financial risk management with IFFIm and the Secretariat Treasury team, the financial statements, Gavi 6.0 strategic cost estimate and the appointment of a firm to conduct an external quality assessment of Gavi's internal audit function.
- The AFC was hosted by UNICEF in Copenhagen and members had the opportunity to tour the supply division warehouse as part of the visit.
- Specific subjects reviewed are noted under Section B and matters to be reviewed in upcoming meetings are presented under Section C.
- The AFC also had briefings and updates from the CEO and COO in closed sessions at each of its meetings.
- The AFC has expressed its appreciation for the improvement in the quality of materials provided by the Secretariat and the depth and transparency of the analysis and data presented.
- AFC recommendations to the Board are attached as Annex A.

Section B: Subjects reviewed

1. Programme Update

- The AFC received presentations which provided an update on programmes.

2. *Financial Update*

Management reporting

- The AFC was presented with an update on Financial performance as of December 2023 as well as Q1 2024 Management reporting.

2023 Annual Financial Report (AFR)

- The AFC reviewed in both the May meetings the AFR and the report of the external auditor (Deloitte) for the year ended 31 December 2023.
- The AFC notes that 2023 Fiscal Year reflects the closing of the COVAX Facility and the start of the new COVID-19 programme. The committee chair held several sessions with the Secretariat and the external auditors to ensure financials reflect the appropriate accounting treatment of the Manufacturing Close agreements and AMC repurposing. The AFC also notes that the AFR disclosure includes the post balance sheet event and associated disclosures following the completion of the Novavax negotiations in Q1 2024.
- No material issues or adjustments were raised by Deloitte who anticipate issuing an unqualified audit opinion.

Financial forecast for Gavi 5.1

- The AFC reviewed the Financial Forecast of the Gavi 5.1 Strategic Period (2021-2025) which shows financial flexibility with US\$ 131 million available for future investments, with Qualifying Resources at US\$ 10.6 billion and Expenditures at US\$ 10.5 billion.
- The Qualifying Resources increase of US\$ 264 million, is driven by actual and forecast investment income returns (US\$ 182 million) with the methodology for forecasting investment income now aligned with AFC and Investment Committee Chairs, and an increase in actual and forecast pledges (US\$ 82 million) in accordance with donor discussions. The US\$ 235 million increase in Forecast Expenditure is driven by vaccine procurement, primarily the acceleration of the Malaria must win programme (US\$ 141 million) and Cholera (US\$ 124 million). The risks to the financial forecast are mainly choices under the control of the Secretariat and the Board and are articulated in the papers which were presented.

COVAX AMC

- While the COVAX facility closed at the end of 2023 significant 'tail' activities remain including programme audits, self-financing participants (SFPs) close-out and final manufacturer settlements close out activity.

- The new COVAX AMC activities approved by the board are still subject to final donor agreement consent. These include African Vaccine Manufacturing Accelerator ("AVMA"), the First Response Fund as part of the Day Zero Financing Facility for Pandemics ("DZF"), the Coalition of vaccine partners, and the Big Catch-Up initiative. These are operationally fully integrated within the Secretariat.
- The AFC reviewed the Financial Forecast for the COVAX AMC (including ongoing approved funded programmes and approved programmes subject to donor repurposing and other risks) of Qualifying Resources of US\$ 12.8 billion and Forecast Expenditure of US\$ 11.0 billion, with a COVAX AMC retained balance of US\$ 1.8 billion noting that the financial forecast does not include future interest income from COVAX AMC funds not yet disbursed for 2024 and 2025 of US\$ 180 million and the African Vaccine Manufacturing Accelerator or the Day Zero Financing Facility for 2024 and 2025 of US\$ 88 million.
- The US\$ 304 million increase for Qualifying Resources, includes US\$ 181 million in received donations and US\$ 123 million in interest income earned to date (as at end-February 2024). The forecast Expenditure before repurposing has decreased by US\$ 491 million, primarily driven by reimbursements as a result of manufacturer negotiations. Additional expenditure of US\$ 1,897 million has then been included to reflect the repurposing of funds towards Board approved programmes (which remain subject to donor approval and other risks). As a result of these changes, the COVAX AMC balance (consisting of Pandemic Vaccine Pool ("PVP"), dose sharing ancillary and interest income) is now forecast at US\$ 1.8 billion with further opportunities of US\$ 928 billion.

6.0 Strategic cost estimate

- At its meeting on 30 May, the AFC reviewed the Gavi 6.0 strategic cost estimate of US\$ 11.9 billion. Considerable data was provided which set out the assumptions and variables on which the estimate is based.
- The papers relating to the cost estimate are included in the Board pack and these highlight the major assumptions and the key risks and opportunities. The materials enabled AFC members to gain a good understanding of the basis of the strategic cost estimate.
- AFC members raised numerous queries, comments and challenges on the assumptions, which the Secretariat has committed to respond to in due course.
- It was noted that these figures are a preliminary estimate, not a forecast, and that the figures and assumptions would evolve over the coming year as the plans are further refined.

- Some of the key assumptions debated included the prices of vaccines, the dependence on changes to the number of doses of certain vaccines required, the growth in population, changes to self-funding, the efficiency gains assumed, and interest income assumptions.
- It was noted that the World Bank has provided a revision upwards of the amount available from IFFIm from existing commitments. This revision is based on a conservative set of assumptions based on the funds which may be available if IFFIm was wound down; assuming that new pledges come into IFFIm and IFFIm continues in its current role, this would likely result in the estimate of availability from existing pledges being higher. It was also noted that for 6.0 the present value of new pledges would be likely discounted at higher rates than in 5.0 so the dollar value of nominal pledges would be lower than in 5.0.
- It was noted that the risks and opportunities identified were material.
- The AFC noted that resources available for Gavi 6.0 remain dependent on replenishment.

Treasury

- The AFC received updates on **Treasury** matters which included an overview of Market, Liquidity and Counterparty credit risks. It was also noted that negotiation of new ISDA agreements is progressing as part of the onboarding of new banks. The AFC was briefed on the foreign exchange (FX) elements linked to replenishment which will be presented to the AFC in October (tbc.), as well as on the status of the interim Treasury arrangements for AVMA and PPPR programme.
- It was noted that short term reserves were being managed effectively both in terms of the achieved interest income as well as counterparty risk management.
- The AFC requested a 'Holistic Treasury Strategy' covering all Investments (including COVAX AMC, AVMA, Day Zero funds) to be instigated under the Leadership of the COO/Interim CFO and with the steering of the AFC Chair and the Investment Committee Chair.

Policy Update

- The AFC was briefed on the **Programme Funding Policy** update status and noted that an Advisory group was proposed to provide guidance on the key areas for consideration in the current policy.

3. **Audit & Investigation**

- Audit and Investigations provided routine updates covering activities against the 2023 and 2024 plans previously approved by the AFC. The updates covered country-focused audits, Secretariat-focused audits, advisory work,

investigations and counter-fraud and whistle-blower reporting. The AFC was updated on significant issues arising from audit work internal to the Secretariat and Gavi Secretariat management's responses to those issues. Notably since the last AFC Chair's report to the Board, these addressed issues emerging from audits of risk culture, expense policy for third parties, Evolve, expanded partners and the process whereby countries transition away from Gavi support.

- The AFC received reports from Audit and Investigations on the Secretariat's implementation of audit recommendations addressed to Gavi management and Gavi implementing countries' implementation of recommendation addressed to them via programme audits.
- The AFC received reports from Audit and Investigations on Gavi's recovery of misuse, which may be identified in programme audits and/or by other Gavi Secretariat teams. Following through on misuse ensures that accountabilities are maintained both at country level and by extension at the level of the Gavi Secretariat. Misuse of US\$ 47 million in total was identified over the period 2015 to March 2024, of which 95% of amounts due had been reimbursed.
- The AFC received a report and recommendation for the appointment of a consultant to conduct an External Quality Assessment of the internal audit function, which will be carried out in Q4 2024, in accordance with the Standards of the Institute of Internal Auditors. The AFC endorsed the appointment of the recommended organisation to conduct the assessment.

4. *Ethics, Risk and Compliance*

- In February 2024, the AFC reviewed and validated the Ethics, Risk and Compliance Office (ERCO)'s workplan for 2024 defining key objectives and milestones contributing to the ERC's delivery on its vision.
- At its 7 May meeting, the AFC received an update on AVMA risk management framework and provided insightful comments that are being addressed before the risk framework is shared with the Board in June. The AFC also received the updated Risk Policy that is being reviewed to address AFC comments and feedback. The updated Risk Policy will be re-submitted to the AFC for recommendation for Board's approval during the end of year governance cycle.
- At its 30 May meeting, the AFC reviewed the ERC mid-year update on top risks highlighting key changes in Gavi's risk profile since the annual Risk & Assurance Report was shared at the December 2023 Board meeting. The AFC was also updated on areas where the risk function has engaged since January 2024 to further mature risk management in the Secretariat, including progress in strengthening risk management across the Alliance.
- On its 30 May meeting, the AFC also received for review and recommendation for the Board's approval the draft Restrictive Measures policy, reaffirming

Gavi's commitment to comply carefully with applicable laws and regulations, donor commitments and to ensure that every action aligns with the ethical principles that guide our endeavors.

5. ***Knowledge Management and Technology Solutions (KMTS)***

- In February 2024, the AFC received an update on Key Milestones and Achievements in 2023, the Secretariat technology foundation and Ecosystem, the Digital roadmap, the Data Governance & Analytics roadmap, and a spotlight on Cybersecurity. As of late March 2024, the Chief Information Security Officer (CISO) role is vacant with "CISO as a Service" support being provided by KPMG. Recruiting for the CISO role is ongoing.

6. ***EVOLVE***

- The AFC was updated on the findings of a recent internal audit of the project. Management accepts the audit findings and recommendations and is prioritising the immediate implementation of recommendations relating to project risk ownership, management, and stakeholder engagement. Recommendations concerning the strengthening of project governance and management awareness of project methodology will be implemented before the start of phase 2 of the project.
- The AFC received two updates from management on EVOLVE – in February and at the 30 May AFC meeting. The discussion in May followed a discussion at the PPC on the EVOLVE target operating model and intervention by the CEO who has taken on a direct role in overseeing the project. Almost half the project budget has already been expended and the project still does not have a clearly defined scope or deliverables. The AFC was informed that management will be reducing the dependence on external consultants for the project and a further update with more tangible plans will be presented to the AFC at its October meeting.

7. ***Innovative Finance***

The AFC was presented with the following updates:

- **European Investment bank Letter of Credit Facility (LOC) (Feb 13)**

The LOC was presented to the AFC with an update as to the status of the facility and the request for activation.

- **African Vaccine Manufacturing Accelerator (AVMA) (May 7)**

The AFC was provided with an update on the finalisation of AVMA, including a risk management framework, how payments to manufacturers will be made and details on the interim and long-term Treasury options. The Committee recommended the Board approve an interim Treasury arrangement for Gavi to

hold AMVA funds until a recommendation on longer-term options, which could include outsourcing, is presented to the AFC before the end of the year. It also requested further work to build on the risk management approach presented by the Secretariat including further work to ensure Alliance Partners and other stakeholders (including Africa CDC) have appropriate input and accountability for relevant risks

- **Day Zero Financing Facility (DZF) (May 7)**

The AFC was provided with an update on the finalisation of the First Response Fund (FRF) of the Day Zero Financing Facility. As per AVMA, the Committee recommended the Board approve an interim Treasury arrangement for Gavi to hold FRF funds until a recommendation on longer-term options, which could include outsourcing, is presented to the AFC before the end of the year. The AFC also agreed the disbursement of the FRF funds against the programmatic criteria simultaneously reviewed by the PPC should follow Gavi's Delegation of Authority Policy.

Section C

Subjects to be reviewed in upcoming AFC meeting of 8 October 2024

- CEO, Programmatic and Quarterly Management Report update
- Operational Excellence Update (incl EVOLVE)
- Financial update (incl Financial Forecast 2021-25 approval)
- Risk Management Update (incl. Risk and Assurance report)
- Audit and Investigation report + 2025 plan
- Programme Funding Policy
- IRS Form 990 (2023)
- COVAX Statement of Funds 1H 2024
- Insurance and Legal update
- Review of decisions and any other business

Annexes

Annex A: AFC recommendations to the Gavi Alliance Board

Decision Set One (13 February 2024)

Decision 1: European Investment Bank Letter of Credit Facility

The Gavi Alliance Audit and Finance Committee reviewed and recommend to the Gavi Alliance Board that it:

Approve the activation of the European Investment Bank Letter of Credit facility in one or more transactions up to the full value of US\$ 320 million for market shaping transactions, which would be approved by the Market-Sensitive Decisions Committee.

Decision Set Two (7 May 2024)

Decision 1: Financial Forecasts for Gavi 5.1 (2021-2025) and COVAX AMC

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

- a) **Note** that the Audit and Finance Committee reviewed the financial implications of the recommendations to be made to the Programme and Policy Committee and concluded that the recommendations relating to the current strategic period were already included in the previous Financial Forecast and could be approved by the Gavi Alliance Board in accordance with the Programme Funding Policy, and, where relevant, remain subject to AMC Donors approval for re-purposing of COVAX AMC funds.
- b) **Approve** the updated Financial Forecast for the Gavi 5.1 (2021-2025) Strategic Period of Qualifying Resources of US\$ 10.6 billion and Forecast Expenditure of US\$ 10.5 billion.
- c) **Approve** the updated Financial Forecast for the COVAX AMC and COVID 19 programme of Qualifying Resources of US\$ 12.8 billion and Forecast Expenditure of US\$ 11.0 billion, with a COVAX AMC retained balance of US\$ 1.8 billion noting that the financial forecast does not include future interest income from COVAX AMC funds not yet disbursed for 2024 and 2025 of US\$ 180 million and the African Vaccine Manufacturing Accelerator or the Day Zero Financing Facility for 2024 and 2025 of US\$ 88 million; and
- d) **Agree** that the budgetary amounts approved by the Gavi Alliance Board in Decision 12 of the Board Meeting of 7-8 December 2022 for Secretariat Resources (including COVAX) for 2023 and separately for 2024, be treated as an overall Budget amount which may be utilised across 2023 and 2024.

Decision 2: African Vaccine Manufacturing Accelerator (AVMA)

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

- a) **Approve** the Gavi Secretariat as interim treasury manager of the African Vaccine Manufacturing Accelerator (AVMA) until 31 December 2024.
- b) **Note** that the Gavi Secretariat will recommend a long-term treasury management arrangement for AVMA and make a proposal on the use of interest income to the Audit and Finance Committee in the second half of 2024.

Decision 3: Day Zero Financing Facility (DZF) – First Response Fund

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

- a) **Approve** the Gavi Secretariat as interim treasury manager of the Day Zero Financing Facility – First Response Fund until 31 December 2024;
- b) **Note** that the release of funds from the First Response Fund is subject to the Gavi Alliance Delegation of Authority Policy;
- c) **Note** that the Secretariat will recommend a long-term treasury management arrangement for the First Response Fund and make a proposal on the use of interest income to the Audit and Finance Committee in the second half of 2024.

Decision Set Three (presented at the 30 May 2024 meeting)

Decision 1: 2023 Annual Financial Report

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

Approve the 2023 Gavi Alliance Annual Financial Report and the 2023 Gavi Alliance Statutory Financial Statements as set out in Annexes B and C of Agenda Item 05, contingent upon the inclusion of any amendments presented to and agreed upon during this meeting.

Decision 2: Ethics Risk and Compliance Office update

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

Approve the Restrictive Measures Policy as set out in Annex A to Doc 08.