

**SUBJECT:           AUDIT & 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 Board last met in November 2018.
- The AFC met twice (7 February and 25 April) and will be meeting on 24 June 2019. Closed session meetings/calls were also held to discuss AFC procedural matters and to be briefed on specific topics including an update on whistleblowing and a follow-up on the 2018 fraud matter. Subjects reviewed in February and April are noted below under Section B and those matters to be reviewed on 24 June are noted under Section C.
- Annex A provides a high level overview of the latest financial forecast for Gavi for the period 2016-2025. AFC recommendations to the Board are attached as Annex B.

### **Section B: Subject matters reviewed**

#### **1) Audit & financial reporting**

- Discussed with Deloitte their 2018 Financial Statements audit strategy and planning including how they will work with Internal Audit team on the SAP project to avoid duplication;
- On track for on-time completion of financial statements, with no significant issues identified to date;
- Received from the Secretariat its annual review of Gavi's accounting policies and related documentation including proposed updates; this included one material update resulting from a new accounting rule (Accounting Standard Update 2018-08) that will have a material impact on the financial report for 2019. It was explained that Gavi will defer the recognition of liability until vaccines are being procured and the invoice 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. The changes required for 2018 ASU 2016-14 are non material.

#### **2) Financial Update**

- Received an update on Q3 2018 Gavi consolidated Financial Statements;

- Reviewed a financial update covering 2018 actuals and an outlook for 2019.
- Received a specific update on the proposed budget request for UNICEF procurement fees for vaccines and CCEOP that the board is being asked to consider. As part of this update we were informed of the recent mid-term evaluation of the Memorandum of Understanding between Gavi and UNICEF procurement services which concluded that it is generally working well.
- Received an detailed update on Gavi's financial projections for the 2021-2025 period;
- Concluded that all the programme funding decisions for consideration at the June Board meeting (see Annex B) can be approved by the Board as sufficient qualifying resources are available, in accordance with the Programme Funding Policy.

### 3) Technology Review

- Received updates on Gavi's SAP and Grant Management projects at both February and April meeting. Was advised that the Secretariat had put in place an alternative implementer to PwC for SAP Analytics Cloud (SAC); and that a stronger PwC project manager and team had been installed.
- The Committee was advised that the SAP timelines were aggressive and that Management were taking appropriate actions to mitigate the risk resulting from increased workload. The Committee re-emphasised its 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. In addition, recommendations from Internal Audit to improve project governance had been implemented. As a result of these changes management felt project would progress as planned.
- Updated on the status of remediation on the three high-risk audit findings related to disaster recovery, cyber security and project governance. Was informed in April that some of the recommended actions had stopped and would be only be completed by Q1 2020 due to vacancy for technology leader, competing priorities and other projects.

### 4) Financial Risk Management

- Received an update on Gavi's foreign currency exposure and related hedging activities. Was updated on Gavi's intended approach to addressing currency hedging for the next strategic period (2021-2025); and the plan to review the hedging policy and strategy with a consultant;
- The plan is to discuss funding with the committee at the June meeting.

## 5) Audit & Investigations

- Reviewed changes incorporated within the Audit and Investigations (A&I) Terms of Reference and recommended for approval by the Board at June 2019 meeting (through consent agenda).
- Reviewed two proposed changes to the 2019 programme audit plan.
- Received update on the status of investigatory activity in closed session.
- Received update on the initiative to establish tracking on the remediation of issues raised in the course of programme audits.
- Received update on the initiative to collaborate with the audit departments of UNICEF and WHO.
- Routinely:
  - i) Reviewed execution status of internal and programme audits from the 2018 and 2019 plans and A&I's staff capacity to achieve;
  - ii) Reviewed A&I performance on the now-established A&I reporting dashboard;
  - iii) Received updates on the receipt and management of whistleblower reports;
  - iv) 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 November 2018;
- Discussed progress made on risk management: continuing to instil a risk-aware culture, actively manage top risks, embed risk management, and engage partners on risk;
- Informed that the three lines of defence model will be reviewed;
- Discussed the need to review risk appetite in the context of Gavi 5.0.

## 7) Other Matters

- Received an update on the review and subsequent gap analysis the Secretariat had undertaken on its insurance portfolio for cyber security as requested by the Committee. An insurance broker has been engaged to put in place appropriate cover for any gaps.

## **Section C: Subjects to be reviewed on 24 June 2019**

### **8) Financial Statements**

- Early unaudited draft of 2018 Annual Financial Report (AFR);
- Updated financial forecast for 2016-2025. See Annex B for more details.

### **9) Audit & Investigations report**

- The Committee has requested briefing on certain special topics:
  - i) The plan to undertake counter-fraud activity in 2019 (and beyond);
  - ii) The coverage of the risk of loss of value arising on exchange rate movements once Gavi funds have been disbursed to country;
  - iii) The completion of the Low Risk Verification Review (designed to ensure that all risk activities may be covered efficiently within the agreed four year-cycle ending December 2019, ensuring that A&I resource are prioritised against higher risk activities).

### **10) Technology**

- A follow-up of the remediation of the audit findings, disaster recovery cyber security and project governance, including a more detailed timeline and resource plan.

### **11) Other information updates**

- Currency Hedging Update – Gavi's approach for mitigating currency exposure for the 2021-2025 period.

## **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 – Partners Engagement Framework (April 2019)

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.

#### Decision Two – Audit and Investigation Terms of Reference (April 2019)

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.

#### Decision Three – Currency Hedging Policy (pending AFC 24 June 2019)

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

**Approve** amendments to the Currency Hedging Policy as set out in Annex C of Doc 02d.

## Annex B: Financial Forecast update 2016-2025

### Financial Forecast 2016-2020

#### 1. Financial capacity to approve funding decisions in June 2019

- 1.1 Figure 1 below summarises the Financial Forecast 2016-2020. It indicates that after allowing for the funding decisions to be considered by the Board and all other programmes already foreseen in the forecast, resources of US\$ 255 million<sup>1</sup> could be available for other new investments, through 2020. This is dependent on donors contributing and extending their pledges through 2020. This amount has been updated to reflect the re-programming of US\$ 350 million in IFFIm proceeds from 2016-2020 to 2021-2025.

**Figure 1: Forecast of resources to meet expenditure in 2016-2020**

2016 - 2020 Financial Forecast				
US\$ million	Prior Forecast Nov 2018 Board	Change upon updating estimate	Impact of decisions for consideration now	Latest Forecast Jun 2019 Board
Assured Resources	9,376	(80)		9,294
Allowance for Further Direct Contributions <sup>(1)</sup>	397	(223)		174
<b>A Qualifying Resources</b>	<b>9,773</b>	<b>(303)</b>	<b>0</b>	<b>9,468</b>
	<b>\$9.8 bn</b>			<b>\$9.5 bn</b>
<b>Forecasted Expenditures</b>	<b>9,207</b>	<b>0</b>	<b>6</b>	<b>9,213</b>
	<b>\$9.2 bn</b>			<b>\$9.2 bn</b>
<b>C=A-B Available / (additional required) for future investments (Gavi 5.0)</b>	<b>566</b>	<b>(303)</b>	<b>(6)</b>	<b>255</b>
	<b>\$0.6 bn</b>			<b>\$0.3 bn</b>
Available / (additional required) if the Allowance for further Direct Contributions is excluded:				<b>81</b>
Decisions for consideration at June 2019 Board meeting add up to \$6m (2019-2020)				
US\$ million	Decision amount	Already in Forecast	Addition to Forecast	Board Document
(a) UNICEF 2020 Procurement fees - vaccines <i>Investment return: Direct Health Impact</i>	19	19	0	01d
(b) UNICEF 2020 Procurement fees - CCEOP <i>Investment return: Direct Health Impact</i>	4.3	4.3	0	01d
(c) Review of the strategy for Papua New Guinea <i>Investment return: Direct Health Impact</i>	6		6	08
			<b>6</b>	

(1) Allowance for further direct contributions is calculated (per Policy) to maintain an annual level equivalent to that confirmed for 2016-2018 (\$1.46bn) in subsequent years

<sup>1</sup> In April 2019 in Doc 02a, Figure 1, US\$ 558 million was forecast as the amount "Available for future investments" in 2016-2020. This has reduced to US\$ 255 million after reprogramming some IFFIm proceeds to 2021-2025 and receiving more contribution income than had been forecast.

## 2 Overview of Resources to meet expenditure in 2016-2020

- 2.1 The resource forecast for 2016-2020 has reduced by US\$ 303 million to US\$ 9.5 billion. This reduction in resources reflects the re-programming US\$ 350 million of IFFIm proceeds from the current period to 2021-2025; and greater contribution income than had previously been forecast.

## 3 Overview of expenditures

- 3.1 Expenditure remains unchanged at US\$ 9.2 billion for the current strategic period. As noted in the paper presented to the AFC in April 2019, the Board is being asked to consider the approval of a tailored strategy of support for Papua New Guinea (PNG) which would require additional funding of US\$ 6 million in the current period.

## Indicative Projections 2021-2025

## 4 Overview of Resources to meet expenditure in 2021-2025

- 4.1 For the 2021-2025 period, pledges have not yet been requested, therefore the projections are based on estimates.
- 4.2 For assured resources, early estimates indicate a range from US\$ 1.8 to 2.2 billion, coming primarily from IFFIm proceeds, investment income and potential carry forward.
- 4.3 For direct contributions, if annual contributions to Gavi are continued at the same level as over the past three years which is not assured as pledges have not been requested – this would provide US\$ 7.2 billion for 2021-2025.
- 4.4 The amount of resources available from the cash and investment reserve will be impacted by whether all donors honour pledges through to 2020. Any changes in actual expenditures for the period 2018-2020 versus the November 2018 expenditure forecast will also influence the amount available in the next strategic period.
- 4.5 Based on these estimates, resources that may be available in 2021-2025 are currently projected at US\$ 9.1 to US\$ 9.5 billion.

Resources Available	2021-2025 Indicative Projections				
	Prior Forecast Nov 2018 Board	Change upon updating estimate	Current range of estimates		
US\$ million			From	To	
Direct contributions - confirmed	52		52	52	52
IFFIm proceeds	1,010	465	1,475	1,475	1,475
Investment income	125		125	125	125
<b>Total Inflows</b>	<b>1,187</b>	<b>465</b>	<b>1,652</b>	<b>1,652</b>	<b>1,652</b>
Amount available from Cash & Investments Reserve (beyond the minimum required)	581 <sup>(1)</sup>	(189)	192	392	592
<b>Assured Resources</b>	<b>1,768</b>	<b>276</b>	<b>1,844</b>	<b>2,044</b>	<b>2,244</b>
Allowance for Further Contributions	7,238		7,238	7,238	7,238
<b>Qualifying Resources</b>	<b>9,006</b>	<b>276</b>	<b>9,082</b>	<b>9,282</b>	<b>9,482</b>
	<b>\$9.0 bn</b>	<b>\$0.3 bn</b>	<b>\$9.1 bn</b>	<b>\$9.3 bn</b>	<b>\$9.5 bn</b>

(1) In November 2018, this value was shown as \$505m. This was updated to \$581m in Q1 2019 reflecting updated assumptions

## 5 Overview of expenditures 2021-2025

- 5.1 The latest expenditure forecast for 2021-2025 is updated to include Ebola<sup>2</sup> expenditure of US\$ 150 million and a reduction of US\$ 50 million for IPV per the PPC recommendation. All other forecasted expenditures remain unchanged, including the additional funding for Board approval of US\$ 54 million for extension of support to PNG, as detailed in the April 2019 AFC paper.
- 5.2 For the 2021-2025, the projections include a provision for strategic investments (incl. malaria) estimated at US\$ 400 to US\$ 700 million, as well as up to US\$ 300 million for catalytic vaccine support for former and never Gavi-eligible middle income countries, that the Board may consider. Thus in total, Gavi's estimated expenditures for the period 2021-2025 could be in the range of US\$ 9.4 to 9.7 billion depending **on the board's decisions on future strategic investments**.

Expenditures	2021-2025			
	Indicative Projections			
US\$ million	Prior Forecast Nov 2018 Board	Change upon updating estimate	Impact of decisions for consideration now	Latest Forecast Jun 2019 Board
- Expenditure before IPV and Ebola	7,743		54	7,797
- IPV	850	(50)		800
- Ebola	0	150		150
<b>Total before Gavi 5.0</b>	<b>8,593</b>	<b>100</b>	<b>54</b>	<b>8,747</b>
	<b>\$8.6 bn</b>	<b>\$0.1 bn</b>	<b>\$0.1 bn</b>	<b>\$8.7 bn</b>
- Catalytic Vaccines				300
- Prov. for Strategic Inv. (incl Malaria)				400 - 700
<b>Total</b>				700 - 1,000
<b>Total with Gavi 5.0</b>				<b>\$9.4 - 9.7 bn</b>

<sup>2</sup> The Gavi Alliance Board approved the Ebola programme envelope of up to US\$ 390 million in December 2014. Gavi funding of US\$ 100 million was made available, beyond this was dependent on new funds being raised. The latest estimated spend is \$150 million for the period 2021-2025