

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 Board last met in June 2017.
- The AFC met twice (27 July and 19 October) and will be meeting on 27 November 2017. Subjects reviewed in July and October are noted below under Section B and those matters to be reviewed on 27 November noted under Section C.
- The AFC Chair report is attached in the form of a presentation as Annex A and the AFC recommendations to the Board are attached as Annex B.

Section B: Subject matters reviewed

1) Audit & financial reporting

- External audits were completed on time, with no significant audit issues identified by KPMG.
- The 2016 Annual Financial Report (AFR), was completed and published on-time, with no significant issues identified by KPMG.
- Gavi's annual tax return (Form 990) was filed in November. The AFC reviewed calculations of compensation included in the Filing.
- Quarterly abridged consolidated and standalone financial statements.

2) Financial Update

- A financial update covering 2017 actuals and an outlook for 2017-2025. Changes since last forecast were discussed and the amount available for future investments agreed.
- Concluded that all programme funding decisions to be taken at November Board meeting can be approved by the Board as qualifying resources are available.
- Agreed to recommend to the Board the approval of the updated financial forecast for 2016-2025 (version 15Fb), the Partners Engagement Framework for 2018 and 2019 and the capital expenditure budget.

3) Financial Risk Management

- Received an update on and reviewed Gavi's foreign currency exposure and related hedging activities.
- The amount exposed to currency movements has been reduced. 88% of total direct contributions pledged for 2016-2020 now realised or hedged. The remaining 12%, representing 8% of qualifying resources, remains exposed to future currency movements until timing of receipt is more certain.

4) Audit & Investigations

- The status of the Internal Audit and Programme audit plans were discussed. Final reporting is often an extended process but overall the Committee is satisfied on execution against audit plans and the coverage of risk. Reviewed process of risk assessment and approved audit plans for 2018. The Committee will review (27 November) multi-year internal and programme audit plans to ensure adequate coverage of all risks.
- Important to ensure appropriate resolution on issues emerging from audits and investigations, particularly when misuse in programmes continues to emerge. Gavi has maintained a very high rate of recovery of 99% against agreed and due reimbursements - reimbursements of \$4 million are required by year-end to maintain this.
- Reviewed routinely the investigatory, counter-fraud and whistleblower activity to ensure that proactive follow-through is appropriate. Audit and Investigations work with national institutions where possible.
- Collaboration is on-going with Country Programmes to try and agree new processes to reduce the risk of misuse recurrence. Given the environment in which Gavi operates, it is recognised that this is challenging to achieve. Significant collaboration is taking place with the audit functions of UNICEF and WHO, and indeed across the three lines of defence. Whilst this is at an early stage, there is good prospect for enhanced efficiency and effectiveness working with UNICEF and WHO.

5) Risk Management

- See Risk and Assurance Report – Board document 06.

6) Other Matters

- Technology Review : Received an overview of Gavi's technology landscape focussing on the areas of cybersecurity, controls and related risks. Progress report received on plans for financial systems replacement.
- Health Campus: Received an update on the Health Campus, including background, risk sharing with The Global Fund, financial implications, risks and collaboration plan. The AFC intends to continue to focus on collaboration with The Global Fund.

Section C: Subjects to be reviewed on 27 November 2017

7) Forward Year Plan

- AFC 2018 work plan

8) Information Updates

- Gavi financial statements: Q3 2017 Gavi standalone financial statements and an abridged forecast covering Gavi's consolidated financial statements for the period 2017-2020
- Audit and investigations report
- Programme Capacity Assessment report

9) In closed session

- Audit & Investigations evaluation and MD performance assessment;
- Finance function evaluation

.

Annexes

Annex A: AFC Chair report

Annex B: AFC recommendations to Gavi Alliance Board

AUDIT & FINANCE COMMITTEE CHAIR REPORT

BOARD MEETING
DAVID SIDWELL

29-30 November 2017, Vientiane, Lao PDR



Independent Audit & financial reporting

Topics reviewed	Current status
<ul style="list-style-type: none"> • 2016 Gavi Alliance Annual Financial Report (AFR) • 2017 AFR • Assessment of auditors' performance • Tax compliance • Auditor rotation • Interim financial reporting 	<ul style="list-style-type: none"> • 2016 Audits (Alliance and IFFIm) completed by KPMG • Unqualified opinions received for both entities and no material control weaknesses identified • Annual Financial Report issued on time (September) • Draft AFR will be shared with AFC in June 2018. Opportunity for full Board to also provide input. • Management and AFC satisfied with KPMG performance. • All tax and other regulatory filings on-time • U.S. Form 990 was filed before November 15 deadline • Financial year 2017 will be the last audit year undertaken by KPMG. • World Bank in process of deciding on new auditor, Gavi engaged in similar process. • AFC reviewing abridged statements at each meeting.

Financial Update

Topics reviewed

- **Long term forecast** (version 15Fb)
- **Programme Funding decisions**
- **2017 estimate and outlook for 2018**

Current status

- Updated forecast takes into account updated implementation assumptions and also savings in costs of vaccines.
- Board approved simplification of programme funding policy (June 2017)
- All programme funding decisions can be approved by the Board in accordance with the revised Financial Forecast.
- Resources
 - 2017 FY projection - 92% of Dec 2016 projection (98% of Jun 2017 projection)
 - 2018 FY projection - 93% of Dec 2016 projection
- Expenditure
 - 2017 FY projection - 92% of Dec 2016 projection (97% of Jun 2017 projection)
 - 2018 FY projection - 87% of Dec 2016 projection
- Envelopes: Allotments were within Board mandated amounts.
- Available for futures investments is US\$ 485 million, after deferral of IFFIm proceeds into the next period of US\$ 364 million

Financial Update

Topics reviewed

- **PEF/Secretariat budget**
- **Currency Hedging**
- **In-country cash report**

Current status

- Request the board to approve 2018-2019 budgets, flat to 2017. Considerable focus on cost savings to fund a provision for internal promotions and performance compensation increase of 2.0%
- 88% of 2016-2020 direct contributions hedged and/or realised and therefore impact of future currency volatility considerably reduced.
- Report presented to AFC in October identifying ~\$260m in funds in country (8-9 months of spend levels)

Audit and Investigations

Topics reviewed

- **Internal Audit – 2016, 2017 plan status**
- **Programme Audit – 2015-2017 plan status**
- **Investigations and counter-fraud, whistleblower reporting**
- **Development of A&I function**

Current status

- 2016: All audits complete and reports finalised. Certain high risk issues identified, management remediation in-progress. 2017: Audits in progress.
- 2018 plan approved
- Frequently a long process to finalise reports, many now being finalised
- Cases of misuse continue to emerge – resolutions agreed as appropriate. Gavi maintains a 99% recovery against agreed and due reimbursements
- Seek holistic solutions – challenging, work on-going with Country Programmes
- 2018 plan approved
- AFC requested A&I to continue to work with Gavi Partners to ensure risks managed are appropriately covered
- Investigatory activity reported as necessary
- Counter-fraud review, management action plan in development
- Whistleblower activity updates – low volume rec'd, followed-up appropriately
- Various initiatives, particular focus on increasing partner collaboration
- In addition, AFC requested multi-year plan to review risk coverage

Risk Management

Topics reviewed	Current status
<ul style="list-style-type: none">• Progress made on risk management• Alliance wide risk exposure• Macro trends facing Gavi's risk profile• Changes to the Alliance top risks in 2017• Gavi's willingness to accept the current top risk exposures	<ul style="list-style-type: none">• See "Risk and Assurance Report" (Board paper - document 6)

Technology Review

Topics reviewed	Current status
<ul style="list-style-type: none">• Technology	<ul style="list-style-type: none">• Updated of the current risk levels for process, systems, data, facilities and people as they pertained to technology.• Updated received on the business continuity and disaster recovery planning being undertaken by the Secretariat.• Improvements being made to the overall technological and IT control environment. Knowledge Management and Information Technology (KMIT) and Finance working on replacement plan for financial systems with a view to closer integration with its grant management systems• Presented with the technology risk dashboard and the three-year roadmap for the Knowledge and Technology outlining its next steps.• Continued focus on cyber-risks.

Other matters

Topics reviewed	Current status
<ul style="list-style-type: none">• Global Health Campus • Programme Capacity Assessments	<ul style="list-style-type: none">• Update received including financial update (6 year payback), risks and future collaboration with The Global Fund. • Update provided at November 2017 AFC meeting and is available on BoardEffect.

Thank you



Annex B: AFC Recommendations to the Gavi Alliance Board since the June 2017 Board Meeting

Recommendation implemented by the Board

Decision 1 – 2016 Annual Financial Report

The Gavi Alliance Audit and Finance Committee **recommended** (27 July) that the Gavi Alliance Board:

Approve the 2016 Gavi Alliance Annual Financial Report (AFR), contingent upon the inclusion of any amendments agreed during this (27 July) meeting

Recommendations for consideration at this Board meeting

- **Decision 1 – Financial Update**

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

Approve the Financial Forecast as set out in Figures 1 to 4 in Section B of Doc 05 for the period 2016-2025 within which the Secretariat is authorised to allot funding to programmes in 2018 for new programmes and for the continuation and adjustment of funding, in accordance with the Programme Funding Policy

- **Decision 2 – Risk and Assurance Report**

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

Approve the 2017 Risk and Assurance Report attached as Annex A to Doc 06

- **Decision 3 – Partners Engagement Framework**

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

Approve within the overall amount of US\$ 218.9 million for 2018 and US\$ 228.6 million for 2019 for the Partners' Engagement Framework, the following allocations:

- (i) US\$ 85 million in 2018 and US\$ 95 million in 2018 for Targeted Country Assistance;
- (ii) US\$ 29 million annually for 2018 and 2019 for Special Investments in Strategic Focus Areas
- (iii) US\$ 36.4 million annually for 2018 and 2019 for Foundational Support;

- (iv) US\$ 19 million in 2019 for UNICEF Supply Division for fees to implement vaccine and related supplies procurement;
 - (v) Up to US\$ 1.9 million in 2018 (in addition to the US\$ 2.4 million already approved for 2018 by the Board in June 2017) and US\$ 3.6 million in 2019 for UNICEF Supply Division for fees to implement cold chain equipment;
 - (vi) US\$ 26 million annually for 2018 and 2019 for investing in Partnerships in Innovation to be administered by the Secretariat;
 - (vii) US\$ 19.3 million for 2018 and US\$ 19.7 million for 2019 for impact assessments and evaluations to be administered by the Secretariat;
- (b) **Approve**, US\$ 115.3 million in 2018 and US\$ 107.8 million in 2019 for Secretariat Engagement;
- (c) **Approve**, US\$ 2.5 million in 2018 and US\$ 1 million in 2019 for capital expenditure budgets to implement the Secretariat's part of the Gavi Engagement Framework.

Ted Chaiban (UNICEF) did not vote on Decisions (a) (i), (ii), (iii), (iv) and (v) above.

Alexandru Cebotari (World Bank) did not vote on Decisions (a) (i), (ii) and (iii) above

Decisions taken by the AFC

- **Decision 1 – Audit & Investigations Report**

The Gavi Alliance Audit and Finance Committee **approved** the 2018 proposed plans of Internal Audit and Programme Audit, taking account of comments received from the Committee.