

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 June 2019.
- The AFC met three times (25 July, 10 October and 26 November). Subjects reviewed are noted below under Section B.
- AFC recommendations to the Board are attached as Annex A.

Section B: Subject matters reviewed

1) Audit & financial reporting

- External audits were completed on time, with no significant audit issues identified by Deloitte.
- The 2018 Annual Financial Report (AFR), was completed and published on-time, with no significant issues identified by Deloitte.
- Gavi's annual tax return (Form 990) was filed in November ahead of the deadline. The AFC reviewed the compensation section included in the return. Unlike previous years there was no significant changes to the 2018 990 compared with 2017 in terms of compensation for CEO and others because the exchange rate of Swiss francs and dollars remained largely unmoved over the year.
- Quarterly abridged consolidated and standalone financial statements were discussed with no issues raised.
- The transition was completed successfully between KPMG and Deloitte as Gavi's external auditor.
- Standalone Swiss audit and internal control requirements: The Committee was updated with additional reporting requirements for the year end 31 December 2019 and the actions required to comply with these requirements.

2) Financial Update

- The financial update covering 2019 actuals and the forecast for 2016-2025 was received.

- The Committee reviewed the latest forecast dated October 2019 for both the period 2015-2020 and 2021-2025 and discussed changes from the last detailed forecast prepared in December 2018 and the forecast of both qualifying resources and expenditures in support of the 2021-2025 Strategy and its investment Case Ask used for the July 2019 Board meeting. There have not been any significant changes since the July Forecast. The committee discussed the amounts relating to new investment decisions that would be coming to the Board in December for approval.
- The Committee discussed the forecast, taking note that potentially, in order to meet country demand, total HSS disbursements for this strategic period 2016-2020 will exceed US\$1.3 billion. In this case once a more definitive picture is available the Secretariat would request approval at the June 2020 meeting for the increase, subject to PPC (Programme and Policy Committee) and AFC recommendation. Additionally the Committee noted the proposed increase of US\$ 100 million in HSS expenditure for the period 2021-2020 versus the July 2019 board forecast. Approval of HSS disbursement envelope will be brought to the Board for approval in 2020.
- The Committee also discussed the re-allocation of up to US\$ 87 million in resources from the Provision of Strategic of Investments budget in 2021-2025 (US\$ 500 million) to be made available to support Malaria Vaccine Pilots and Long-term supply.
- The AFC concluded that all programme funding decisions to be taken at the December Board meeting can be approved by the Board as sufficient qualifying resources (per the programme funding policy) are available.
- The Committee recommended to the Board the approval of the updated financial forecast (version 17a) for the period 2016-2020 and 2021-2025.

3) Partners' Engagement Framework (PEF)/Secretariat Budget 2020

- The proposed budget for the PEF and Secretariat for 2020 was presented. Noting that 2020 is a bridge year, the overall budget remains in line with the 2019 budget, with the exception of (1) a US\$ 2 million one-off budget for supporting replenishment costs and (2) with non-material changes within some components.
- The Committee reviewed the proposed budget and discussed line items related to Partnerships in Innovation and Evaluations and Assessments.
- Agreed to recommend to the Board the approval of the PEF and Secretariat budget for 2020 and the capital expenditure budget.

4) Currency Hedging Update

- Received a further update from the Secretariat on Gavi's operational plans to mitigate Gavi's currency hedging exposure for the period 2021-2025.

- The Secretariat is actively engaging with financial institutions to ensure appropriate credit lines are available to execute currency forward contracts. We were advised that in the coming months it will be important to ensure as discussions are held with the donor community on their proposed 2021-2025 pledges, the subject of currency exposure and its mitigation is discussed proactively.

5) Audit & Investigations (A&I)

- The status of the internal and programme audit plans were discussed at each meeting; A&I is now operating at full approved headcount. Overall the Committee is satisfied on audit execution and the coverage of risk. For the internal audit coverage, 2019 completes the four year cycle of risk coverage which has been a key objective since the A&I function was reconstituted in 2015.
- Given the benefit of the last four years' experience, A&I have proposed a new approach to the conduct of their risk assessment and audit plan development and the Committee received an-depth briefing on this. The resulting 2020 audit plan was presented to the Committee for review and and was approved at the November meeting.
- The Committee received a requested report on the varying incidence of misuse across programmes subject to audit in recent years. With regard to the overall misuse identified, Gavi continues to maintain a very high rate of recovery against agreed and due reimbursements – this is currently about 95% which is slightly lower than that of recent years and is because two due payments were not made on time in September. These have been followed up on by management.
- The Committee has received reports on the conduct of the investigatory, counter-fraud and whistleblower activities.
- Under A&I's Board-approved Terms of Reference and consistent with best practice, the audit function shall be subject to independent assessment at least every five years and this is to be undertaken in November (four and a half years since the last assessment); the AFC will receive a briefing on the results of this directly from the assessors in 2020.

6) Risk Management

- See Risk and Assurance Report – Doc 11.

7) A&I and Finance Function Evaluation

- In *closed session* the Committee undertook its annual internal A&I evaluation, A&I MD performance assessment and Finance Function review in line with the AFC Charter requirements. No significant concerns were raised.

8) Other Matters

- Financial systems and processes transformation: Received regular updates on the implementation of the new Enterprise Resource Planning (ERP) system, SAP S4/Hana. Gavi went “go-live” with its new system on 1 October 2019. Implementation was successful. It was noted that with the new system Gavi will be able to move from a close process of 20 days to a close process of under five working days, and there will be improvements in relation to providing timely information within the organisation to significantly aid decision making. The Secretariat is continuing to work on implementing SAP Analytics with “go-live” currently anticipated in Q1 2020.
- AFC Performance Review (Closed Session): At the request of the Governance Committee a light touch Board Effectiveness Review had been commissioned to focus on Committee processes and adherence to the Committee Charter. The AFC survey highlighted (i) high praise for the AFC Chair; (ii) overall satisfaction with the materials provided for AFC meetings; (iii) a comment that there is a need for continued vigilance to ensure that topics that need a “deep dive” are given the necessary time; (iv) a comment that it would be useful to periodically remind AFC members of Gavi’s financial rules and procedures so that comments at meetings can remain on point; and (v) comments suggesting a need for more effective collaboration with the Programme and Policy Committee (PPC).
- Legal and Insurance update. The Committee did a detailed review of insurance coverage and changes made over the last year to add cyber coverage. There are no legal developments to bring to the Board’s attention.

Annexes

Annex A: AFC recommendations to Gavi Alliance Board

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Decision One (July 2019)

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

Approve the 2018 Gavi Alliance Annual Financial Report (AFR), contingent upon the inclusion of any amendments agreed during this meeting.

Recommendations for consideration at this Board meeting

Decision Two (October 2019)

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

- a) **Note** that the Audit and Finance Committee has reviewed the financial implications of the recommendations to be made to the Programme and Policy Committee as set out in Figures 1 to 5 of Doc 02a (Financial Update) and concluded that these recommendations could be approved by the Board in accordance with the Programme Funding Policy.
- b) **Approve** the Financial Forecast for the period 2016-2020 as set out in Section C of Doc 02a.
- c) **Approve** the Financial Forecast for Gavi's next replenishment period, 2021-2025, as set out in Section D of Doc 02a, which is dependent on resources becoming available for that period.
- d) **Authorise** the Gavi Secretariat to allot funding in 2020 for new programmes and for the continuation and adjustment of funding to existing programmes, in accordance with the Programme Funding Policy. In making such allotment decisions, the Secretariat will take into consideration the outcome of Gavi's replenishment in June 2020.

Decision Three (October 2019)

Taking note that the budget for Vaccine and CCEOP Procurement fees and the envelope for Post-Transition Support for 2018-2022 have already been approved by the Board (US\$ 23.3 million and US\$ 21.8 million respectively for 2020), the Gavi Alliance Audit and Finance Committee **recommended** to the Gavi Alliance Board that it:

- a) **Approve** within the overall amount of US\$ 253.4 million for 2020 for the Partners' Engagement Framework, the following allocations:
 - (i) US\$ 165.4 million for PEF Partners to support Targeted Country Assistance, Special Investments in Strategic Focus Areas and Foundational Support;

- (ii) US\$ 0.4 million in fees for UNICEF Supply Division to procure yellow fever diagnostic surveillance equipment;
 - (iii) US\$ 24.0 million for investing in Partnerships in Innovation to be administered by the Secretariat;
 - (iv) US\$ 18.5 million for Impact Assessments and Evaluations to be administered by the Secretariat.
- b) **Approve** US\$ 110.3 million for Secretariat Engagement;
- c) **Approve** US\$ 0.5 million for capital expenditure budgets to implement the Secretariat's part of the Gavi Engagement Framework

Decision Four (October 2019)

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

Approve the Draft 2019 Risk & Assurance Report set out as Annex A to Doc 03.

Decisions taken by the AFC in the period under review

Decision Two (November 2019)

The Gavi Alliance Audit and Finance Committee:

Approved the proposed 2020 audit plan as set out in Doc 3a and 3b, Annex A.