

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 23-24 June 2021 Gavi Alliance Board meeting. This report includes a consolidated overview incorporating the COVAX AMC financial forecast consistent with the current Board-approved mandate of Gavi administering the COVAX Facility until the end of 2022.
- In the second half of 2021, the AFC met twice (19 October and 29 November) to consider Gavi recurring and Gavi 5.0 matters in accordance with the standard workplan. Subjects reviewed are noted under Section B and matters to be reviewed in upcoming meetings are included under Section C.
- During the same timeframe, the AFC met four times (13 July, 13 September, 13 October and 16 November) to receive regular updates from the Office of the COVAX Facility on the fast evolving supply and demand landscape, financial forecasts, new funding mechanisms (dose sharing, costs sharing, etc.), accounting and reporting matters, and finally financial and operational risks associated with the Facility. The Committee will also meet on 9 December to further review the COVAX Facility update and related risks.
- AFC recommendations to the Board are attached as Annex A.

Section B: Subject matters reviewed

1) Financial Update

The current situation of increased attention on COVID-19 vaccines makes the Gavi 5.0 zero-dose children strategy (already reduced by 25% by 2025) even more daunting. However, there are no material changes to the approved expenditures nor phasing of key activities in the Gavi 5.0 financial forecast. The Secretariat will continue to engage with countries and partners to assess assumptions and, if circumstances change, will reflect them in the next reforecast cycle.

- The latest Gavi 5.0 financial forecast includes an estimate for Further Direct Contribution for amounts not pledged (US\$ 535 million) and includes a new investment funding request of US\$ 425 million to be submitted for decision

in the year end Gavi Board meeting. The AFC concluded Gavi has sufficient qualifying resources available for this investment request.

- In December 2020 the Gavi Alliance Board approved a Secretariat budget (excluding capital expenditure) of US\$ 128.5 million for 2021 and US\$ 132.7 million for 2022 (US\$ 261.2 million in total). The AFC was asked to recommend a request to consider the 2021 and 2022 budgets jointly with a total budget of US\$ 246.2 million to provide the flexibilities needed in 2022 to allocate expenditure to support the programmatic priorities. The AFC supports this recommendation.

2) Currency Hedging Update

The AFC reviewed the hedging position and as of 31 August 2021, the total amount hedged for the period covering 2021 to 2025 represents US\$ 2.8 billion. It remains to hedge close to US\$ 2.2 billion to cover 100% of Gavi 5.0 global FX exposure. Finalising pledges is key to being able to fully hedge FX exposure.

3) COVAX Facility

The COVAX forecast has been reviewed regularly as it has changed to reflect changes to phasing, additional funding, commitments to manufacturers, and revised ancillary cost estimates. The latest forecast indicates that the majority of the resources are committed and additional funding will be required to support dose donation ancillary costs. The phasing of deliveries and cash expenditures are still challenging due to delivery bans, bilateral deals, prioritisation by manufacturers, and other factors.

- The AFC reviewed and provided guidance on:
 - COVAX Facility updates
 - how COVAX should work with Multilateral Development Banks to design financing participation in such a way as to minimise Gavi's risk position
 - implementation of cost sharing mechanisms such as cost sharing assessments and a financial backstop
 - dose sharing including a new accounting methodology and implications on financial forecasting
 - COVAX strategy design for SFP 2.0
 - COVID-19 vaccine strategy for 2022 and beyond
 - Facility operationalisation
 - COVAX delivery plan process and mechanisms, including insurance for vaccines once in country
 - financial updates and the H1 2021 Financial Statements including an external auditor review

- liquidity of the Facility considering expected inflows and outflows
- a risk framework associated with new financial instruments and mechanisms, while working with Citi (the Facility's appointed financial advisor).

4) Audit & Investigations

Audit and Investigations provided routine updates on:

- the execution of audits against the 2021 plan previously approved by the AFC
- counter-fraud activities and whistleblower reporting - some of these reports were provided to the AFC in closed session where the subject matter was sensitive. There have been some COVAX-related whistleblower reports (mainly relating to programme compliance with guidelines on delivery priorities) which are subject to further evaluation.
- work undertaken on the COVAX Facility to provide assurance on its operations

A briefing was provided to the AFC on the conduct of the cyber-risk audit including certain key findings. This was a routine, cyclical review but particularly relevant because of the high profile of COVAX and the likelihood that Gavi may attract attention from third party hackers. The findings are also included in the Audit and Investigations paper to the Board.

Audit and Investigations presented for discussion the approach to their 2022 plan (at 29 November 2021 AFC meeting). This provides coverage of both core Gavi activities and COVAX (including COVID-19 vaccine distribution). Provision has been made for additional budget in 2022 to support the expanded work, most particularly in the programme audit work including coverage of never-Gavi AMC countries. The plan will be finalised by the AFC by year end.

Finally, the AFC received briefings on advisory work with Gavi management covering:

- support in evaluating proposals for vaccine insurance (now taken up)
- the development of a counter-fraud framework

5) Risk Management

The AFC reviewed the draft Risk & Assurance Report 2021 and recommended it to the Gavi Alliance Board for approval.

See Risk & Assurance Report 2021 – Doc 09.

6) Legal update

Jelena Madir, General Counsel, provided a legal and insurance update at the 19 October 2021 AFC meeting. There are currently no contentious cases, and

the one contentious employee case that was outstanding at the beginning of the year was decided by the Appeals Tribunal in March 2021. Recent employment disputes and organisation review have prompted the revision of the Disciplinary Procedures, the Grievance Procedures, the Respectful Workplace Policy and performance management guidelines.

In view of the complex structure and sophisticated counterparties, COVAX represents the biggest legal risk for Gavi as a corporate entity and it will therefore be important to design SFP 2.0 in a way that requires an SFP country to provide a guarantee from a specific financial institution and not allowing bespoke negotiations of the guarantees by SFPs, in order to ensure that Gavi as an entity is not exposed to sovereign default risk.

Section C: Subjects to be reviewed in upcoming AFC meetings (29 November 2021 and 9 December 2021)

- Deloitte 2021 audit strategy and planning
- Finance update
- COVAX Facility Update
- COVAX Delivery Risk and Risk Management Updates
- Gavi and IFFIm Interim Financial Statements: Q3 2021
- Audit and Investigations Report

Annexes

Annex A: AFC recommendations to Gavi Alliance Board

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Decision 1: Financial Update (19 October 2021)

The Gavi Alliance Audit and Finance Committee **recommended** 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 these recommendations could be approved by the Gavi Alliance Board in accordance with the Programme Funding Policy.
- b) **Approve** the updated Financial Forecast for the Gavi 5.0 (2021-2025) period, as set out in Section B paragraphs 2.1–2.20 of Doc 03a(i).
- c) **Approve** the updated Financial Forecast for COVAX AMC, as set out in Section B paragraphs 3.1–3.13 of Doc3a(i).
- d) **Agree** that the budgetary amounts approved by the Gavi Alliance Board in Decision 9 of the Board Meeting of 16-17 December 2020 for Secretariat Resources for 2021 and separately for 2022, be treated as an overall Budget amount for each component which may be utilised over both years subject to total Secretariat expenditure of US\$ 246.2 million across 2021 and 2022.
- e) **Approve** the Office of the COVAX Facility operating budget for 2022 of US\$ 68 million.
- f) **Authorise** the Gavi Secretariat to allot funding in 2022 for new programmes and for the continuation and adjustment of funding to existing programmes, in accordance with the Programme Funding Policy.
- g) **Approve** the nomenclature change in the Gavi Alliance Programme Funding Policy from 'PEF Management Team' to 'Partnerships Team'.

Decision 2: Corporate Treasury Policy update (19 October 2021)

The Gavi Alliance Audit and Finance Committee **reviewed** the policies set out in this paper and **recommended** to the Gavi Alliance Board that it:

- a) **Approve** the Treasury Governance Policy as set out in Annex C of Doc 03b
- b) **Approve** the Treasury Risk Management Policy as set in Annex D of Doc 03b, as amended.

Decision 3: Risk Management update (incl Risk and Assurance report) (19 October 2021)

The Gavi Alliance Audit and Finance Committee:

Recommended to the Gavi Alliance Board that it **approve** the Draft Risk & Assurance Report 2021 attached as Annex A to Doc 04, as amended by revisions as requested by the AFC.