



GAVI Alliance Audit and Finance Committee Meeting

22 April 2013

Washington/Geneva

FINAL MINUTES

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 8.30 Washington time on 22 April 2012. Wayne Berson, Audit and Finance Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 1a in the Committee pack). The Committee reviewed the minutes of its meeting on 5 February 2012 (Doc 1b). In addition, the Committee reviewed its action sheet (Doc 1c) and its forward workplan (Doc 1d).

2. 2012 audit strategy and calendar

- 2.1 Pierre-Henri Pingeon and Karina Vartanova from GAVI's external auditor KPMG outlined their plan for the audit of the 2012 Annual Financial Report (Doc 2a). They highlighted the purposes and objectives of the audit, key dates and deliverables, key audit areas, and risks. They also reviewed independence and materiality thresholds, and confirmed KPMG will be working closely with the internal audit and TAP teams in addition to the finance team.
- 2.2 Following that, Louis Mkanganwi reviewed the 2012 audit calendar (Doc 2b). He reported that both the unwinding of the GAVI Fund Affiliate (GFA) and the discussions between IFFIm and the World Bank regarding IFFIm's swaps exposure would be occurring concurrently with the 2012 audit. He mentioned that both these matters impact the 2012 financials, but he currently did not expect either matter to hinder or delay the audit.

Discussion

- In response to questions from the Chair, Louis Mkanganwi confirmed he was comfortable with KPMG's audit strategy and KPMG confirmed that there were no foreseeable issues.

- In response to questions from the Derek Strocher, Louis Mkanganwi confirmed that the IFFIm Board would be reviewing its standalone financial statements in June 2013. KPMG confirmed that while the dissolution of the GAVI Fund Affiliate would constitute a subsequent event, it would not meaningfully affect the 2012 financial statements. KPMG also confirmed that changes to the AMC valuation methodology would not require restatement of prior year financial statements.
- Derek Strocher reported that World Bank colleagues involved in the GAVI and IFFIm audits only consult him when significant issues arise. However, consultation is normally not required.

3. Financial forecast update

- 3.1 Tony Dutson, Senior Director of Finance and Chief Accounting Officer, informed the Committee of the updated financial forecast for 2011-2020, including funds disbursed from the Programme Funding Envelope approved by the Board in December 2012, and total programme disbursements made during 2012 and 2013 (Doc 5).

Discussion

- Tony Dutson reported that since the distribution of materials to the Committee on 15 April, the Secretariat had decided to request that the Executive Committee approve approximately US\$ 33.8 million to fund a measles SIA programme in Pakistan. He reviewed with the Committee the potential financial implications and reported the Secretariat's belief that there are sufficient Qualifying Resources (as that term is defined in the Programme Funding Policy) to make the approval in accordance with the Policy. The Committee noted this conclusion and the Chair agreed to make this point to the Executive Committee when it convened to consider the programme.
- At the Chair's request, Tony Dutson took the Committee through some detail of expenditures and resources, including cash flows and funds available for future programmes. It was noted that these numbers incorporated the current vaccine portfolio only and that should additional vaccines be integrated into the new vaccine investment strategy, these numbers could be affected.
- The Chair thanked the Secretariat for the paper, which he commented was well done.

4. Business plan budget updates

- 4.1 Tony Dutson reported business plan expenditure for 2012 (Doc 4). In doing so, he noted that while there were areas of under-spend during 2012 where some activities budgeted for 2012 would now be completed in 2013, the

Secretariat was not at this time seeking a carry-forward budget to complete these activities, and will instead strive to absorb the cost of the activities carried forward from 2012 within the 2013 budget, to the extent possible.

Discussion

- The Committee also noted that only US\$ 130,000 of the projected \$1 million increase in UNICEF procurement fees that GAVI had forecasted materialised in 2012.
- It was confirmed that the Secretariat, and particularly its operations team, was continuing to search for savings in the travel budget.

Decision One

The GAVI Alliance Audit and Finance Committee:

- **Noted** that while some 2012 activities (representing approximately US\$ 4.9 million within the 2012 approved budget) will now be completed in 2013, no budget carry-forward request is being sought at this time as GAVI will seek to absorb these activities within the existing 2013 Board approved business plan budget, with the intention to revert to the AFC later in 2013 should that not be feasible.

5. Amendments to the Programme Funding Policy

- 5.1 Tony Dutson outlined the proposed changes to the Programme Funding Policy (Doc 5) that would reflect the removal of the GFA from the IFFIm structure. He noted that cash remaining at the GFA, approximately US\$ 109 million, would be transferred to GAVI during 2013.

Discussion

- It was noted that the transfer of cash to GAVI would occur in two tranches with the bulk being transferred in the first tranche. The transfers were to be made in two tranches because GFA's cash on hand was made up of two distinct categories: (1) cash transferred from IFFIm to GFA for programmatic purposes, and (2) cash related to accrued interest on GFA's investments. Different mechanisms were required to transfer each category of cash. Louis Mkanganwi confirmed that the cash transfers would occur as soon as practical.

Decision Two

The GAVI Alliance Audit and Finance Committee:

- **Recommended** to the Board that it approve the revised GAVI Programme Funding Policy as attached to Doc 5, Appendix A.

6. Accounting policy updates

6.1 Louis Mkanganwi reported several updates to GAVI's accounting policies (Doc 6). In summary, he reviewed updates to:

- (a) The Programme Grants Payable accounting policy due to the various amendments to the Programme Funding Policy, including those discussed in the previous section
- (b) Various AMC accounting policies due to changes to the AMC valuation methodology
- (c) Several updates to the accounting policies to reflect to the removal of the GFA from the IFFIm structure.

Discussion

- KPMG noted it was satisfied with each of the policy changes.
- The Committee noted the changes to each of the policies and the Secretariat's implementation of them.

7. Report of the internal auditor

7.1 Simon Lamb, Managing Director of Internal Audit delivered his standing report to the Committee on internal audit activities (Doc 6). First, he reported that the Sierra Leone investigation yielded misuse of just over a half million dollars. While the government has preliminarily indicated it will reimburse GAVI, no future cash disbursements to the country will occur until a final commitment to reimburse has taken place and any identified control issues have been substantially remediated.

7.2 He also tabled a revised internal audit terms of reference and a proposed internal audit reporting lines document for recommendation to the Board. He recalled that some members of the Committee had requested more transparency into the process for appointing and terminating the internal auditor. The tabled documents confirmed that the power to appoint or terminate rested solely with the Board, but noted that the Board Chair, Chair of the Audit and Finance Committee, and the CEO would likely be asked to

advise the Board on such actions. This should ensure the independence of the internal audit function from the Secretariat. It was reported that the Governance Committee will also review the proposed reporting lines.

- 7.3 He noted there was little in the way of revision to the TORs and confirmed they aligned with good practices propagated by the Institute of Internal Auditors and other competent bodies. In practice, he felt that with the oversight of Internal Audit by the Audit and Finance Committee, that the Board should be able to satisfy itself on the proper operation of the function through ensuring that: an appropriate person occupied the internal audit post; that there was a suitable audit plan based on appropriate priorities; that the function was properly resourced to enable execution of the plan; and that the Board would be consulted if there were significant changes to the TOR. On a day to day basis, he expected that he would interact with the Audit and Finance Committee and the CEO.
- 7.4 Simon Lamb also reported progress on reviewing the Whistleblower Policy and the possibility of extending it to include parties beyond Board members and staff. His consultations indicated there is appetite for this extension among stakeholders, and that he would report back to the Committee in due course on any recommendations.
- 7.5 Finally, he noted planned TAP coverage for 2013.

Discussion

- Two members asked whether it would be appropriate for the internal auditor to have a standing report at both principal Board meetings, and not just at one session. Discussion followed and the Chair agreed that Committee members should debrief their constituencies and Board members as required after standing Committee reports to allow the Board to prioritise its time and to avoid duplication of reporting. He noted that Simon Lamb had unfettered access to report to the Board as circumstances warranted.
- The Committee requested an update on the Zambia investigation. In 2012, the Board was informed that \$233,000 was misused and that the government intended to reimburse the Alliance. GAVI had not yet received the payment, but it was thought that the reason might be that it needed to be formally budgeted and approved.
- Simon Lamb noted that investigation reports are publically available on the GAVI website.
- It was asked whether TAP responsibilities ought to be incorporated into the internal audit terms of reference, and if there were negative implications on internal audit's independence. Simon Lamb reported that he did not wish to blur the two functions by mixing them in the internal audit terms of reference and that he was comfortable his independence from the Secretariat would not be meaningfully affected.

Decision Three

The GAVI Alliance Audit and Finance Committee:

- **Recommended** to the Board that it approve the revised Internal Audit Terms of Reference as attached to Doc 7, Annex 2 and the reporting lines as detailed in Doc 7, Annex 1.

8. Corporate matters

Insurance coverage

- 8.1 Anthony Brown, Senior Legal Counsel reviewed GAVI's insurance coverage, (Doc 8) noting that the Secretariat reviews it annually to ensure it is consistent with the needs of the Alliance and the Board, that the costs remain within budget. He noted that for the third year in a row, GAVI's premiums had not increased and the Secretariat had been able to secure slight improvements in coverage.

Discussion

- It was noted that GAVI's policy provided secondary coverage for GFA and the GAVI Campaign (which each has its own primary coverage). After the GFA is fully wound up, the former GFA directors will be endorsed as primaries on GAVI's policy at no additional cost. IFFIm also purchases primary coverage but because the nature of its risk profile is different from GAVI, it is not included at all on GAVI's policy.

IFFIm update

- 8.2 Paolo Sison, Director of Innovative Finance, reported on the IFFIm Board's discussions with the World Bank concerning IFFIm's swap exposure. He reported that the World Bank had declared its intention not to call collateral but instead work with the IFFIm Board to craft alternative arrangements. The IFFIm Board and the World Bank had agreed in principle to establish an asset reserve, or buffer, to further limit IFFIm's gearing, which would result in deferral of approximately \$300 million of proceeds to use toward programmes that were previously anticipated to be received by GAVI by 2015, until years after 2015. Louis Mkanganwi noted that due to the magnitude of the exposure, should the Bank have decided to call collateral, it would have had a significant negative impact of IFFIm's liquidity.
- 8.3 Louis Mkanganwi reported that the GAVI Fund Affiliate Board had taken the major steps necessary to wind up the charity now that it had been removed from the IFFIm structure. It was undergoing a "Members Voluntary Liquidation" under English law and GAVI would remain in close contact with Her Majesty's Revenue and Customs and the Charity Commission throughout

the process. He emphasised that GFA would remain solvent throughout its winding up.

Discussion

- The Secretariat confirmed that the financial forecast (Doc 3) was entirely consistent with the deferral of IFFIm proceeds mentioned above.
- GFA and KPMG were in final negotiations for KPMG to serve as GFA's liquidator. Louis Mkanganwi reported that in the initial stages of the process, KPMG would serve as a consultant, and move into the role of liquidator at the appropriate time later in the process.

Kevin A. Klock, Head of Governance and Assistant Secretary, reviewed and agreed the decision language with the Committee. After determining there was no further business, the meeting was brought to a close.

Mr Kevin A. Klock
Assistant Secretary

Attachment A

Participants

Committee Members

- Wayne Berson, Chair
- Dwight Bush
- Dirk Gehl
- Micheline Gilbert
- Tom Hunstad
- Ludovica Soderini
- Derek Strocher

Other Board members present

- Seth Berkley (non-voting)

Regrets

- Yifei Li

Secretariat

- Anthony Brown
- Tony Dutson
- Barry Greene
- Kevin A. Klock
- Minzi Lam
- Louis Mkanganwi
- Paolo Sison

Internal Audit

- Simon Lamb

Guests

- Kelly Jarrett, Bill & Melinda Gates Foundation
- Pierre-Henri Pingeon, KPMG
- Karina Vartanova, KPMG