

Gavi Alliance Audit and Finance Committee Meeting

4 May 2016

Washington, DC

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee members present, the meeting commenced at 10.03 Washington, DC time on 4 May 2016. David Sidwell, Audit and Finance Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack). The Chair stated that in addition to the information contained in the document he wished to further declare that he is a member of the Board of Chubb, one of Gavi's insurance providers.
- 1.3 The Committee noted the minutes of its meetings on 26 February 2016 (Doc 01b), which had been approved by no-objection on 19 April 2016.
- 1.4 The Committee also noted its forward workplan (Doc 01c), which would be discussed later during the meeting.

2. Financial update

- 2.1 Barry Greene, Managing Director, Finance and Operations, outlined the financial implications of five decisions which would be submitted to the Board in June 2016, four of which would be subject to review of the Programme and Policy Committee when they met the following week (Doc 02). He highlighted that the role of the AFC is to assure the Board that these decisions can be taken in accordance with the Gavi Programme Funding Policy which requires that qualifying resources are available through 2020 to fund these decisions.
- 2.2 Mr Greene explained to AFC members that going forward it is foreseen that the financial forecast will be updated less frequently than has been the case in the past, with the aim to find the right balance between ensuring that reliable information is available to the AFC and the Board for decision-making while making the best use of Board time and Secretariat resources. He added that if the Secretariat became aware of significant developments affecting the forecast these would be estimated as to impact. He clarified that information would continue to be provided regularly to UNICEF for its planning purposes.

2.3 Mr Greene referred briefly to the information in the paper in relation to Gavi expenditure and resources for 2015 and the preliminary figures for the first quarter of 2016. He also referred to the financial summary provided in relation to the 2011-2015 replenishment period, and information on utilisation of the programme funding envelopes by the Secretariat within the limits set by the Board.

Discussion

- AFC members noted that their responsibility is to confirm that Gavi has the overall financial capacity to fund the recommendations which are being presented and that they are not being asked to opine on the individual items in terms of “value for money” as it is the role of the PPC to consider and potentially prioritise those items which will be submitted to them for consideration in terms of their added value in relation to Gavi’s programmatic and policy priorities.
- In response to a question from an AFC member the Secretariat clarified that, consistent with the December 2014 Board decision, a total of US\$ 100 million has been included in the forecast for Ebola. As indicated in Table 1 there is a potential future investment opportunity of US\$ 55 million to US\$ 255 million for which additional resources would need to be found, should the need arise.
- AFC members noted in relation to the funding requested for Malaria vaccine pilots, that a similar request has been submitted by WHO to UNITAID and that it is foreseen that should either organisation agree to provide the funding it would be contingent on the other organisation doing so also.
- Reflecting on this, Dr Ngozi Okonjo-Iweala, Gavi Board Chair, indicated that she would find it useful when looking at potential funding decisions to have information on what investments are being made by other Alliance Partners for the same programmes
- AFC members noted that the investment income for 2015 showed a negative return of US\$ 11 million was a reflection of a difficult year in the markets in 2015 in general, but that some recovery is already seen in 2016 with a figure of US\$ 9 million in investment earnings so far. The investment portfolio is reviewed regularly by the Investment Committee.
- AFC members also noted that the fall in AMC proceeds in 2015 simply reflects a movement from the 2011-2015 period into the 2016-2020 period. The funding is pledged over time and it is therefore expected that there will ultimately not be an overall change in expected proceeds.
- The Secretariat clarified that in relation to the projected underspend of 35% in 2015 on cash-based programmes, this related predominantly to an underspend in the funds which had been allocated for Ebola and in other programmes where some of the expenditure projected for 2015 is now expected to be in 2016.

Decision One

The Gavi Audit and Finance Committee:

- **Noted** that it reviewed the financial implications of the potential funding decisions that may be considered by the Board as summarised in Figure 1 in Doc 02, and **concluded** that these decisions could be approved by the Board in accordance with the Programme Funding Policy.

3. Operating expense ratio

- 3.1 Tony Dutson, Senior Director, Finance and CAO, provided background information to Gavi's financial reporting under United States Generally Accepted Accounting Principles (US GAAP) standards (Doc 03), which requires organisations to report expenses by functional classification. He indicated that a number of Gavi donors have been working together on developing a pro-forma for multilateral agencies to report their administration costs in a consistent manner and that in this context Gavi's expense classifications, as presented to the Board in December 2015, are largely aligned with these donor recommendations.
- 3.2 He provided information on the way in which Gavi has been reporting its overhead ratio for a number of years, that in 2014 Gavi added a cost per programme metric, informed AFC members that an operating expense ratio is now being developed, and requested feedback from the Committee on the proposed approach.

Discussion

- Whilst expressing appreciation for the new approach, one AFC member expressed his view that the paper does not really capture the discussion of the Board at its meeting in December 2015. In his view there had been an additional request, in the context of also holding the Alliance Partners accountable, to have information in relation to their overhead costs, which when looked at may also contribute to operating expenses if they are calculated in a transparent manner. He therefore suggested that it might be useful to create a small group to do a deeper dive into the Partners' Engagement Framework (PEF) operating expenses.
- AFC members noted that the proposed approach responded to a request to have a comparable basis to organisations such as the Global Fund, and agreed that a second piece of work is necessary to ascertain the efficiency of engagement with Alliance Partners in terms of the overhead costs and operating expenses of Gavi incurred by both the organisation and its partners. One AFC member suggested that it would be ideal if this could be evaluated by strategic goal.
- The Chair highlighted that this could be a lot of work and there will need to be clarity on what analyses are being asked for to ensure the Secretariat delivers what is expected. He therefore suggested, and Committee members agreed, that at its next meeting the AFC would consider what functional analyses could be

useful before moving forward. He noted that representatives from the European Commission, Germany, the United Kingdom and the BMGF expressed interest in working on this with the Secretariat. He also highlighted the importance of the willingness of Alliance Partners to participate in such an exercise once it has been decided what data will be needed as they will have to provide considerable additional data to complete such analysis.

4. Committee Charter

- 4.1 The Chair introduced this item, reminding Committee members that the objective is to step back and make sure the charter reflects what the Committee actually does and that it reflects best practice. He indicated that once the roles and responsibilities of the AFC are clarified it will then be possible to ensure that AFC members have the relevant skills to fulfil those responsibilities.

- 4.2 Philip Armstrong, Director, Governance, highlighted that the document before the Committee (Doc 04) is still a draft, on which Committee members are invited to provide input. Thus far the charter revision has been an extensive internal exercise with the assistance of an international consultant on accounting and auditing standards. He reminded AFC members that in looking at this charter it aligns with some of the work being initiated through the Board and Committee self-evaluation. In addition, he stated that he expects other Committees to review their charters in a similar way to what is now being undertaken by the AFC.

Discussion

- AFC members expressed appreciation for the work done on revising the charter to date. It was suggested that it would be useful to strengthen the language on the purpose of the Committee as an instrument of the Board.

- AFC members noted that the language had been streamlined in relation to the responsibilities of the AFC which are to oversee, review and provide advice.

- Simon Lamb, Managing Director, Audit and Investigations, reminded AFC members that he reports directly to the Board and clarity on his role vis a vis the AFC had been requested in the external quality assessment carried out in 2015. In this context he pointed out that the proposed revision to the AFC charter stipulates that the AFC reviews and recommends for Board approval the annual audit and investigations plan, but that in the Audit and Investigations Terms of Reference, approved by the Board in December 2015, it is stated that these are approved by the AFC. It was agreed therefore that the draft AFC charter should be amended accordingly. The Board Chair added that the responsibility for assessment of the Audit and Investigations function needs to be consistent with the reporting lines and accordingly needed to also include the Board Chair.

- It was suggested that as the functions of the AFC are quite extensive that further thought should be given to whether a composition of a minimum of three persons was sufficient.
- It was also suggested that it would be useful to clarify the exact role of non-voting expert advisers who might be appointed to the Committee, in particular should a situation arise whereby their advice might not be taken on board.
- A suggestion was also made on the responsibilities of the AFC in relation to enterprise risk management systems and that these should perhaps be more explicit about technology, cybersecurity and business continuity and the need for the AFC to periodically review these areas.
- AFC members agreed that an updated draft of the revised charter, based on the discussions at this meeting, would be circulated to the Committee for further input. If the comments submitted are not substantive, and therefore do not require a further discussion by the AFC, the proposed revisions will be submitted to the Governance Committee who will be asked to consider recommending it to the Board for approval. It was noted that in the context of the Governance Committee workload in relation to the Board and Committee self-evaluation it may not be possible to do this in June.
- It was also suggested that it could be useful for the consultants working on the Board and Committee self-evaluation to provide some commentary on the proposed revisions to the Charter.

5. AFC revised Workplan

- 5.1 Tony Dutson, Senior Director, Finance and CAO, presented information on the proposed revised AFC workplan (Doc 05) which had been drafted to align with the activities of the proposed new AFC charter. The proposal is to link each activity to individual meetings, papers and decision points with a document at the end of the year which will indicate if the AFC has fulfilled its responsibilities.

Discussion

- AFC members appreciated the proposed new approach.
- In relation to the responsibilities under E (Ensure effective integrity, ethics, fraud and whistleblowing activities), it was suggested that the items listed appear to be reactionary to issues and it was agreed that it would be useful to have a discussion once a year on how the pieces fit together, what the issues are and what management is doing to address them.

6. Risk management

6.1 Alex de Jonquieres, Chief of Staff, provided an update to AFC members on progress in relation to risk management and feedback from the related discussions at the recent Board retreat (Doc 06).

Discussion

- The Chair indicated that it is important to recognise the progress that has been made on risk management. He stated that what the Board is looking for is the design of a top down report which shows the issues and trends in an easy and coherent way. He indicated that some of the next steps in the work will be the categorisation, quantification and prioritisation of the top risks.
- AFC members noted that a full risk report will be presented to the Board at its meeting in December 2016.
- AFC members discussed some possible topics for the June Board meeting. It was suggested that it would be useful to see if the Alliance Partners could present information on how their organisations talk about risk management, specifically managing Alliance risk at the country level, but it was recognised that preparing this in such a short timeframe might not be feasible. Another suggestion was that it might be possible to talk through the risk register.
- One AFC member suggested that there wasn't necessarily agreement that the 10 risks presented at the Board retreat are the top 10 risks and wondered about the process to further refine the top risks, suggesting that it would be useful to have a process with the aim to have agreement on the top risks by the end of the year, which Committees are responsible for overseeing those risks and ensuring that they have the resources to do so. The Secretariat clarified that all of this will be covered in the Risk and Assurance Report which is being prepared for the end of the year.
- The CEO suggested that at the June Board meeting there could perhaps be a preliminary discussion on how to cluster risks, on how reports might be structured and how risks could be quantified. It was also suggested that it could be useful to present information on what follow up is planned, so as to reassure the Board that the work is moving forward and also to confirm that the planned follow up is in line with their expectations to be sure that everything remains on track for the December Board meeting.
- The Chair suggested that it is important to think about how information is presented to the Board in a meaningful way that shows relative risk, ownership etc. and Alex de Jonquieres suggested that this could rather be the focus of risk for now to ensure the Board papers being presented in June more accurately reflect any key risks associated with the different papers to be tabled. The Chair also indicated that it might not be appropriate to have a specific item on risk on the June 2016 Board meeting agenda, highlighting the importance of ensuring that resources are suitably focused on risk management implementation.

- In response to a query, the Chair clarified that it is not the role of the AFC to ensure that other Board Committees have necessary risk expertise.

7. Report from Audit and Investigations

- 7.1 Simon Lamb, Managing Director, Audit and Investigations, provided a report on the status of the operation of the Internal Audit and Programme Audit functions (Doc 07). He addressed in particular the status on open internal audit issues (Annex C).
- 7.2 Mr Lamb and Edmund Grove, Director, Programme Audit, provided an update to the Committee on the status of programme audits in four countries where high risk concerns have been identified.

Discussion

- In response to a query from the Chair, Mr Lamb indicated that the Secretariat staff is generally supportive of the internal audit process but that it is of course a learning experience for all concerned.
- Committee members indicated that they found it useful to have information not only on the medium and high risk issues but also on the low risk issues, in particular as this potentially enables the identification of trends and concentration of issues within areas of the Secretariat's activities.
- Committee members noted that it is expected that most of the items which remain open following the External Quality Assessment (EQA) of the Internal Audit function should be dealt with by the end of the year. Mr Lamb indicated that an internal evaluation of the remediation put in place is being carried out that he is happy with the results so far.
- AFC members noted that in-country partners are engaged in all programme audits from the scoping phase through to the process of finalisation.
- It was suggested that there is a strong case for having independent arbitrators in countries, in particular there is a situation whereby the findings are being presented to the same agency where problems have been identified. It was suggested that the Ministries of Finance could be such an arbitrator, also taking into consideration that they are co-signatories of the country framework agreements.
- It was proposed that a topic of discussion for a Board meeting might be in relation to the way in which the Secretariat country teams work with in-country Partners to mitigate the risks identified in programme audits, and also in relation to ensuring that the communications around programme audits are aligned between all of the Alliance Partners.

8. Accounting policies update

- 8.1 Louis Mkanganwi, Director, Financial Reporting presented this item (Doc 08) and informed the Committee that no substantive changes had been made to the documentation since April 2015

Discussion

- Committee members confirmed that they are comfortable with the process going forward.
- In relation to the timing of the accounting policy updates, it was proposed to come to the AFC early each year with an update that covers the year ahead in case any changes might be significant in preparing for the annual audit and allowing the AFC sufficient time to consider any implications. This would require due consideration to update and/or change policies before they come into effect. The Secretariat agreed to think through this further as it should come through in some of the papers which are submitted to the Committee during the course of the year but this may not be as clear as it should be.

9. Corporate matters

- 9.1 Philip Armstrong, Director, Governance, provided a short update on the Board and Committee self-evaluation which will be coordinated by consultants from Egon Zehnder International. It is an exercise to assess the effectiveness of the Board and its Committees and, among other things, will look at the intersections between and within the Committees and some of the skills and competencies that are appropriate to those.
- 9.2 Jason Marett, Associate Legal Counsel, provided information on the level, scope and costs of the insurance policies of Gavi and related entities for the 2015-2016 period.

Discussion

- The AFC Chair commented that the broker fees in the arrangements presented seemed quite high. The Committee suggested that when the broker arrangement comes up for renewal it might be appropriate to negotiate a reduction in the broker fees or look at other brokers.
- It was confirmed that the insurance coverage was benchmarked with comparable organisations in the restructuring exercise of the insurances of Gavi and its affiliated entities in 2014.
- It was agreed that the the Secretariat would send to the AFC, for information, a copy of the paper from the AFC meeting in October 2014 which provided information on the background to the restructuring exercise of the insurance

portfolio including the benchmarking process. The Secretariat indicated that it would engage with the broker to ensure that non-voting expert advisers on Board Committees are covered by D&O insurance in the same way as Board Members, Alternate Board Members and Committee Delegates.

10. Review of decisions and any other business

- 10.1 Philip Armstrong, Director of Governance and Secretary, reviewed and agreed the language of the decisions with the Committee.
- 10.2 The Chair referred to the AFC action sheet and requested clarification on the work in relation to the timing of the Annual Financial Report. The Secretariat clarified that discussions on this are ongoing with the IFFIm Board and the World Bank and that it is being considered in the treasury management agreement update process. There is potentially one critical obstacle to being able to produce the financials earlier in the year and a formal response is expected from the World Bank soon.
- 10.3 In response to a question in relation to a number of working groups that had been set up to provide input for the preparation of recommendations for consideration by the Programme and Policy Committee (PPC), the Secretariat clarified that this item was on the agenda for discussion at the PPC retreat during the following week.
- 10.4 It was agreed that it would be useful for AFC members to receive a copy of the action sheet when the draft minutes are being circulated to them for review.

After determining there was no further business, the meeting was brought to a close.

Mr Philip Armstrong
Secretary

Attachment A

Participants

Committee Members

- David Sidwell, Chair
- Shanelle Hall (By phone)
- Marcus Koll (By phone)
- Clarisse Loe Loumou
- Heidi Malene Nipe

Committee Member-elect

- Alexandru Cebotari

Other Board members present

- Ngozi Okonjo-Iweala
- Seth Berkley

Secretariat

- Philip Armstrong
- Tony Dutson
- Joanne Goetz
- Barry Greene
- Edmund Grove
- Alex de Jonquières
- Alexandra Laheurte Sloyka
- Simon Lamb
- Jason Marett
- Louis Mkanganwi
- Marie-Ange Saraka-Yao

Observers

- Kelly Jarrett, Bill & Melinda Gates Foundation
- Hannah Langfield, DFID
- Susan McKinney, USAID
- Neil Hindle, Egon Zehnder