

Gavi Alliance Audit and Finance Committee Meeting

12 June 2017

Gavi Offices, Geneva, Switzerland

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee (AFC) members present, the meeting commenced at 14.05 Geneva time on 12 June 2017. David Sidwell, AFC Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack). The Chair noted that his interest in CHUBB as a Board member did not conflict with the discussions and decisions that the Committee was expected to take at its meeting.
- 1.3 The Committee approved the minutes of its meeting on 27 April 2017 (Doc 1b), which were tabled for approval of the Committee after comments from a Committee members had been received during the review process.
- 1.4 The Committee also reviewed its action sheet (Doc 1c). A Committee member requested that the action item pertaining to addressing value for money assessment should be reinstated in the action sheet.

Decision One

The Gavi Alliance Audit and Finance Committee **approved** the minutes of its meeting on 27 April, 2017, modified as discussed.

2. Workplan review

- 2.1 The Chair noted the Committee's satisfaction with AFC's forward workplan 2017 and 2018 (Doc 1d), and requested the inclusion into the workplan of an update from the Secretariat when the revised Conflict of Interest policy was ready.
- 2.2 He noted that per the workplan, the Committee would be required to approve the AFR at its next meeting in July, and thanked the Secretariat and the World Bank team for advancing the availability of financial information.

3. Financial Statements

3a. 2016 Draft Annual Financial Report (AFR)

- 3a.1 Louis Mkanganwi, Director of Financial Accounting and Reporting, presented an early unaudited draft of the 2016 Gavi Alliance Annual Financial Report (AFR) for the year ended 31 December 2016 (Annex A Doc 03a). He informed the Committee that the draft was subject to further review within the Secretariat, and is pending audit procedures to be performed by KPMG.
- 3a.2 Mr Mkanganwi reminded the Committee that Gavi's standalone and consolidated statements were prepared under US GAAP, which includes guidance for not-for-profits accounting as well as financial instruments accounting. For IFFIm standalone financial statements, he explained that the UK GAAP was used.
- 3a.3 Mr Mkanganwi thanked Committee members who sent comments on the draft AFR before the meeting and noted that all comments will be reviewed and responded to by the Secretariat, with all necessary changes being included in the AFR before it is submitted to the Committee for final review at its July meeting. He informed the Committee that the comments received were broadly around four themes: Performance indicators; disclosure around forex and currency hedges; potential integration of CEO report into the AFR Discussion and Analysis section; and clarification on whether a Statement of Controls should be included in the AFR.

Discussion

- The Secretariat noted that the audit work was proceeding well and so far there have been no audit issues that have surfaced.
- In response to a question by the AFC Chair, Gavi CEO responded that detailed programmatic indicators were included in Gavi's Annual Progress Report (APR), and traditionally informational overlaps between the AFR and APR are kept at a minimum. It was also noted that while efforts have been made by the AFC for an early finalisation of the AFR, the APR is not finalised until the end of Q3. This was due to the receipt of estimates for immunisation coverage levels from WHO and UNICEF only being available in August.
- The Committee agreed that it was reasonable to keep the AFR and APR separate but requested to see if these can be released together, so that holistic information is made available to stakeholders and interested parties.
- The Secretariat agreed that additional language would be added to the Discussion and Analysis (D&A) section of the AFR to make clearer the relationship between the AFR and APR, including making a cross-reference in the AFR to the APR section on performance indicators.
- In response to a comment from the Committee, it was agreed that the currency hedging activity would be mentioned upfront in the D&A summary and then be explained in more detail in the forex activity and other relevant section(s). The

Secretariat said that it would include high level sensitivity analysis relating to the forex hedging for those pledges against which grants have not yet been received, in order for the document to communicate the dynamic nature of Gavi finances. In addition, it would be clarified in the AFR that Gavi has a robust currency hedging policy that allows for consistent and clear way for entering into hedges and the section pertaining to future planning process would also be elaborated.

- Responding to a question about forex risk and its management, the Secretariat confirmed that current forecasts show that Gavi has sufficient net assets to cover currency volatility.
- In response to a request from the Committee for integrating the financial aspects of the CEO report into the AFR, the Secretariat indicated that – prior to finalising the AFR – it would review the CEO report for any information of a financial nature that should be included in the AFR.
- It was discussed that an inclusion of a paragraph at the beginning of the report, outlining the role of Alliance partners in Gavi achieving its strategic objectives, may be prudent. The Secretariat agreed to check the feasibility of doing so.
- The Committee inquired as to whether, under US GAAP, Gavi's PEF partners should be presented as related parties in the AFR. The Secretariat responded that its current assessment was that they do not, but agreed to further research this matter and confirm its final determination with KPMG.
- Regarding inclusion of a Statement of Controls in the AFR, it was agreed that the relevant Committee member would provide the Secretariat with such a sample statement that would meet their requirements. The Secretariat would then review the statement and assess whether it would be feasible to include such a statement in the 2016 AFR, or whether inclusion should be deferred to the 2017 AFR.
- Committee members and the Secretariat agreed that the objective was to have best practice financial disclosures and appreciated the views of members who identified disclosures made by other entities that could be relevant to Gavi.

3b. Abridged historical and forecast Financial Statements

- 3b.1 Louis Mkanganwi, Director of Financial Accounting and Reporting, presented to the Committee for its information Gavi's abridged standalone as well as abridged consolidated statements of financial position and financial activities for Q1 2017 and year ended 31 December 2016, respectively
- 3b.2 Mr Mkanganwi also presented Gavi's abridged forecast consolidated statements of financial position and financial activities for the four years up to 2020 to the Committee.
- 3b.3 Mr Mkanganwi provided the Committee an overview of Gavi's assets, liabilities, revenue and expenses. He noted that the basis of preparation of the abridged

statements was the same as previous years, with some simplified assumptions made to forecast the financial statement.

Discussion

- In response to a question, the Secretariat informed the Committee that there is a tapering-off of the balance sheet asset side as pledges are being drawn out. The trends seen on the financial forecast are the same as the replenishment model and exactly as was seen in the previous replenishment period.

4. Programme Funding Policy revision

- 4.1 Barry Greene, Managing Director, Finance and Operations, presented the item and noted that the Committee at its meeting on 27 April 2017 had requested the Secretariat to explore the feasibility of dispensing with the Programme Funding Envelope mechanism.
- 4.2 He explained that in light of the December 2016 amendment to the Programme Funding Policy that extended the mechanism to all programme funding allotments to individual country programmes, it was concluded that using the programme expenditure forecast as a basis of authority for making funding allotments going forward was feasible. This would allow for a discontinuation of the Programme Funding Envelope.

Discussion

- The Committee noted that the Board takes decisions pertaining to strategic trade-offs and programmatic allocations, and that the AFC reviews and confirms the financial capacity of Gavi to make such allocations.
- In response to a question from a Committee member about the rationale for this change, the Secretariat explained that due to the changes in the Programme Funding Policy approved by the Board in December 2016, it was now possible to approve the financial forecast and use that as the basis of for allotting funding, rather than approving separate funding envelopes. The controls and risk management processes would still remain intact with this new proposed approach.
- The Chair noted that the Secretariat and AFC keep a close watch on available funds through the regular financial forecast mechanism, especially of items such as CCEOP, to ensure that the funds are utilised in the best way possible. Any proposal to support a new programme area would continue to require Board approval.

Decision Two

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

Approve the amended Gavi Alliance Programme Funding Policy attached as Annex A to Doc 04.

5. Technology update

- 5.1 David Nix, Chief Knowledge Officer, Knowledge Management and Technology Solutions (KMTS), reviewed the risks to process, systems, data, facilities and people, noting that the Secretariat had a low risk appetite for these risks.
- 5.2 Mr Nix provided the Committee with an update of Gavi's business continuity and disaster recovery programme and explained that the timing of the programme has been altered to take into account Gavi's move to its new office location at the Health Campus in 2018. He also discussed the improvements to controls that had been made or were in progress.
- 5.3 Finally, Mr Nix reviewed the technology dashboard, and provided the Committee with an overview of the 2017 year-to-date events where Gavi's IT security was or had the potential to be compromised, and the actions that were taken by KMTS.

Discussion

- In response to a question, the Secretariat informed the Committee that Gavi's IT policy did not stop the use of personal emails within Gavi offices and that Gavi tracked all IT traffic in order to control for malware and spam.
- The Secretariat informed the Committee that while there is a good backup and recovery solution in place, a stronger system would be put in place by the end of the year. It was also noted that three IT audits are planned for 2017 that cover IT projects, business continuity and data protection.

6. Insurance and Legal update

- 6.1 Eelco Szabó, Director of Legal, presented to the Committee for its information a legal update as well as an update on Gavi's insurance portfolio (Doc 06).
- 6.2 Mr Szabó provided a short overview of Gavi's legal status and the privileges and immunities it enjoys in Switzerland.
- 6.3 Mr Szabó updated the Committee regarding the new fees negotiated with Gavi's insurance broker that was hired in 2013 after undergoing a competitive process.

He provided an update about Gavi's insurance coverage, which was based on the recommendation of the insurance broker.

Discussion

- The AFC Chair noted that there have been no major legal issues that resulted in litigation. The Secretariat informed that going forward unless there were material matters to report, the legal updates would be provided verbally to the Committee.
- In response to a question from a Committee member, the Secretariat confirmed that Gavi is expected to have some cost savings as a result of the new fee that was 20% lower than what Gavi was paying previously, with the understanding that additional ad-hoc services that were previously being provided by the broker beyond customary activities may no longer be provided free of charge. It was noted that such ad-hoc services have been utilised in the past in exceptional circumstances.

7. Audit and Investigations report

- 7.1 Simon Lamb, Managing Director, Audit and Investigations (A&I), provided key updates since the last comprehensive update made to the AFC at its previous meeting on 27 April 2017, as set out in his paper on activities of Internal Audit, Programme Audit, and Investigations and Counter Fraud (Doc 07).
- 7.2 Mr Lamb sought the AFC's guidance on a proposed approach for the prioritisation of audit issues identified in internal audit reports. The approach suggests the possibility of only requiring high and medium risk internal audit issues to be mandated for remediation, with the low risk items ascribed as matters for management consideration. He informed the AFC that if the Internal Audit determined that a particular area was exposed to a number of low risks which in combination may present a higher level of risk, then these would each be designated for closure so as to ensure that the residual risk was within acceptable levels.

Discussion

- The Committee advised the Secretariat to adopt the approach for prioritisation of audit matters as proposed by the A&I team, including an emphasis on the need for Internal Audit to remain vigilant in case there is a preponderance of low risk issues that may cumulatively create a high risk.
- In response to a question, the Secretariat informed the Committee that a spreadsheet to record internal audit issues is maintained which tracks the progress made on closing audit issues by engaging with the relevant managers periodically. In cases where these issues are closed, the internal audit team validates this closure.

- The Secretariat further explained that a new IT system has been implemented and over time new functionality will replace the existing internal audit tracking spreadsheet-based system.
- The Secretariat provided case-by-case updates on the status of various programme audits as set out in high level in the Audit and Investigations report to the Committee.
- The Chair, in response to the comment received from a Committee member, noted that the management of chronic areas of programmatic audit issues should be dealt with on an overarching thematic basis, with underlying recognition of trade-offs versus benefits.
- The Secretariat informed the Committee that it would develop a high level plan on its engagement with Nigeria, which was identified by the Board as one of the high risk countries requiring a more tailored intervention to manage the multidimensional risks. This plan would be presented to the AFC and PPC before being presented to the Board in November 2016 for its input.
- The Committee recognised that the systems and processes being audited represent those that were in place two or three years before the audit, and therefore may not represent the current status of systems and processes in the country at present.

8. Country Programmes and Programme Audit – thematic analysis follow through

- 8.1 Hind Khatib-Othman, Managing Director, Country Programmes, and Simon Lamb, Managing Director, Audit and Investigations (A&I) presented an overview to the Committee of the eight recurrent themes that have frequently emerged during programme audits and of the work being undertaken by Country Programmes on resolving issues that are raised during programme audits.
- 8.2 Ms Khatib-Othman informed the Committee about changes made by the Alliance in its engagement with countries to, inter alia, better manage risks and ensure better responses to issues raised during programme audits. She pointed out key processes such as Programme Capacity Assessments (PCAs), Country Risk Matrices (CRMs), Joint Appraisals and Grant Performance Frameworks (GPFs) that allow for a better understanding of Gavi's risks and highlight the need for targeted support as well as enhanced monitoring. She provided country examples to showcase how these processes were being implemented.

Discussion

- In response to a question about how programmatic issues raised by Programme audits are addressed, the Secretariat explained that these issues were discussed and addressed during the Secretariat's regular engagement with countries,

including during Joint Appraisals (JA), PCAs and the development of performance frameworks. In addition, Alliance partners were working closely with in-country partners and other stakeholders, including through Targeted Country Assessment (TCA) resources, to address any challenges or issues that might arise. The Committee expressed its interest to have a further discussion about the PCA process and understand how programme audit findings are addressed during the PCAs.

- The Committee was also informed that an improved budget template and uniform cost framework were now being used in countries to facilitate better budgeting and reporting of funds' usage. Also performance frameworks were more closely aligned with the budgets to ensure that results are connected to funds invested. Within certain parameters funds could be reprogrammed for example, to better address specific issues.
- The Secretariat further explained that PCAs sought to identify gaps in country capacity to implement Gavi-supported programmes, so that these areas can be strengthened. During debrief sessions, findings are communicated to the country. Where necessary, grant management requirements are put in place specifying actions that countries must take before grants could be released to them, in cases where weaknesses are found.
- A Committee member noted that the UNICEF used the Harmonized Approach to Cash Transfers to Implementing Partners (HACT) to assess and determine the level of risk mitigation and assurance procedures that should be engaged at country level. He also noted that the strengthening of country systems would result in better ownership of immunisation programmes.
- A Committee member noted that in some countries there are partners on the ground that already understand the political and economic context of the country and that their support could be leveraged in cases where deficient country systems make it very risky for Gavi to channel funds through government systems.

9. AFC's engagement in overseeing, reviewing and monitoring the operations of Programme Audit activities

- 9.1 Simon Lamb, Managing Director, Audit and Investigations (A&I), described the key principles of audit status reporting to Committee as undertaken by A&I, and discussed the model of engagement between the Committee and A&I team.

Discussion

- The Secretariat informed the Committee that due to uncertainty associated with early audit reports, the circulation of these is kept at a minimum. These reports are more widely disseminated when they are close to finalisation or when finalised. Going forward, the Secretariat agreed to circulate finalised technical audit reports – which represent the final audit findings incorporating country

comments – to the Committee on a ‘privileged’ basis to provide an early insight on audit findings (recognising that such audits may still take a considerable period of time to finalise before a determination has been reached with regard to any cases of misuse).

- The Chair, responding to the discussion about the need for interim reporting as the programme audits are ongoing, noted that the Committee sought a high level oversight of the A&I work. He suggested that regular and interim audit reports which are further from finalisation, should be shared by the Secretariat with Committee members on a bilateral basis.
- In response to a question from the Committee, the Secretariat confirmed that as issues are brought to light through the A&I work, these are discussed within the Secretariat with the relevant teams and the Executive office.

10. Any other business

- 10.1 Mahwesh Bilal Khan, Senior Manager of Governance, reviewed and agreed that the language of the decisions with the Committee.
- 10.2 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
- Alexandru Cebotari (on the phone)
- Ted Chaiban
- Clarisse Loe Loumou
- Emmanuel Maina Djoulde
- Heidi Malene Nipe
- Chris Taylor

Regrets

- Marcus Koll

Secretariat

- Philip Armstrong (until item 4)
- Seth Berkley
- Jacob van der Blij
- Mirjam Clados (item 7, 8)
- Tony Dutton
- Barry Greene
- Edmund Grove (item 7, 8 and 9)
- Alex de Jonquières (item 4 onwards)
- Mahwesh Bilal Khan
- Simon Lamb
- Louis Mkanganwi
- David Nix (item 5 only)
- Chrysantus Nyongesa (item 7, 8 and 9)
- Hind Khatib-Othman (item 7, 8)
- David Powell (item 7, 8)
- Eelco Szabó (item 6 only)

Observers

- Kelly Jarrett, Bill & Melinda Gates Foundation
- Susan McKinney, USAID
- Siri Snow, GIZ