

Gavi Alliance Audit and Finance Committee Meeting

19 October 2017

Gavi Offices, Washington, DC, USA

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee (AFC) members present, the meeting commenced at 9.00 Washington, DC time on 19 October 2017. David Sidwell, AFC Chair, chaired the meeting.
- 1.2 The Chair noted that the Committee met for a closed session on the previous day to discuss various matters relating to the Committee's responsibilities as well as ongoing informational needs. As a result of the closed session discussion, the Chair requested that the April 2018 meeting of AFC include a deep-dive of the Programme Capacity Assessment (PCA) process through a country example. The country example should help the Committee understand how programme audit findings are addressed, as well as how relevant conclusions are drawn on the level of residual risk that should be assumed, through these PCAs. The Committee was also interested in understanding the role of partners in these Assessments.
- 1.3 Summarising the discussion of the closed session, the Chair requested that an orientation session be organised for the AFC in late January 2018 to on-board the new Committee members on the roles and responsibilities as outlined in the AFC Charter. Additionally, he noted that the Committee had requested that a three-year audit plan be presented to allow better understanding of the one-year audit plan.
- 1.4 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack).
- 1.5 The Committee approved the minutes of its meeting on 27 July 2017 (Doc 01b).
- 1.6 The Committee also reviewed its action sheet (Doc 01c) and its forward workplan for 2017 and 2018 (Doc 01d). The Secretariat updated the Committee about its action sheet item pertaining to the joint issuance of the Gavi Annual Financial Report and Annual Progress Report (APR) and noted both these reports had now been made available to stakeholders.

Decision One

The Gavi Alliance Audit and Finance Committee **approved** the minutes of its meeting on 27 July 2017.

2. Finance update

- 2.1 Barry Greene, Managing Director, Finance and Operations, and Tony Dutson, Senior Director, Finance and Chief Accounting officer, provided the Committee with the updated financial resources and expenditures for 2016-2020 (Doc 02).
- 2.2 Mr Greene highlighted the financial implications of the funding decisions which would be subject to review of the Programme and Policy Committee when it meets the following week, and which would then be submitted to the Board for its consideration in November 2017. He pointed out that the role of the AFC was to assure the Board that these decisions could be taken in accordance with the Gavi Programme Funding Policy which requires that qualifying resources are available to fund these decisions.
- 2.3 Mr Dutson explained that based on the updated demand estimates, and increased estimates for direct contribution and investment income, Gavi anticipates postponing the receipt of approximately US\$ 360 million of IFFIm proceeds previously planned for 2018-2020 until after 2020.
- 2.4 Mr Greene updated the Committee about the utilisation of the Programme funding envelope, outlining that 32% of the General Envelope had been allotted by 31 August 2017, with a forecasted allotment of 64% by the year end. Finally, he provided an overview of cash balances held in countries to support Gavi's cash-based programmes.

Discussion

- The Chair appreciated the update. He noted that simplification of materials and enhancement to analysis made them much more understandable, and there was now more credibility to the forecast process.
- The Chair requested that the deferral of the receipt of IFFIm proceeds to the next strategic period should be noted as a cushion available for the current and future strategic period, in the presentation of the Finance update to the Board at its meeting in November 2017.
- The Committee noted the considerable savings achieved through the market shaping activities. It sought to understand whether any further cost savings could be expected from vaccine price reductions that were achieved through market shaping activities. The Secretariat explained that further improvements could be expected as more suppliers enter the market and demand is generated in both Gavi supported and non-supported countries for some vaccines, whereas for the more mature markets further vaccine price reductions may not be possible.
- The Secretariat, in response questions about cash balances that remained with countries, explained that based on the reports from countries until June 2017, the lower amount of cash balances indicated an improved position. Given that the new Health Systems and Immunisation Strengthening (HSIS) policy allowed for the money left over from grants to be rolled over, a decision was being made on a

case-by-case basis on how best to use these cash balances. The Secretariat informed the Committee that by March 2018, 91% of all grants are expected to be closed or rolled over.

- It was further explained that the information about cash balances was obtained through certified statements received from partners where funding is channelled through them. In countries where the funding is provided to the government directly, the certification of cash balances was obtained from ministries and audited according to the audit arrangements with each country. The Secretariat noted in most cases it had clarity about why a cash balance remained in the country, therefore these represented little risk or concern to Gavi.
- In response to a question, the Secretariat explained that the reduction in programme expenditure forecast was due to several factors including deferral of campaigns, reduction in vaccine grants due to delays in country readiness, and supply constraints in HPV.
- The Committee agreed that information relating to the disbursement amounts and forecast, as well as nature of disbursement should continue to be presented as part of the annexes in the paper.
- Finally, with regard to currency hedging, the Chair noted that the exposure was now limited to the 12% of pledges that were currently unhedged, and hence the overall risk arising from exchange rate fluctuations had dropped significantly.

Decision Two

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

Approve the Financial Forecast as set out in Figures 1 to 4 in Section B of Doc 02 for the period 2016-2025 within which the Secretariat is authorised to allot funding to programmes in 2018 for new programmes and for the continuation and adjustment of funding, in accordance with the Programme Funding Policy.

3. Secretariat and Partnership Engagement Framework (PEF) budget (2018-2019)

3.1 Anuradha Gupta, Deputy CEO, presented Gavi's Secretariat engagement and PEF budgets for 2018-2019 (Doc 03) to the Committee.

3.2 Ms Gupta, while explaining the Secretariat budget, pointed out that in line with guidance from the Board, Gavi was focused on containing costs at the regional and global levels. Therefore, there were no proposed increases in on-going operating expenditure for 2018 and 2019. She noted that there was a one-time-cost in the 2018 budget relating to Gavi's move to the Global Health Campus.

- 3.3 She also informed the Committee that the expenditure at global and regional levels through PEF was expected to remain flat against the 2017 budget as well.
- 3.4 Finally Barry Greene, Managing Director, Finance and Operations presented the detailed PEF and Secretariat engagement budgets covering the programmatic and operating expenditures under PEF; Targeted Country Assistance (TCA); Strategic Focus Areas and Foundational Support; CCEOP procurement fees; and the budgets for Partnerships in Innovation; as well as Evaluations and Assessments.

Discussion

- The Committee appreciated that the operating expenses had been kept flat-lined for 2017 and that the rigorous decision-making approach being used for partnerships was working well.
- The Committee sought to understand whether an increase in the TCA budget would have an impact in helping address country level capacity weaknesses, and how they related to the findings of programme audits. The Secretariat informed the Committee that the TCA activities were indeed being informed by the findings of Programme audits and Programme Capacity Assessments. As a result, expanded partners have been identified and are working with Gavi in 12 countries to help address the various weaknesses found in these countries.
- While Programme and Policy Committee looked at these aspects closely, the Secretariat suggested that if interested this information could be presented to the AFC in its future meetings.
- The Secretariat responded to a question regarding the process deployed for undertaking evaluations and assessments as part of the PEF expenditure, and explained that the Evaluation Advisory Committee, an advisory committee of the Gavi Board, was responsible for approving Gavi's evaluation plans. The PEF design had an integral component of PEF evaluation built in it, and the PEF Management Team looked at the results of these evaluations rigorously.
- The Committee requested the Secretariat to include information on the efficiency gains that were reflected in the forecast budget for 2018 and 2019, including clarifying what were the value-for-money metrics. The Secretariat confirmed that a robust process was undertaken in arriving at the budget. This included challenging budget requests in all areas of the Secretariat. The linkage to this process with information regarding the resultant efficiencies and value-for-money would be included in the paper that will be presented to the Board for its November 2017 meeting.
- In response to a request from a Committee member, the Secretariat confirmed that it would include in the Board paper, and going forward in the AFC papers, a breakdown of the amounts being provided under PEF to partners.
- A Committee member noted that the Global Fund had been able to keep its operating expenses flat-lined even with the move to the Global Health Campus.

The Secretariat discussed the differences between the budgets of Global Fund and Gavi and noted that the operating expense ratios included the cost of the move to the Global Health Campus.

- The Committee requested more information on the details of how funding was allocated to partners in innovation. The Secretariat explained this in the context of its complementary work on the ground conducted through its private sector partnerships and the matching fund to advance coverage and equity by addressing areas like the demand side, supply chain bottlenecks, and data management. The Secretariat provided examples of initiatives undertaken with Unilever, Google, GirlEffect, etc.
- In response to a question from the AFC, the Secretariat informed the Committee that PEF had moved away from incremental budgeting and was now being driven by performance, need, and demand as signalled by countries.
- The Secretariat informed the Committee that areas of collaboration with the Global Fund were actively being explored. Collaboration can take place at different levels, and that some areas of synergy will be driven by co-location, while on the programmatic side the level of collaboration might vary depending on the country context and the approach taken by the two organisations pertaining to data, supply chain, evaluations, etc. However, there may be limitations given the differences in organisational mission and operating business models. The Secretariat assured the AFC that, while the current focus was very much on completing the construction of and on-time relocation to the Global Health Campus, it would remain conscious of seeking opportunities for broader collaboration.
- The Committee requested the Secretariat to present, in early 2018, on how Gavi intended to pursue collaboration opportunities, including the communication strategy for any such collaboration for Gavi's internal staff, so that the employee morale is not negatively affected.
- The Secretariat informed the AFC that the World Bank had confirmed that it would not be requesting any administrative and commitment fees pertaining to its AMC Stakeholders agreement with Gavi.

Decision Three

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

(a) **Approve** within the overall amount of US\$ 219.1 million for 2018 and US\$ 228.8 million for 2019 for the Partners' Engagement Framework, the following allocations:

- (i) US\$ 85 million in 2018 and US\$ 95 million in 2018 for Targeted Country Assistance;
- (ii) US\$ 29 million annually for 2018 and 2019 for Special Investments in Strategic Focus Areas;

- (iii) US\$ 36.4 million annually for 2018 and 2019 for Foundational Support;
- (iv) US\$ 19 million in 2019 for UNICEF Supply Division for fees to implement vaccine and related supplies procurement;
- (v) Up to US\$ 1.9 million in 2018 (in addition to the US\$ 2.4 million already approved for 2018 by the Board in June 2017) and US\$ 3.6 million in 2018 for UNICEF Supply Division for fees to implement cold chain equipment;
- (vi) US\$ 26 million annually for 2018 and 2019 for investing in Partnerships in Innovation to be administered by the Secretariat;
- (vii) US\$ 19.3 million for 2018 and US\$ 19.7 million for 2019 for impact assessments and evaluations to be administered by the Secretariat;

(b) Approve US\$ 115.3 million in 2018 and US\$ 107.8 million in 2019 for Secretariat Engagement;

(c) Approve US\$ 2.5 million in 2018 and US\$ 1 million in 2019 for capital expenditure budgets to implement the Secretariat's part of the Gavi Engagement Framework.

Ted Chaiban (UNICEF) did not vote on Decision Three (a) (i), (ii), (iii), (iv) and (v) above.

Alexandru Cebotari (World Bank) did not vote on Decision Three (a) (i), (ii) and (iii) above.

4. IRS Form 990 (2016)

- 4.1 Louis Mkanganwi, Director, Financial Accounting & Reporting, presented Gavi's draft IRS Form 990 for the year ended 31 December 2016 (Doc 04). He reminded the Committee that the Form 990 was Gavi's annual return to the United States Internal Revenue Service (IRS), as required for organisations that are exempt from federal income tax.
- 4.2 Mr Mkanganwi explained that the Form 990 was prepared by the Secretariat, and reviewed by KPMG for compliance with IRS's Internal Revenue Code. He pointed out that the language for the pending item in the Form's Statement of Program Service Accomplishments had been received the previous day. The Form was expected to be finalised shortly based on this information and would be filed by 15 November 2017.
- 4.3 Tony Dutson, Senior Director, Finance and Chief Accounting Officer, explained the structure in which the salaries and benefits of officers, directors, key employees and highest compensated employees was captured and presented in the Form 990, noting that all monetary figures are presented in US dollar terms.

Discussion

- The Chair thanked the Secretariat for this information, noting that this was being presented to the Committee for its information only, and that the AFC was not required to approve the Form 990.

- The Chair requested the Secretariat to raise with the Governance Committee how best to communicate the information reflected in Form 990 to avoid any misinterpretation, particularly given the inflated amount of salaries that may be reflected due to fluctuating foreign exchange rates and conversions.

5. Gavi and IFFIm interim financial statements

- 5.1 Louis Mkanganwi, Director, Financial Accounting & Reporting, presented Gavi's abridged standalone and consolidated statements of financial position and financial activities, for the six months ended 30 June 2017 (Doc 05).

Discussion

- In response to a question from the Committee about why the revenue figures for Gavi standalone financial statements were much higher than the revenue in the consolidated financials, Mr Mkanganwi explained this was due to IFFIm being considered a donor for Gavi with its proceeds being recorded as a revenue item within Gavi's standalone financial statements.

6. Risk management

- 6.1 Jacob van der Blij, Head of Risk, presented the Vaccine Alliance Risk & Assurance Report for 2017, to the Committee for its review. He informed the Committee that the report had prioritised 15 top risks – four of which were very high, and 11 were high risks.
- 6.2 Mr Van der Blij then presented how Gavi's top risk profile had evolved during the last year, and also provided a comparison of Gavi's actual risk exposure compared to risk appetite based on the Risk Appetite Statement approved by the Board in June 2017.

Discussion

- The Committee commended the quality of the report and appreciated that the Committee's inputs had been taken on board. It suggested that it would be useful to more clearly show how this year's risk profile changed since last year.
- The Committee discussed the risk relating to the ability to reach under-immunised children as one that would benefit from an in-depth Board discussion. The Secretariat informed the Committee that this risk was elevated as a top risk, given the recent WUENIC data showing no progress on basic vaccine coverage rates. It was also noted that in some cases actual progress had been seen without this being captured by the WUENIC indicators, illustrating data quality challenges.

- The Secretariat agreed with the Committee that the risk pertaining to sustainable transition remained relatively high, and it would be too early to assess the current exposure to be within risk appetite.
- A Committee member suggested that the Secretariat consider if there was a need to include an additional risk about the Gavi funds that pass through partners. The Committee discussed that partner-capacity was a high risk issue. The Secretariat explained that this would fall under the misuse risk, as funding through partners represents one of its mitigation strategies, but this could be made clearer in the report.
- Polio transition was also suggested to be included as a potential other risk. It was furthermore suggested to more explicitly capture weak country financial management capacity as a risk factor.
- In relation to the risks outside risk appetite requiring a more ambitious approach, a number of Committee members asked what the acceleration or different approach to mitigation would look like. The Secretariat explained that efforts were already under way to accelerate mitigation for some of these risks. The Chair recommended that the cover paper or the report for the November Board meeting should mention upfront that the purpose of the upcoming Board discussion is primarily to align on which risks are outside appetite, capture progress made so far and discuss whether further mitigation is needed. Following the Board's discussion of these risks and guidance on which are significantly outside appetite, it may be necessary to develop further options for mitigation for Board consideration.

Decision Four

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

Approve the draft 2017 Risk & Assurance Report attached as Annex A in Doc 06, subject to revisions suggested by the Committee.

7. Technology update

- 7.1 David Nix, Chief Knowledge Officer, Knowledge Management & Technology Solutions, provided an update of the current risk levels for process, systems, data, facilities and people as they pertained to technology.
- 7.2 Mr Nix provided an update to the Committee on the business continuity and disaster recovery planning being undertaken by the Secretariat. He provided an overview of the improvements that are being made or which are underway to the overall technological and IT control environment.

- 7.3 Finally, Mr Nix presented the technology risk dashboard and the three-year roadmap for the Knowledge and Technology outlining its next steps.

Discussion

- In response to a question from the Committee regarding any risks which may be of concern with the move to the Global Health Campus (GHC), Mr Nix explained that the building was on track for completion within the projected timeframe and costs. He noted that the Global Fund would move into the new building before Gavi and thereby a successful transition by the Global Fund would reduce any possible risks for Gavi's move into the GHC.
- The Committee appreciated the update and said that it looked forward to being updated regularly going forward as well.

8. Audit & Investigations report

- 8.1 Simon Lamb, Managing Director, Audit and Investigations (A&I), provided a comprehensive update to the Committee on the activities of Internal Audit, Programme Audit, Investigations and Counter Fraud, and Whistleblower reporting (Doc 08).
- 8.2 Mr Lamb presented the Internal Audit and Programme Audit plans for 2018 to the Committee for its review and input.
- 8.3 He updated the Committee on significant initiatives being undertaken by the A&I team. These included the team's collaboration with the Global Fund on an audit in Zambia; collaboration with UNICEF and WHO to enhance assurance on the operations of the Gavi Alliance; and the proposed process and timeline of the next External Quality Assessment (EQA).
- 8.4 Finally, Mr Lamb confirmed to the Committee that the terms of reference for the A&I function continue to be adequate and allow the function to accomplish its objectives effectively.

Discussion

- The Committee requested the Secretariat to evaluate the merit of undertaking a review of Gavi's move to the Global Health Campus to determine whether appropriate project management processes and relevant risk mitigations have been established.
- The Committee sought to understand why there were no technology audits planned in 2018, especially given the significant increase in technology development and roll-out. The Secretariat explained that in 2017 three IT audits were underway relating to technology management processes; contingency

planning and disaster recovery; and cyber security. With these comprehensive audits, it was felt that no further IT audits were necessary for 2018.

- In relation to a question regarding a possible audit to assess how well risk management is being established within Gavi, the Secretariat informed the Committee that 2018 would still be considered too early in its development to evaluate it, particularly as there is an internal review on-going, and that such an audit was envisaged to be undertaken in 2019.
- The Secretariat briefed the Committee on collaboration with partners, UNICEF and WHO in particular. Programme audits were in progress currently to help understand the assurance gained when Gavi funds pass through partners rather than being channelled to countries directly. One of the benefits of this work would be to allow an assessment to be made of the effectiveness of current arrangements and whether the model of engagement in country needed to be enhanced to match the higher level of assurance that is now being sought.
- The Secretariat briefed the Committee on investigatory activity generally and the country follow-through on certain concerns identified in an audit in Cameroon. Emmanuel Maina Djoulde, who is an AFC member and the Inspector General of the Ministry of Health Cameroon, informed the Committee that the first phase of investigation had been completed, and the results of the findings would soon provide a clearer picture on potential misuse. He added that the exercise by which the Secretariat involved the Cameroonian authorities as part of this investigation was helping build their capacity as well.
- The Committee requested the A&I team to evaluate the impact of internal audits from 2017 which may remain outstanding to be completed in 2018 to ensure delivery of the 2018 internal audit plan. The Secretariat indicated that although the Internal Audit team of three had been operating for six months with only two staff, the 2018 internal audit plan had been compiled knowing that a new staff member was to join the team in January 2018. Nonetheless it was recognised there had been an impact of cumulative past work carrying forward from the group's inception in late 2015. Therefore it would re-examine the work programme to assess its feasibility and would report back to the Committee in November.
- Responding to the Committee's request at the closed session to have a longer term visibility of the audit plans (see 1.3), the Secretariat explained that it had already planned to review with the Committee at its 27 November meeting an analysis of risk coverage that sets out execution against anticipated programme and internal audits, including a forward projection of what might be achieved in the years 2019 and 2020, thereby providing a complete coverage of the audit cycle.

Decision Five

The Gavi Alliance Audit and Finance Committee **approved** the 2018 proposed plans of Internal Audit and Programme Audit, taking account of comments received from the Committee.

9. External auditor assessment

- 9.1 Barry Greene, Managing Director, Finance and Operations, provided a verbal update to the Committee about the satisfactory performance of Gavi's external auditor, KPMG.
- 9.2 Mr Greene noted that the process of appointing a new external auditor for Gavi will be initiated as soon as the appointment of an external auditor is made by the World Bank. He noted that as the treasurer for IFFIm, the World Bank and IFFIm have the same external auditor following the single audit principle. It was therefore impractical for Gavi to have an external auditor which was not the same as IFFIm's and by extension, the World Bank's external auditor.

Discussion

- The Committee advised the Secretariat to ensure that the requisite procedure for selection and fee-determination of the external auditor is followed and that due process is followed to ensure that Gavi's auditing requirements will be accorded appropriate consideration in the selection and negotiation process, regardless of the constraints informed by World Bank/IFFIm.
- The Secretariat, in response to a question from the Committee confirmed that the 2017 audit would be conducted by Gavi's existing external auditor KPMG, and that the audit for 2018 would be done by Gavi's new external auditor

10. Global Health Campus update

- 10.1 Barry Greene, Managing Director, Finance and Operations, provided an update about Gavi's planned move to the Global Health Campus in 2018. He explained the partnership agreement established between the Global Fund and Gavi that establishes equal sharing of risks and decision making between both organisations.
- 10.2 Mr Greene presented to the Committee the estimated financial savings expected over a 10-year and 15-year scenario basis, noting that the project had an expected 6.2 year payback period, based on cost estimates prior to completion of construction.

10.3 Finally, Mr Greene provided an overview of the key risks relating to Secretariat disruption and reduction in cost savings. He presented the mitigation for these risks, and also explained the expected operational efficiencies and programmatic effectiveness.

Discussion

- In response to a question from the Committee, Mr Greene explained that the building was not designed to be used on a commercial basis and therefore making the conferencing facilities available for rent is not being considered. However, these conference facilities may be provided to other organisations to strengthen collaboration amongst those engaged in Global Health. This is consistent with the vision of the Swiss authorities for the Global Health Campus, which they have subsidised.
- The Secretariat informed the Committee, in response to a question, that as part of the agreement with the Global Fund, Gavi would pay 50% (approximately US\$ 7.1 million) of the total cost towards the shared infrastructure and developmental costs, at the outset. Subsequently, 25% of the total cost would be recovered by Gavi in rental rebates over the next ten years. The Secretariat confirmed that from an accounting standpoint this was a prudent approach. Hence, Gavi will ultimately bear 25% of the total cost, in line with the share of the office space that it will occupy.
- The Secretariat informed the Committee that the Global Health Campus was designed to the high environmental standards required in Switzerland, and would be an eco-friendly building.

11. Review of decisions and any other business

11.1 Philip Armstrong, Director of Governance and Secretary, reviewed and agreed that the language of the decisions with the Committee, making agreed modifications to Decisions Three and Four which would be shared with the Committee for its approval.

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
- Ted Chaiban
- Emmanuel Maina Djoulde
- Heidi Malene Nipe
- Chris Taylor

Regrets

- Clarisse Loe Loumou

Secretariat

- Philip Armstrong
- Seth Berkley (until agenda item 6)
- Jacob van der Blij
- Paul Catchick (agenda item 8 through 11)
- Caroline Dubois (agenda item 3 only)
- Tony Dutton
- Barry Greene
- Edmund Grove (item 8 only)
- Anuradha Gupta (until agenda item 3)
- Alex de Jonquières (until agenda item 6)
- Mahwesh Bilal Khan
- Simon Lamb
- Louis Mkanganwi
- David Nix (agenda item 7 only)
- Chrysantus Nyongesa (agenda item 8 through 11)
- Simon Picot (agenda item 6 only)
- David Powell (agenda item 2 only)
- Marie-Ange Saraka-Yao (until agenda item 6)

Observers

- Emily Alexander, Government of Canada
- Kelly Jarrett, Bill & Melinda Gates Foundation
- Irene Koek, USAID (until agenda item 8)
- Harriet Ludwig, BMZ