

Gavi Alliance Audit and Finance Committee Meeting

24 October 2014

Gavi Offices, Geneva, Switzerland and Washington, DC, USA

1. Chair's report

- 1.1 Finding a quorum of Audit and Finance Committee members present, the meeting commenced at 16.00 Geneva time on 24 October 2014. Wayne Berson, Audit and Finance Committee Chair, chaired the meeting.
- 1.2 The Chair welcomed members of the Programme and Policy Committee (PPC) to the meeting. Originally scheduled to be a joint session, unfortunately the PPC did not have a quorum. However, the Chair invited the PPC members to participate in the business plan and budget discussion and to offer a collective view to the Executive Committee whether to recommend the business plan and budget to the Board.
- 1.3 Standing declarations of interest were tabled to the Committee (Docs 1a and 1b in the Committee pack); there were no additional conflicts declared.

2. 2015 business plan and budget

- 2.1 Anuradha Gupta, Deputy CEO, and Barry Greene, Managing Director of Finance and Operations, presented the proposed 2015 business plan and budget (Doc 2). Ms Gupta highlighted that 2015 is a transition year from the 2011-2015 strategic plan to the 2016-2020 strategic plan. With a focus on vaccine introductions, health systems and supply chain strengthening, and successful country graduations, the 2015 business plan would set the stage for a new paradigm in which Gavi would reinforce its country focus, ensure good grant and risk management, and leverage purposeful partnerships.
- 2.2 Mr Greene provided an overview of the proposed business plan budget for 2015. Totalling US\$ 250 million, the budget represents an increase of 12% over 2014. Nearly half of the increase is to scale-up supply-chain activities funded by an earmarked contribution from the Canadian Government. Secretariat budget growth is focused on programme implementation and risk, and this is partially offset budget reductions in other areas.
- 2.3 Increases to WHO's budget are to support IPV introductions, HSS implementation, data quality efforts, and surveillance. An increase to UNICEF's budget would support Gavi's work around immunisation coverage and equity. The World Bank would receive funding for work on graduation, financial sustainability,

and health systems strengthening. The US Centers for Disease Control would receive new funding for impact assessment, data quality work, surveillance, and vaccine safety.

- 2.4 Overall, the growth in the business plan budget since 2011 has remained lower than the growth in programme expenditures.

Discussion

- In response to a Committee member's request, the Secretariat agreed to post additional detail on partners' budgets on the myGAVI website.
- Committee members underscored that there was additional value for money in that the plan would leverage and enhance other activities occurring at country level. They also agreed that the emphasis on strengthening risk oversight was appropriate.
- The Secretariat observed that 2015 was a bridging year to the next strategic period (2016-2020), for which a bottom-up multi-year business planning process would be applied.
- The Secretariat advised the Committee that business plan expenditure in 2014 might slightly exceed the budget. If that materialised, then the carry-forward mechanism within the budget policy (for activities deferred from the prior year's budget) could be activated, as previously noted by the Committee. The 5% budget variance facility could also be used. Should it become necessary to utilise either of these existing budget facilities, the Secretariat would come back to the Audit and Finance Committee.

Decision One

The Gavi Alliance Audit and Finance Committee, with the concurrence of those Programme and Policy members present:

- **Recommended** to the Executive Committee that it, in turn, recommend to the Board that it:
 - **Approve** the 2015 business plan structure, including programme objectives, deliverables, activities and their allocation to partners and the Secretariat
 - **Approve** US\$ 93.2 million for the Secretariat operating expenses and US\$ 3.1 million for a capital expenditure budget to implement its part of the 2015 business plan
 - **Approve** US\$ 58.8 million for WHO to implement its part of the 2015 business plan.
 - **Approve** US\$ 19.6 million for UNICEF Supply Division for fees to implement procurement under the 2015 business plan
 - **Approve** US\$ 23.5 million for UNICEF Programme Division to implement its part of the 2015 business plan

- **Approve** US\$ 3.6 million for The World Bank to implement its part of the 2015 business plan
- **Approve** US\$ 4.2 million for the United States Centers for Disease Control and Prevention (CDC) to implement its part of the 2015 business plan
- **Approve** US\$ 15.3 million to supplement implementation of the Gavi Immunisation Supply Chain Strategy in 2015, as funded by an earmarked and one-time contribution to Gavi
- **Approve** US\$ 3.5 million for civil society organisations to implement their part of the 2015 business plan
- **Approve** US\$ 27.9 million for the implementation of the remainder of the 2015 business plan.

Committee members whose organisations or constituencies would receive funding under this recommendation did not vote on such funding.

3. Review of decisions

- 3.1 Debbie Adams, Managing Director of Law and Governance, reviewed and agreed the language of Decision One with the members of the Audit and Finance Committee and PPC. Subsequently, the PPC members present left the meeting.

4. Minutes, action sheet, and workplan

- 4.1 The Committee reviewed the minutes of its meeting on 30 July 2014 (Doc 4a), which were approved on 27 September 2014. It also noted its action sheet (Doc 4b), and its forward workplan (Doc 4c).

5. Strengthening risk management and fiduciary oversight

- 5.1 Seth Berkley, Chief Executive Officer, proposed a number of changes to enhance Gavi's management of risk, and particularly fiduciary risk. He described the rationale for strengthening Gavi's approach now and a high-level plan on how the proposed changes would be implemented.
- 5.2 He underscored that risk is inherent to Gavi's mission and operating model but that over the last five years, a lower risk appetite emerged in part due to increased risk awareness and the potential implications of a light touch model. He reported that the Secretariat is developing a Risk Policy for Board review to formalise and achieve alignment on risk appetite and approach, and that it would be put into practice through a comprehensive risk framework.
- 5.3 After extensive consultation with stakeholders, Dr Berkley felt it was important that the Committee validate the risk/resources trade-offs. There would be three

sets of changes. First, a “3 lines of defense” model endorsed by the Institute of Internal Auditors would frame a restructuring of key functions. Secondly, there would be an enhancement of key processes and capabilities. Third, there would be targeted increases in resourcing key functions, particularly in monitoring, evaluation, audit, and related areas.

- 5.4 Dr Berkley noted that other risk management approaches were considered and that, as part of these investments in risk management, other areas of Secretariat activity had been de-prioritised in order to limit budget growth. These important but de-prioritised areas were highlighted to the Committee.

Discussion

- The Committee complemented the Secretariat on the quality of the assessment and framing. It was noted that in any organisation whose business activity was growing, the risk oversight infrastructure tended to lag behind that growth and so the time was right to enrich the risk management function.
- The Chair observed a growth trend in activities along with expense reduction. He praised the Secretariat for finding ways to perform its role while reducing costs but cautioned against cutting expenses too far, characterising the Secretariat’s 2.7% of the overall 2015 expenditure as exceedingly low. He also agreed that there is a trade-off that Gavi must consider between investing in a first-class risk management system and the costs associated with building and maintaining it.
- It was asked whether the Secretariat had quantified the amount and probability of loss that would be considered tolerable and thus guide the resourcing needed to achieve that level of risk management. The Secretariat noted that such quantification is difficult with the data in hand but it was thought that as the risk management programme was built, Gavi would uncover previously unknown risks and exposures.
- Gavi has deliberately made choices to increase its risk exposure to fulfil its mission. For example, Gavi intentionally uses countries’ often weak systems to bolster them, rather than build alternative avenues to deliver. Nevertheless, Gavi is undeterred in pursuing consequences where risk exposures turn into problems.
- It was noted Gavi has greater exposure in its cash programmes than vaccine programmes, particularly because governments provide the vaccines to their people for free. Fortunately, vaccines constitute far and away the greater proportion of Gavi’s expenditure. It was emphasised however that vaccines are low risk, not no risk.
- It was noted that Gavi and the Global Fund cooperate and share information with regard to risk management. The Secretariat agreed to better highlight the ways in which the two organisations work together in its report to the Board.

Decision Two

The Gavi Alliance Audit and Finance Committee:

- **Recommended** to the Board that it endorse the proposed approach to strengthen risk management and fiduciary oversight as set out in Section 8 of Doc 5.

6. Report of the internal auditor

- 6.1 Simon Lamb, Managing Director of Internal Audit provided a status update on matters relating to internal audit (Doc 6). In particular, he updated the Committee on resourcing, executing the 2014 internal audit plan, starting the planned external Quality Assurance Review to be undertaken by the Institute of Internal Auditors, and rolling out the whistleblower web-reporting facility. He also reviewed an updated schedule on country reimbursements on finalised cases of misuse.

Discussion

- Mr Lamb noted that the full audit plan would be presented at the next Committee meeting. If a Committee member required information prior to then, Mr Lamb volunteered to discuss it.
- It was also noted that Gavi should find out the circumstances in countries where there is an obligation to report wrong-doing when it is discovered.

7. Legal/insurance update

- 7.1 Debbie Adams provided an update on Gavi's insurance programme following the appointment of a new broker for Gavi, IFFIm, and the Gavi Campaign (Doc 7). In sum, changes to the policies will result in combined savings of nearly US\$ 700,000 per year over fees paid in 2013 while maintaining an appropriate level of coverage.

Discussion

- The Chair commended Ms Adams, Anthony Brown, and Anne-Sophie Loquen for their efforts to optimise Gavi's insurance arrangements.
- Recognising this was her final meeting with this Committee before departing Gavi, the Committee expressed its appreciation to Ms Adams for her guidance and direction over the past 4.5 years.

8. Potential issuance by IFFIm of a sukuk bond – accounting and audit implications

8.1 Louis Mkanganwi, Director of Financial Reporting and IFFIm Controller, reported that the IFFIm Board had, on 9 October 2014, authorised a potential sukuk issuance to occur in late November or early December 2014. He provided an overview of the deal's structure, noting in particular the need for IFFIm to form a special purpose vehicle (SPV) to issue the sukuk certificates.¹

8.2 Mr Mkanganwi explained the likely accounting and audit implications to Gavi, which would include consolidation of the SPV into Gavi's consolidated financial statements and making certain additional disclosures. The SPV will be domiciled in the Cayman Islands as it is an efficient jurisdiction. Mr Mkanganwi noted that the transaction was structured such that KPMG, Gavi's independent auditor, would have access to the SPV's books and records.

8.3 François Lefebvre noted that the World Bank had reviewed the recommendation of the lead manager to use an SPV in the Cayman Islands for the transaction. He noted that it is an efficient jurisdiction that is acceptable to the World Bank for its financial transparency.

8.4 Debbie Adams confirmed that the SPV's mandate would be strictly limited to facilitating the sukuk transactions and that it would be wound-up as soon as it was no longer needed for these transactions.

Discussion

- Because the sukuk issuance would involve the SPV and IFFIm purchasing and immediately on-selling commodities on a recognised commodities exchange, the Committee was informed as to the likely underlying commodity and whether Gavi or IFFIm took on any of the commodity risk. In sum, because of the immediate on-selling of the metal, it was believed that there would be no commodity risk to Gavi or IFFIm.
- The Committee was informed that the SPV would not be audited by an audit firm in the Cayman Islands but instead unaudited figures would be reported to IFFIm and Gavi and audited by KPMG in London as part of IFFIm's annual audit. It was noted that the 2014 Annual Financial Report would incorporate the SPV if the transaction closed during 2014 as intended.
- The Committee noted that, since the sukuk SPV would be the first SPV ever created for either Gavi or IFFIm, this transaction may set a precedent for how SPVs may be accounted for in the future. Therefore, it was critical that Gavi understood the structure of the SPV and the related accounting implications. Mr Mkanganwi noted that the Secretariat was developing a memo that analysed

¹ **Post-meeting note:** The certificates would be privately placed with investors pursuant to Regulation S under the U.S. Securities Act of 1933.

these questions, and that the memo would be reviewed and cleared by KPMG. The memo would be shared with the Committee for information in due course.

9. Appointment of independent auditor

- 9.1 Barry Greene reminded the Committee that it had previously recommended KPMG's appointment as independent auditor and external tax consultant from 2014 to 2018. However, the Board was subsequently asked to postpone the appointment pending resolution of a matter that had arisen.
- 9.2 Mr Greene informed the Committee that the Secretariat was satisfied with the steps taken to address that matter and he saw no reason to postpone the recommendation any longer.
- 9.3 The Chair concurred with the recommendation, noting that he had informed the Board Chair who was also comfortable proceeding. He suggested recommending the originally envisaged five year term, noting that the engagement letter allows Gavi to change auditors mid-term if the Board so desires.

Decision Three

The Gavi Alliance Audit and Finance Committee:

- **Recommended** to the Board that it:
 - **Appoint** KPMG SA/AG as the independent auditor of the GAVI Alliance for the 5 year term from 2014 to 2018.
 - **Appoint** KPMG SA/AG as the external tax consultant of the GAVI Alliance for the 5 year term from 2014 to 2018.

10. Currency hedging update

- 10.1 Tony Dutson, Senior Director and Chief Accounting Officer, provided an update on Gavi's currency hedging activities. He reminded the Committee that over 95% of Gavi's expenditures are in US Dollars. Therefore, when Gavi receives donations in other currencies, Gavi employs foreign exchange hedging instruments to provide more certainty to the value of future net cash inflows in US Dollars. In doing so, the Currency Hedging Policy requires that over 75% of the proceeding two years of pledge payments be hedged.
- 10.2 Mr Dutson noted that the greatest exposure was in the Pound Sterling and Norwegian Krone but that the proceeding two years of pledge payments were hedged well in excess of 75%.

Discussion

- The Committee agreed to receive a further update on currency hedging at its next meeting when the January 2015 replenishment conference was complete. The Secretariat also agreed to provide the Committee with an update of the Currency Hedging Policy at that meeting.

11. Review of decisions

- 11.1 Kevin A. Klock, Head of Governance and Assistant Secretary, reviewed and agreed the language of Decisions Two and Three with the Committee.

12. Programme funding envelope and US IRS Form 990

- 12.1 Barry Greene referenced an email sent to the Committee on 22 October 2014 in which the Secretariat noted that it would send to the Committee two documents for consideration early in November: a paper outlining the updated financial forecast and seeking recommendation of Board approval for 2015 programme funding envelopes; and the 2013 US IRS Form 990 for information. He offered any members who desired it an informal, discretionary briefing session on 5 or 6 November to answer any questions on the programme funding envelope. After that, the Committee would be requested to recommend the 2015 programme funding envelope to the Board by unanimous email consent.

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
- Shanelle Hall
- Tom Hunstad
- Marcus Koll
- François Lefebvre
- Katherine Taylor

Regrets

- Yifei Li

PPC Members

- Jason Lane (Items 1-3)
- Robert Oelrichs (Items 1-3)
- Rajinder Suri (Items 1-3)
- Jos Vandelaer (Items 1-3)
- Seth Berkley (non-voting) (Items 1-5)

Secretariat

- Debbie Adams
- Adrien de Chaisemartin (Items 1-3)
- Tony Dutson
- Barry Greene
- Anuradha Gupta
- Judith Kallenberg (Item 5)
- Kevin A. Klock
- Simon Lamb
- Louis Mkanganwi
- Robert Newman (Items 1-3)

Guests

- David Sidwell
- Raj Baisya, DFID
- Esther Fox, Department of Foreign Affairs, Trade and Development, Canada
- Kelly Jarrett, Bill & Melinda Gates Foundation
- Violaine Mitchell, Bill & Melinda Gates Foundation (Items 1-3)