



GAVI Alliance Audit and Finance Committee Meeting

9 November 2012

Geneva, Switzerland/Washington, DC, USA

FINAL MINUTES

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 17.05 Geneva time on 9 November 2012. Wayne Berson, Audit and Finance Committee Chair, chaired the meeting.
- 1.2 The Chair and Gustavo Gonzalez-Canali, Programme and Policy Committee Chair, welcomed participants to the joint meeting. (PPC members joined for the parts of the meeting recorded in sections 1, 2a, and 3 of these minutes, and were not in attendance for sections 2b, and 4-11.)
- 1.3 Standing declarations of interest were tabled to the Committee (Doc 01a in the Committee pack). Shanelle Hall, attending the meeting as an observer for UNICEF Supply Division (SD) declared her interest as UNICEF SD is a recipient of funding under the Business Plan.

2. Business plan & budget 2013-2014

- 2a.1 Helen Evans, Deputy CEO, presented the key programmatic aspects of the 2013-2014 Business Plan as had been discussed by the PPC at their meeting in October. She thanked all partners for their contribution in developing the Business Plan. Gustavo Gonzalez-Canali confirmed that the presentation reflected accurately the discussion of the PPC.
- 2a.2 Barry Greene, Managing Director, Finance and Operations, presented the key budgetary aspects of the 2013-2014 Business Plan, highlighting the evolution of expenditures, the distribution of the Business Plan budget, and the budget evolution by partner. He indicated that there is a focus on board priorities to reach the targets by 2015.

Discussion

- The AFC Chair expressed his particular concern with the evolution of the budget for UNICEF Supply Division (SD). The AFC is under pressure from

partners in exercising fiduciary responsibility by looking at costs as a whole. It is necessary to ensure that costs are appropriate to ensure that vaccines get to as many children as possible. He referred to the fact that there is no breakdown in Figure 11 to Doc 02b (UNICEF Supply Division budget) as Chair of the AFC he would have difficulty recommending this aspect of the budget without having a better understanding of the actual costs. The Chair also referred to a letter from the Internal Auditor where he raised questions about the procurement fees and their relationship to actual costs associated with buying activities on GAVI's behalf.

- A number of members of both the AFC and PPC, whilst agreeing that there is a need to keep moving forward, echoed these concerns and commented on the lack of clarity in relation to the figures. They also felt that the note provided by UNICEF (Annex 2 to Doc 02b) did not provide sufficient clarity. After considerable discussion the Committees agreed that they would not be comfortable recommending this part of the budget to the Board without further information.
- Shanelle Hall informed the Committees that the fees paid by GAVI to date for procurement were fixed fees based on an analysis of work carried out in 2009 and that the actual costs were in fact much higher. The fees proposed for the coming years have been based on significant expenditure projections taking into account the delivery of new vaccines, the increasing numbers of doses and the increasing numbers of countries receiving support. The workload for SD will increase greatly and the fees include direct and indirect costs of implementing projects, including transactional costs. She referred to the letter of the GAVI Internal Auditor and suggested that references to an audit of SD had been taken out of context.
- One of the members of the AFC asked that as the Secretariat is currently negotiating a new MoU with UNICEF SD whether it might be possible for the AFC to discuss the new draft before the Board meeting. The Secretariat stated that this would require UNICEF's agreement.
- The CEO indicated in relation to UNICEF Programme Division (PD) that the intention is for UNICEF to be more focused on improving coverage and equity in a number of high priority countries and that it will be necessary to hire staff to do this work. There is a very detailed breakdown on the related costs. In relation to SD there is no question on the value which they bring to the table but on the increasing amounts of fees over this time period.
- One member of the PPC expressed concern about how quickly UNICEF PD will be able to recruit staff and ensure that they are operational. Jos Vandelaer indicated that this had been taken into consideration and that consultants will be used until all relevant staff have been recruited.
- In relation to the 2014 budget for UNICEF PD the Secretariat clarified that 'other' includes items such as EVM assessment work, emergency procurement of cold chain equipment and innovation for approaches on data

quality. It has been gone through in detail and there is justification for the costs.

- One member of the PPC questioned the request in the UNICEF PD budget for a 16% surcharge in relation to Pakistan and it was confirmed that this is an overhead for a dangerous zone charge.
- At the request of one of the members of the AFC the Secretariat confirmed that there are MoUs with quarterly deliverables with the business plan partners.
- One member of the AFC requested clarification on the basis on which the budget for impact assessment studies was calculated. The Secretariat explained that a figure of US\$ 2.4 million had been proposed to the PPC as an envelope for new impact assessments, in addition to those already commissioned, following their request to ensure that such studies are put through the business plan. The PPC had requested that the envelope amount be increased and in consultation with the PPC Chair this amount now stood at US\$ 5 million. The PPC had considered that there is a need to have a placeholder in the business plan and a budget to ensure that there is the ability to do such studies over the next two years.
- The Committees noted, following an explanation from the Secretariat, that a factor reducing the Secretariat budget in 2013 is linked to the movement in foreign exchange rates for the Swiss franc and US dollar. One member suggested in this context that it would be useful to see the figures in relation to the Secretariat presented both in CHF and US\$ to have a better understanding of what is happening over time.

Decision One

The Audit and Finance Committee, in session with the Programme and Policy Committee:

- **Recommended** to the Executive Committee that it, in turn, recommend the 2013-2014 business plan and budget to the Board subject to UNICEF Supply Division submitting the clarifications requested by the committees.

Carry Forward Mechanism

- 2b.1 In session without the Programme and Policy Committee, Barry Greene outlined a proposed carry-forward mechanism for recommendation to the Board (Doc 2b). Currently, when an activity is not completed within the year for which it had been budgeted and must be continued into a subsequent year, a new budget request must be sought. Often this is not feasible because there are times when the extent of the delay cannot be determined before the following year's budget is reviewed and approved. The mechanism addresses this timing issue.

2b.2 The mechanism is not designed to cover every underspent budget or uncompleted project. In fact, there are specific criteria that must be fulfilled for a budget to carry over into the following year, including senior management endorsement and Audit and Finance Committee approval.

Discussion

- It was clarified that the approval of the Audit and Finance Committee could be done through email. It was further clarified that the mechanism covered business plan expenses only (i.e. not country programme budgets).
- Committee members noted that often the expiration of a budget incentivises the budget owner to complete an activity, and that the mechanism could have the unintended consequence of lessening this incentive. Barry Greene emphasised that the mechanism would not be used to automatically shift all underspent budgets into the subsequent year. In fact, the requirement that the CEO or Deputy CEO endorse the request will require a budget owner to adequately justify the need for carrying-forward the underspend.
- Committee members commented that this was a good procedure that is common in other organisations. They also thought it was prudent that the carry-forward authorisation was not automatic, but required senior management and Committee scrutiny.

Decision Two

The GAVI Alliance Audit and Finance Committee:

- **Recommended** to the Board that it approve the budget carry-forward mechanism as outlined in Doc 2b, Section 8.

3. Review of decisions

3.1 Kevin Klock, Head of Governance and Assistant Secretary, reviewed the language of Decision One with the Committees, which was approved by them.

4. Minutes, action sheet, and workplan

4.1 The Committee reviewed the minutes of its meeting on 5 October 2012 (Doc 4a). In addition, the Committee reviewed its action sheet (Doc 4b) and its forward workplan (Doc 4c).

Decision Three

The GAVI Alliance Audit and Finance Committee:

- **Approved** the minutes of its meeting on 5 October 2012.

5. Report of the internal auditor

- 5.1 Cees Klumper, Director of Internal Audit, presented his update on activities since the Committee's meeting in April 2012 (Doc 5). He updated the Committee on pending investigations and a vaccine programmatic risk assessment and audit.
- 5.2 He also referenced the hire of the new Managing Director of Internal Audit, and noted that in the future, these reports would be delivered by this person. They will both attend the Board meeting in Tanzania to assist with the transition.

Discussion

- The Chair emphasised the Committee's gratitude for Cees Klumper's work to grow the internal audit to function and to help enhance the fiduciary assurance of the Board.
- Cees Klumper noted that the timeline for completing the vaccine programmatic risk assessment was dependant on the Secretariat.
- He reported that the Transparency and Accountability Policy (TAP) team was not yet fully staffed but its members' qualifications were strong. The scale up of country responsible officers (CROs) was on-going. The CROs were interfacing with the TAP team well and were sharing lessons learned.
- He also promised to follow-up with the Committee on the planned number of financial management assessments (FMA) anticipated for 2013. He commented that the Secretariat should consider moving the FMA process from the internal audit team to the country programmes team. However, the investigations function ought to remain within internal audit.
- Cees Klumper confirmed that when misuse of funds is reported to the Committee, it includes not only fraud, but also undocumented expenses and worthwhile but ineligible expenses.

6. Independent Auditor Selection and Evaluation Policy

- 6.1 Louis Mkanganwi, Director of Financial Reporting, provided a draft Independent Auditor Selection and Evaluation Policy (Doc 6) following a

request from the Board at its November 2011 meeting to craft a policy for identifying and appointing GAVI's independent auditor. The evaluation element was added at the Secretariat's initiative to enhance the Committee's ability to review performance and take corrective action if required.

Discussion

- It is the policy of the World Bank to not allow the audit or examination of its records by any audit firm other than its incumbent firm. Because the Bank maintains a large portion of the IFFIm and GFA financial records, and these entities constitute a significant part of GAVI's balance sheet, it is likely that the only firm that could provide a clean opinion is the World Bank's audit firm, which is currently KPMG. The Committee was apprised of the advantages and disadvantages of appointing the World Bank's auditor as a matter of course.
- The Committee was satisfied that much discussion and dialogue had occurred in the past between the World Bank and GAVI on auditor selection. It did not find it necessary to request being part of the World Bank's selection process in any official capacity.
- Under the policy, the Alliance would appoint an auditor for a five year term and this term would be on the same cycle as the World Bank's five year term. GAVI would wait for the Bank to make its selection before commencing its appointment process. Then GAVI would issue a request for proposals (RFP) to the Bank's chosen firm and other audit firms so that the Committee could make a recommendation on full information, including the fees to be charged. Even so, Committee members agreed that the chances were slim that they would recommend a different audit firm than that chosen by the World Bank.
- There was some discussion as to whether it would make sense to switch audit teams from time to time. It was noted that the policy allows the Committee to request the independent auditor to switch audit teams. Also, the Chair noted that the US General Accounting Office had performed a study on the value of switching audit teams from time to time but found that the practice rarely provided value. It was further noted that the learning curve to understand the processes at the World Bank was significant and this could lessen the effectiveness of the audit during a transition year.
- The Committee agreed to recommend KPMG to the Board for the 2012 audit. The Chair asked that the Committee be informed when the World Bank had conducted and concluded its appointment process so that GAVI's appointment process could commence by the June 2013 Board meeting.

Decision Four

The GAVI Alliance Audit and Finance Committee:

- **Recommended** to the GAVI Alliance Board that it approve the GAVI Alliance Independent Auditor Selection and Evaluation Policy attached to Doc 6.

- **Recommended** to the GAVI Alliance Board that it:
 - Appoint KPMG SA/AG as the independent auditor of the GAVI Alliance for 2012
 - Appoint KPMG SA/AG to provide Swiss tax services for the GAVI Alliance for 2012
 - Appoint KPMG LLP to provide United States tax services for the GAVI Alliance for 2012.

7. IFFIm/GFA update

- 7.1 Debbie Adams, Managing Director of Law and Governance reported the progress made to date on removing the GAVI Fund Affiliate (GFA) from the IFFIm structure, noting that all parties to the IFFIm Finance Framework Agreement (FFA) had agreed to the new structure and that various legal opinions and signatures were being collected. It was hoped that the effective date would be 31 December 2012.
- 7.2 Debbie Adams also reported that a change to the ratings threshold had been agreed and that the FFA would be amended to reflect this. She reminded the Committee that the ratings threshold required that IFFIm's credit rating be at a certain level in order to approve new programmes. There had been a difference of opinion among the IFFIm donors as to what that threshold should be, but they had come to an agreement.
- 7.3 Finally, Debbie Adams reported that Spain was overdue on its 31 October 2012 payment to IFFIm and that the World Bank, as IFFIm's Treasury Manager, had made required notifications to GAVI, IFFIm, the GFA, the donors, and the ratings agencies. The IFFIm Chair had launched a vigorous campaign to ensure Spain made this payment, including a formal demand and reservation of rights to legal recourse. Other IFFIm donors had also reached out to the Spanish Government during the recent G20 meeting to request that the payment be made. There were now positive signals that Spain will submit payment shortly.

8. Financial forecast/Programme funding envelope approval

- 8.1 Barry Greene reported to the Committee the updated GAVI financial forecast for 2011-2020 (Version 6.0Fb) (Doc 8). He also reported that the Secretariat would request a programme funding envelope from the Board in Tanzania. The envelope would be composed of no more than an aggregate amount of US\$ 600 million in endorsements of total programme budgets and \$1,482 million in near-term programme liabilities.
- 8.2 During this session, he did not address budgets and financial commitments for Cuba, Sudan, and Myanmar.

Discussion

- The total programme budget envelope included the following adjustments:
 - Anticipated reductions to existing programme budgets
 - Extensions of existing programmes
 - Endorsement of health systems funding platform budgets
 - Endorsement of a Measles campaign in Ethiopia

Decision Five

The GAVI Alliance Audit and Finance Committee:

- **Noted** it reviewed the financial implications of the Programme Funding Envelope amount, and that it could be approved by the Board in accordance with the Programme Funding Policy.

8a. Programme funding envelope approval – restricted countries

- 8a.1 During this section of the meeting (8a), Wayne Berson, Dwight Bush, Derek Strocher, and Anne Schuchat did not participate in discussion or voting.
- 8a.2 Barry Greene informed the Committee in session without American citizens and residents that the Secretariat would request a programme funding envelope from the Board in Tanzania for Cuba, Sudan, and Myanmar composed of no more than an aggregate amount of US\$ 15 million in endorsements of total programme budgets and \$20 million in near-term programme liabilities.

Decision Six

The GAVI Alliance Audit and Finance Committee in session without American citizens and residents:

- **Noted** it reviewed the financial implications of the Programme Funding Envelope amounts for Cuba, Sudan, and Myanmar, and that it could be approved by the Board in accordance with the Programme Funding Policy.

Wayne Berson, Dwight Bush, Derek Strocher, and Anne Schuchat did not participate in discussion and voting on this decision.

9. Currency hedging and banking

- 9.1 Tony Dutson, Senior Director of Finance and Chief Accounting Officer, informed the Committee on the implementation of the Currency Hedging Policy, approved by the Board in November 2011. He reminded the Committee that the policy requires him to monitor its implementation and

report to the Committee on the effectiveness of its implementation at least once per year.

- 9.2 He reported that two new banking relationships had been created through authority delegated by the Board to the Treasurer and Chair of the Committee. He noted with appreciation the guidance and input of Derek Strocher from the World Bank during the due diligence stage.
- 9.3 He reviewed the currency composition of cash inflows from donors, how the currency exposure of non-US dollar payments had been (or would be) hedged, and GAVI's present currency exposure. Though most of GAVI's programme expenditures are in US dollars, a particular expense scheduled for December would be paid in euros. Given this, the Secretariat decided to hold an equivalent amount of donor inflows in euros as a natural hedge.

10. Review of decisions

- 10.1 Kevin Klock reviewed and agreed the language of Decisions 2-5 with the Committee. He refrained from reviewing Decision Six.

11. Other business

- 11.1 Tony Dutson reported that the US IRS Form 990 had been completed and filed on time.
- 11.2 Louis Mkanganwi confirmed that KPMG had signed off on all reports related to the 2011 audit and tax filings.

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

Ms Debbie Adams
Secretary to the Board

Attachment A

Participants

Committee Members

- Wayne Berson, Chair
- Dwight Bush
- Dirk Gehl
- Micheline Gilbert
- Tom Hunstad
- Derek Strocher
- Anne Schuchat

Regrets

- Yifei Li

PPC Members (Parts 1-3)

- Gustavo Gonzalez-Canali, Chair
- Clarisse Loe Loumou
- Susan McKinney
- Anders Molin
- Robert Oelrichs
- Jean-Marie Okwo-Bele
- Anne Schuchat
- Jos Vandelaer
- Seth Berkley (non-voting)

Secretariat

- Debbie Adams
- Adrien De Chaisemartin
- Tony Dutson
- Helen Evans
- Joanne Goetz
- Barry Greene
- Kevin Klock
- Louis Mkanganwi
- Nina Schwalbe
- Paolo Sison

Internal Audit

- Cees Klumper

Guests

- Shanelle Hall, UNICEF Supply Division (in part)
- Natalie Revelle, Bill & Melinda Gates Foundation