



GAVI Alliance Audit and Finance Committee Meeting

28 October 2011

Geneva, Switzerland/Washington, DC USA

FINAL MINUTES

1. Chair's report

- 1.1 Finding a quorum of members present, the meeting commenced at 16.02 Geneva time on 28 October 2011. Wayne Berson, Audit and Finance Committee Chair, chaired the meeting.
- 1.2 Standing declarations of interest were tabled to the Committee (Doc 1a in the Committee pack).
- 1.3 The Committee reviewed the minutes of its meetings on 23 September 2011 (Docs 1b and 1c). The Committee requested that the minutes clarify that it would like to see best and worst case scenarios in financial forecasting.
- 1.4 The Committee reviewed its action sheet (Doc 1d) and its forward workplan (Doc 1e).

Decision One

The GAVI Alliance Audit and Finance Committee:

- **Approved** the minutes of its meetings on 23 September 2011 (Docs 1b and 1c).

2. Financial forecast and programme funding

- 2.1 Barry Greene, Managing Director of Finance and Operations and Tony Dutson, Senior Director, Finance and Chief Accounting Officer informed the Committee of the updated financial forecast for 2011-2016, and requested that the Committee confirm that the Board or Executive Committee could endorse budgets and approve funding for GAVI programmes (as outlined in Doc 2), in accordance with the Programme Funding Policy. The forecast incorporated the latest demand estimates, funding decisions taken to date, and the current level of resources. Notably, the latter figure reflected the results of the 13 June 2011 Pledging Conference, additional contributions

from donors, and foreign exchange rate adjustments. Also, the financial forecast was extended through 2016 to provide visibility through the next five calendar years.

Discussion

- The Committee discussed the reasons why forecasted expenditure for 2011-2015 was larger than the February 2011 estimate and forecasted direct contributions had been reduced. The cause of the expenditure increase was an increase in country demand whilst the reduction in direct contributions was due to updated foreign currency assumptions
- The Committee also discussed the risk of pledges not being fulfilled. The Secretariat noted that the Cash Reserve required by the Programme Funding Policy was in place to help mitigate this risk.
- The Committee understood that in 2016 and beyond, additional resources would be needed. At the London conference, GAVI focused on its funding needs through 2015 and had yet to request 2016 funding.

Decision Two

The GAVI Alliance Audit and Finance Committee:

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

3. 2012 business plan budget

- 3.1 Helen Evans, Deputy CEO began by commenting that a budget for 2011-2012 had been previously approved but that as GAVI's financial picture became clearer, it was thought that 2012 budget details could be refined. Now that this process was complete, she reviewed the enhancements to the business plan, which focused on stronger management of risk, customised country focus, data and surveillance, and market shaping activities (Doc 3a).
- 3.2 Next, Helen Evans and Barry Greene reviewed the budget (Doc 3b). The budget is focused on enabling additional activity central to vaccine delivery, including a more customised country-by-country approach, quality and timeliness of data and monitoring, and shaping vaccine markets. There is a 28% increase proposed in business plan expenditure in 2012 over 2011. However, the Secretariat urged that this increase was necessary to adequately resource the Secretariat given the large scale-up in programmatic activity and risk associated with the 123% increase in programme expenditure. Helen Evans also noted that the revised budget compensates for changes in the foreign exchange rate between the Swiss Franc and the U.S. dollar. Finally, an allowance towards a cost of living adjustment ("COLA") and

a small component for performance-based compensation had been included; there had been no COLA in the previous budget cycle.

Discussion

- Seth Berkley, CEO expressed an urgent need to reform how programme delivery activities were undertaken, particularly given the ramp up in introductions. Specifically, the Secretariat has concluded that the activities and numbers of country responsible officers (“CROs”) are insufficient. GAVI needs better intelligence on the ground and to change the role of CROs from advocates to data collectors and grant stewards. It has also become apparent that a customised country approach is required in order to deliver on the results promised in London. The Secretariat proposed that this staff be located in Geneva but that they would undertake regular visits to GAVI countries. Alternatively, placing staff in-country would require wide-ranging discussion with partners and Board members and was not currently envisioned.
- In addition, the Secretariat explained its general plans for staffing up to the levels proposed in the budget. Not all of the new positions would be filled by 1 January 2012 but it had developed a sensible plan for phased-in staffing.
- Some Committee members expressed concern at the balance of activities between the Secretariat and partner organisations. Some of those present who were also PPC members thought this required discussion at the PPC level before going to the Board.
- The Committee requested more information on the rationale behind the proposed CEO reserve. The Secretariat noted that because the CEO was quite new, he had had only a limited time to optimise the activities of the Secretariat, with the programme delivery area having received priority attention. It expressed the view that a reasonable, one-time reserve would allow for flexibility. The Secretariat understood that there were sensitivities surrounding this line item given the financial environment.
- Generally speaking, the concerns the Committee raised were procedural. However, the Committee had diverse opinions as to whether PPC review of the budget would be advisable. Those in favour of this step believed that the information provided to the PPC thus far was insufficient and that the Board may not approve the budget if it believes that the PPC was not informed or was uncomfortable with its contents. Those not in favour of further review voiced that the PPC had already reviewed the cogent parts and that financial review was in the Audit and Finance Committee’s remit. They also expressed reservations that any recommendations coming from the PPC could be successfully incorporated prior to the Board meeting.
- The chairs of the PPC and the Audit and Finance Committee both felt that further PPC review was unnecessary. However, they agreed that the will of the Audit and Finance Committee was to see the budget passed and that a short teleconference of the PPC could enhance the opportunity for that to

occur. Consequently, they asked the Assistant Secretary to schedule a short PPC teleconference with a follow-up meeting of the Audit and Finance Committee to consider a recommendation to the Board.

4. Audit and tax engagement letters

- 4.1 Tony Dutson presented the Committee with the proposed 2011 KPMG audit and tax engagement letters (Doc 4). He highlighted that fees in local currency terms were flat versus 2010. However, since the fees are set in Swiss Francs, the costs were higher in US dollars due to exchange rate fluctuation.

Discussion

- The Secretariat confirmed that the legal team had reviewed the letters.
- The Committee discussed whether it should begin to think about the practice of auditor rotation. It determined that if the service is excellent and the fees are reasonable, there is no reason to go through the expense of rotation. In addition, GAVI for practical reasons must use the same external auditor as the World Bank given the necessity to consolidate the financial positions of IFFIm Company and the GAVI Fund Affiliate (GFA).

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 2011
 - Appoint KPMG SA/AG to provide Swiss tax services for the GAVI Alliance for 2011
 - Appoint KPMG LLP to provide United States tax services for the GAVI Alliance for 2011.
- **Noted** it had reviewed the 2011 audit and tax engagement letters with KPMG SA/AG and KPMG LLP.

5. IRS Form 990

- 5.1 Tony Dutson reported that the Secretariat had completed the IRS Form 990 for the year ended 31 December 2010 and tabled it to the Committee for comment (Doc 5). The Form 990 is the organisation's annual return to the United States' Internal Revenue Service (IRS) as required for entities that are exempt from income tax under US law.

Discussion

- The Secretariat confirmed that filed Form 990s are available to the public on the Internet through a variety of third-party websites.
- The Committee noted the Secretariat's intention to file the Form 990 by 15 November.

6. Currency Hedging Policy

- 6.1 Barry Greene requested that the Committee recommend to the Board approval of a Currency Hedging Policy (Doc 6). GAVI receives contributions and other inflows in a variety of currencies, while its outflows – for programme and business plan expenditures – are incurred mainly in US dollars, with minor components in Euros and Swiss Francs. As such, foreign exchange rate fluctuations create a risk to GAVI. Though GAVI cannot totally eliminate the risk, it can be mitigated through measures outlined in the policy.

Discussion

- To start, the Secretariat confirmed it was looking at simple instruments with short horizons. It was not yet clear what the cost of these instruments would be. The Secretariat noted it would take sensible decisions and report back to the Audit and Finance Committee in due course.
- The World Bank offered to consult on selecting appropriate instruments.

Decision Four

The GAVI Alliance Audit and Finance Committee:

- **Recommended** to the Board that it approve the Currency Hedging Policy.

7. IFFIm/GFA update

- 7.1 Prior to discussion, the Chair reminded the Committee that he also served as Chair of the GAVI Fund Affiliate.
- 7.2 Anthony Brown, Senior Legal Counsel, reported the analysis undertaken to review the role of GFA in the IFFIm structure (Doc 7). He summarised the original rationale for GFA's inclusion in the structure and why those reasons were no longer relevant. Further, he outlined GFA's current role and proposed how a revised structure without GFA could work. Finally, he informed the Committee that this analysis would be shared with the Board at its November 2011 meeting.

Discussion

- The Committee queried as to the level of engagement of the IFFIm Company and GFA boards in this analysis. Anthony Brown confirmed both boards are being heavily consulted, and that much of the work centered on how to potentially distribute GFA's responsibilities among GAVI and the IFFIm Company.

8. Report of the internal auditor

- 8.1 Cees Klumper, Director of Internal Audit updated the Committee on the activities of the internal audit function (Doc 8). In specific, he reported on his audit of the programme delivery department, progress on investigations of misuse, cash programme risk management, and the 2012 budget for the TAP function.

Discussion

- Cees Klumper confirmed that he maintains relationships and dialogue with his counterparts at the Global Fund and other similar organisations. However, he stressed that their programmes and risk profiles have meaningful differences.
- The Committee discussed disclosure of internal audit reports. Cees Klumper noted that a policy was still in formation, but that while he hoped to disclose all reports, the independent review panel assessing the Global Fund recommended not disclosing internal audit reports on its secretariat. It was also added that consideration should be given to the implications on internal audit candour.

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
- Dwight Bush
- Micheline Gilbert
- Derek Strocher
- Anne Schuchat
- Magid Al-Gunaid

Other Board members present

- Gustavo Gonzalez-Canali
- Seth Berkley (non-voting)

Secretariat

- Adrien de Chaisemartin
- Tony Dutson
- Helen Evans
- Barry Greene
- Kevin A. Klock

Internal Audit

- Cees Klumper

Guests

- Lidija Kamara, World Health Organization
- Steve Landry, Bill & Melinda Gates Foundation
- Rob Lin, Bill & Melinda Gates Foundation