

**SUBJECT:           AUDIT AND INVESTIGATIONS REPORT**

**Agenda item:     B**

**Category:           For Information**

## **Section A: Executive Summary**

### **Context**

The Managing Director Audit and Investigations (“A&I”) is required to report to the Board at least annually (detailed reports are made regularly to the Audit and Finance Committee (“AFC”), typically six times per year, and ad hoc as required). Annex A presents a summary background on the activities of A&I for newer Board members who may be unfamiliar with its scope of work and operation. This report updates the Board on:

- The A&I activities undertaken in 2020 and those planned for 2021, with particular regard to assurance activities around the development and operation of the Covax facility, and the deployment of Covid-19 vaccine.
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- The results of the Gavi organisation review as it affects the A&I function.

### **Questions this paper addresses**

- How has the A&I activity – audits, counter-fraud reviews, and investigations – been impacted in 2020 by the Covid-19 pandemic?
- How does A&I plan to undertake its 2021 activity and what work will it be undertaking around the Covax facility and the roll-out of Covid-19 vaccine?
- How has the current experience impacted the reimbursement by countries on identified misuse?
- What changes are taking place in A&I given the Gavi organisation review?

### **Conclusions**

In 2020 A&I has maintained the execution of plan, which was recast (as agreed with the AFC in May) to cater for the current context (including programme audits being put on hold because of travel restrictions). (2) In 2021 A&I will undertake a full roster of work with coverage of both current and new activities relating to the Covax facility and the Covid-19 vaccine deployment. (3) Regarding reimbursement on misuse, while there has been some slowing of the repayment timing, the overall recovery against schedule has remained high (after allowing for some rescheduling of repayments) at 94%. (4) A&I has adopted a moderate reconfiguration of its structure through a pooling arrangement to ensure team members can be deployed more flexibly against agreed priorities.

## **Section B: Audit and Investigations Report**

### **1. Audit and Investigations 2020 Activity**

- 1.1 The Board was briefed at its June meeting on the impact of the pandemic on A&I activity given the need for remote working, the inability to travel to countries to conduct programme audits and investigations, and the focus of Secretariat staff on replenishment and Covax development. The workplan was recast in May with AFC approval, and most of the 2020 audit and counter-fraud work internal to the Secretariat has been undertaken as intended. While some inefficiencies have arisen in consequence of the context - most particularly the limited capacity of Secretariat management and staff to engage in audits given replenishment and Covax - in general a reasonable roster of work has been undertaken and progress made in completing a number of outstanding audits. The AFC has been updated on progress throughout the year.
- 1.2 Many programme audits and investigations result in determinations of misuse and the need for reimbursement - which is a key principle in ensuring that Gavi can provide assurance on the proper use of donated resources. The final determination for reimbursement is made by Country Programmes management in liaison with A&I, and it is they who manage the repayment process with country. A number of countries have requested an extension of the timeframes for reimbursement given the fiscal tightening many are experiencing – and others have missed repayment dates. Nonetheless, the recovery rate against the schedule of reimbursement remains high at 94% (after allowing for the rescheduling of payments). Gavi has determined that no waiver of committed repayments will be allowed, consistent with the principle that Gavi must be made whole on any identified misuse.
- 1.3 Since 2009 when Gavi became an independent agency, the total misuse identified through Gavi audits and investigations is US\$ 44.2 million of which US\$ 34.3 million has been repaid. Of the US\$ 9.9 million outstanding, US\$ 2.3 million is overdue, which the Senior Country Managers are following up. This analysis is routinely updated and presented to the AFC.

### **2. Audit and Investigations 2021 Plan.**

- 2.1 The 2021 A&I plan was agreed with the AFC in October. There was significant emphasis placed on the need to provide assurance around the set-up and operation of the Covax facility, and the delivery of Covid-19 vaccines. It was also agreed that it was important to ensure that there was adequate audit and counter-fraud activity covering the normal operations of Gavi ('Core Gavi'). This is because the operation of Gavi, particularly as it transitions into the 5.0 strategy, incurs heightened risk given the ambition that 5.0 represents. Beyond this, there are many aspects of the Covax facility and the Covid-19 vaccine delivery which will draw upon the existing capability of Core Gavi and Ministries of health and therefore it was important to ensure that these activities would be subject to review.

- 2.2 Normally, the basis by which A&I agrees priorities for audit coverage with management and AFC is through a structured risk assessment. While this was applied to Core Gavi activities as usual, this approach was not suitable for the yet-to-be finalised Covax facility. Therefore, there will be an on-going risk assessment and determination of those activities which should be subject to audit/review –with regular updates to management and AFC to ensure there is alignment of A&I’s work relative to expectation.
- 2.3 Notwithstanding the dynamic nature of the Covax development, a number of aspects have been agreed as areas for focus:
- a) Management’s risk mitigation around the Covax facility (drawing on the analysis undertaken by Gavi’s Risk function, as recommended by AFC for the Board’s approval).
  - b) Project management around the facility development and operation.
  - c) The operationalisation of the facility which will include procurement and possibly financial cost allocation (subject to confirmation of the scope of work to be undertaken by Deloitte). Other aspects of the operationalisation will be included as their nature becomes clear.
  - d) Possibly Gavi’s financial risk management incorporated in the design of the facility, again subject to the scope of work which may be undertaken by Deloitte.
  - e) The vaccine allocation mechanism, looking at how the agreed algorithm is implemented in practice including the building of any supporting models.
  - f) Vaccine deployment and supply chain management recognising the risks of diversion and fabrication which are novel for the Covid-19 vaccine compared to Gavi’s traditional portfolio of vaccines.
- 2.4 The latter issue is particularly significant for Gavi. Based on A&I’s programme audits and investigation activity, the typical experience on misuse is that while the provision of cash grants represents a higher risk, vaccines represent a relatively low risk (though they carry exposure to operational loss in the normal course of business). For the Covid-19 vaccine this relationship is inverted. Generally, the operational cost of immunisation will be borne by countries and there will be little cash grant support by Gavi. However, the vaccine demand is likely to be higher than supply, with the cost relatively high compared to those traditionally supported by Gavi. It should also be recognised that in some countries the supply chain management is not as strong as would be liked, and inventory management has not been developed with the security needs in mind of a vaccine which is highly in demand.
- 2.5 One key aspect of the 2021 audit activity will be the resumption of programme audits in-country which had been put on hold because of the travel restrictions. These have resumed where possible using local consultants (though the scope of coverage will likely be more limited than

would normally be the case). The first such audit began in November 2020 and this will be closely monitored as the basis for future programme audits to be undertaken while travel restrictions are in place. Given the inability to undertake programme audits throughout most of 2020, it is intended that additional activity will take place in 2021, which will be especially beneficial in helping assess the novel exposures of the Covid-19 vaccine roll-out.

### **3. Investigations/Counter-fraud Activity and Whistleblower Reporting**

- 3.1 It was agreed with AFC that A&I should focus its investigative capacity on counter-fraud activity in 2020. It was intended that any major investigations would be supported by outsourcing, if necessary, to facilitate this prioritisation - but there has been no major investigation requirement in the period. Any investigative activity necessary to support reports received was undertaken without compromising the emphasis on counter-fraud.
- 3.2 The responsibility for managing and mitigating fraud risk in Gavi is with executive and line management. Therefore, the focus of the counter-fraud activity has been on assessing the suitability of the counter-fraud environment and the effectiveness of the processes and controls that management has established. This is a continuous activity for A&I (and the areas of emphasis for 2021 have already been agreed with AFC). The main focus in 2020 has been on:
- a) Assessing the prime fraud exposures (building on a strategic assessment previously conducted) and reviewing the operation of controls in place with responsible management, agreeing prioritisation and enhancement where appropriate.
  - b) Undertaking work to ensure that the awareness of fraud risk is appropriately established, and that staff and managers are aware of the channels available to them to report any concerns they have. Relevant activities which are taking place include: the development of counter-fraud guidelines; the development and piloting of conflicts of interest training; and an assessment of the operation of the whistleblower reporting hotline and recommendations to improve the ease of reporting.
- 3.3 The confidential whistleblower reporting line operates to receive reports from staff across the Gavi Alliance and any third party who has relevant concerns. Any matters may be raised through the reporting facility relating to financial or programmatic misuse, or other misconduct generally (including sexual exploitation, abuse and (sexual) harassment - though no such reports have been received). Reports received have been resolved or are being followed up - though certain activities are on hold pending a resumption of travel (all possible remote follow-up activity having been completed). The AFC receives regular updates on reports received and the follow-through in both open and closed sessions of the committee according to the sensitivity of the matter in hand.

#### **4. Results of the A&I Organisation Review**

- 4.1. A&I leadership has participated in the McKinsey-facilitated organisation review. The purpose of the initiative overall is to ensure that Gavi is appropriately organised, efficient and effective, to support the achievement of the Gavi 5.0 strategy. While A&I is not a direct contributor to Gavi's strategic delivery, the opportunity was taken to re-examine the organisation of the department to ensure working arrangements are aligned with 5.0, and that A&I is 'fit-for-purpose' in that respect.
- 4.2. A&I has previously set out its strategy of auditing Gavi, considering risk in a more holistic manner, by better integrating the audit and counter-fraud activities within the Secretariat with those in-country. This is to ensure that processes can be examined effectively end-to-end, and to identify cause-and-effect better to help facilitate effective remediation. The review of A&I organisation was undertaken with these objectives in mind.
- 4.3. The key outcome of the review is that A&I will operate on a pooled staffing arrangement, established on a flexible basis (as A&I wants to retain the clustering of skill specialisms built up over the years, and also there are preferences across team members to undertake certain types of work). In this configuration, team members will operate within a single shared pool while retaining a 'home' manager relationship with their current manager for their core activities with the possibility of reporting to another 'product' manager for ad hoc engagements as these arise. Managers outside of the pool arrangement will retain their current responsibilities.
- 4.4. Although the organisation changes will be introduced at the same time as Gavi overall, there will be a gradual transition to these arrangements over an extended time period so as to ease the reorientation.

#### **5. Independence**

- 5.1 As required in the A&I Terms of Reference, approved by the Board, the Managing Director Audit and Investigations will confirm A&I's independence at least annually to the Board. Having considered the operation of A&I in practice, and its reporting structures, I confirm to the Board the organisational and operational independence of the A&I function.

### **Annexes**

#### **Annex A: Audit and Investigations: Background**

## Annex A: Audit and Investigations: Background

The Board approved the reconstitution of the audit function from a single person Internal Audit activity in December 2014. A&I comprises the third line of defence being independent of Gavi's core activities and oversight functions and reports to the Board, which is achieved through routine reporting to the AFC, and the Chief Executive Officer. Audits are conducted against annual plans approved by the AFC, drawn from a risk-based assessment of priority.

The A&I function was therefore established in February 2015 with a 13-person authorised headcount. In December 2015 the Board approved the function's charter ("Audit and Investigations Terms of Reference", ToR), reflecting this reconstitution. This document sets out the basis of operation of the function, and its reporting relationship to the AFC and Board.

The A&I function undertakes four main activities:

- Internal Audit which is an independent and objective assurance and consulting activity to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
- Programme Audit which conducts audits of programmes in-country to assess whether: a) programmes are operating with appropriate systems and processes in a manner consistent with the requirements of the Partnership Framework Agreement (PFA) agreed between country and Gavi, and is sufficient to support an independent and sustainable programme after transition from Gavi support; b) Gavi support, including cash, vaccines and related supplies, have been used as intended to provide value-for-money, considering both financial and programmatic aspects.
- Investigations and Counter-Fraud which conducts an evidence-based examination of possible misuse and other misconduct within Gavi, in Gavi-supported programmes in-country, or which otherwise impact upon the organisation. It conducts preventive activities to minimise the risk of such conduct occurring and/or impacting the organisation.
- Whistleblower Reporting which receives reports from internal and external sources, on potential: financial or programmatic misuse; sexual exploitation, abuse and (sexual) harassment; or other misconduct.

While each audit or investigation provides insight in its own right on Gavi's risk exposure and its mitigation, the accumulation of the function's body of work forms an institutional knowledge base of risk and control.