

SUBJECT: REPORT FROM AUDIT AND INVESTIGATIONS

Agenda item: 11

Category: For Information

Section A: Introduction

- The Managing Director Audit and Investigations (“A&I”) is required to report to the Board at least annually (detailed reports are otherwise made regularly to the Audit and Finance Committee (“AFC”), typically six times per year, and *ad hoc* as required). This report updates the Board on:
 - The Audit and Investigations activities since the last Board report of June 2017 and is a high level summary of matters reported to AFC.
 - The on-going development of A&I as a function which is able to effectively assess the risks to which Gavi is exposed, communicate them appropriately to stakeholders (internally and externally), and agree plans of remediation.
- The Board approved the reconstitution of the audit function from a single person Internal Audit activity in December 2014 (as part of Gavi’s enhancement of its risk management activities incorporating the three lines of defence model, a commonly used configuration of risk management). A&I comprises the third line of defence being independent of the operational activities of the first two lines, and reports to the Board, which is effected 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 established in February 2015 with a 13 person authorised headcount. The Board approved the function’s charter of operation (“Audit and Investigations Terms of Reference”, ToR), reflecting this reconstitution, in December 2015. The A&I function comprises 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 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 misuse or other misconduct.
- While each piece of audit work provides in its own right insight on risk, risk management, and mitigation recommendations, the body of audits undertaken builds cumulatively over a period of time into an institutional knowledge base of risk and control within Gavi. This remains an important objective for the still-maturing A&I function. However, with three years' experience, there are already insights which can be leveraged as will be discussed at the meeting.

Section B: Status Update

1. Internal Audit

- 1.1 Since February 2015 when the department was reconfigured, 21 internal audits and one review have been completed (expected to be 27 by year-end 2018). This risk coverage provides a significant insight on the operation of controls across the Secretariat though a full cycle of audits has not yet been completed.
- 1.2 In discussion with the AFC it has been agreed that to achieve a desired four year cycle of internal audit coverage that A&I undertakes a process of low risk verification reviews on those areas of the Secretariat which are regarded, a priori, as low risk in nature (the significant majority of activities within the Secretariat). The purpose of these will be to review and validate the low risk nature of the activities undertaken, or else, if they are deemed to be of higher risk (in whole or in part), determine what further audit work should be taken. These reviews will be undertaken in the second half of 2018.
- 1.3 It is essential that issues raised in audits are remediated as appropriate and that A&I tracks and validates their closure. Overall, A&I considers that management is being responsive to the issues identified and is remediating them appropriately while recognising that some issues may be slower to close than originally envisaged at the time of finalising audits. A 'deep dive' assessment of the process of managing open issues, and a review of those which are open, is to take place at AFC's June meeting.

2. Programme Audit

- 2.1 Since February 2015, 28 programme audits have been completed (expected to be 34 by year-end 2018). Briefing sessions for donors are

provided on the results of programme audits before the relevant reports are posted to the Gavi web, in keeping with agreed practice.

- 2.2 The resolution of programme audit issues is essential to ensure lessons learned are applied so as to enable the strengthening of programmes in country and country capacity, and to reduce the likelihood of misuse occurring. There is no automated means yet of tracking resolution of programme audit issues – instead their resolution is overseen by Senior Country Managers as part of overall programmatic enhancement – but new systems have been developed which will facilitate the tracking of closure in the future and A&I is liaising with Country Programmes to determine if there is a means to monitor and report on the resolution of such issues.
- 2.3 Beyond the remediation of issues identified in individual programme audits, A&I continues to work with the Secretariat, Country Programmes in particular, on enhanced measures to mitigate the likelihood and impact of issues which occur across a number of programme audits and which are thematic in nature. The Board was briefed on this last year and an update will be provided at the meeting.
- 2.4 A&I tracks the reimbursement of amounts identified in audits and investigations as misused. Cumulatively, since the start of Gavi as an independent entity in 2009, approximately US\$ 31 million has been identified as misused in country programmes and agreed for reimbursement. Against agreed schedules of repayment, US\$ 22.7 million is due for repayment (the remaining US\$ 8.3 million has been agreed for reimbursement but is either not yet due or else a schedule of reimbursement has not yet been agreed). The overall recovery rate on amounts due remains high at 98% (representing US\$ 22.3 million of reimbursements received). In addition to financial misuse, certain audits have identified cases of mismanaged vaccine and countries may have been requested to 'make-whole' by procuring additional vaccines or by cash reimbursement where country systems have been determined to be deficient.

3. Investigations and Counter-Fraud

- 3.1 Since February 2015 nine investigations and other reviews, internal and external, have been undertaken.
- 3.2 Counter-fraud activity. The last year has required a number of investigations of significant intensity to be undertaken which have been prioritised relative to counter-fraud work. Consequently, no counter-fraud activity has been undertaken in the period.

4. Whistleblower Reporting

- 4.1 As previously reported to the Board, Gavi operates an on-line whistleblower facility to allow third parties to report any concerns to Gavi confidentially and/or anonymously. Few reports have been received through that mechanism; other reports are received both directly by A&I and via Gavi staff though these too are few in number. All reports are assessed for

credibility and appropriate follow-through determined. This may lead to further follow-up in an audit or investigation, or if insufficient information is provided to allow effective follow-up, a reporting may be monitored for further information to help determine ultimate resolution.

5. Development of the Audit and Investigations Function

- 5.1 The Managing Director Audit and Investigations is responsible for the on-going development of the A&I function to ensure that it is fit for purpose. Three years on from its reconstitution, the A&I function is still maturing however a good base of activity has been established. The Board approved a headcount of 13 staff in December 2014 and all those positions have been initially filled. One position is currently open and an offer has recently been made to an external candidate. Audit management systems were introduced in May 2017 – an essential element in ensuring the effective operation of the A&I function to quality.
- 5.2 Significant time has been spent working with partners and third parties to determine if enhanced efficiency and effectiveness can be obtained on the conduct of audits.
- a) Collaboration with the Office of the Inspector General (OIG) at the Global Fund (GF). An extensive exercise was conducted with OIG in 2016 to identify countries in which there may be operational overlap – considering commonality of financial management, supply chain systems, and in-country assurance - to provide opportunities to identify synergies. An audit of the programmes in Zambia was undertaken in 2017 in collaboration with the OIG to evaluate whether there is scope for enhanced efficiency and effectiveness of audit. The teams worked together and obtained a number of benefits in terms of sharing intelligence and communicating certain common themes identified to the Ministry of Health. However, there was insufficient overlap between the operating models of the GF and Gavi to enable a joint audit to be executed. This conclusion is consistent with previous experiences: there are limited synergies to be gained in common audit execution because the systems and structures are not common, and nor is there overlap between the personnel who execute and oversee the respective programmes. OIG and A&I will continue to share intelligence, review planned activity and seek opportunity for shared activity and synergy where possible. To that effect, a programme audit currently in execution is leveraging additional testing by the OIG of vaccine management at health centres which the OIG team was visiting as part of their own audit activity – a collaboration which has been undertaken previously.
- b) Greater synergies are to be expected in working with the core partners within the Alliance:
- (i) Audit work is on-going this year on vaccine management in collaboration with the audit functions of UNICEF and WHO to determine whether enhanced audit assurance can be obtained through co-ordinated activity.

- (ii) Audit results from programme audits in countries where funds are channelled through partners are being shared with partners to determine if enhanced models of oversight and support in country may be developed. This initiative is being undertaken in collaboration with the first and second lines of defence of the Secretariat and partners. An update on this work will be provided at the meeting.
- 5.3 Subject to the completion of ongoing and/or emerging investigative activities, it is intended that counter-fraud work within the Secretariat, with partners, and in programmes, will resume.
- 5.4 A&I Terms of Reference (ToR). As described above the ToR set out the basis of operation of the A&I function. They are Board-approved on the recommendation of the AFC (the last approval being December 2015 following the reconstitution of the A&I activity); changes to the ToR must also be approved by the Board. I have reviewed the ToR to assess whether they continue to be adequate to enable A&I to accomplish its objectives. By the time of the Board meeting, I will have recommended to the AFC that no changes are necessary at this time as the ToR continue to be appropriate to the needs of the A&I function.
- 5.5 External Quality Assessment (EQA). The professional standards against which the A&I function operates require that an independent EQA is undertaken on a cycle of no more than 5 years. An EQA was undertaken in Q1 2015 on the then one-person Internal Audit function (pre-reconstitution). The results were shared with the Board and a full remediation plan was prepared and completed for the Internal Audit activity, with progress regularly reported to the AFC. It is intended that an EQA will be performed on the reconstituted audit activities once the Programme Audit function is mature and when the new audit management systems are fully operational with a sufficient history of completed audits to allow an effective EQA to be conducted. It has been agreed with the AFC that an EQA will be conducted in 2019, one year earlier than the professional standards require.
- 5.6 Independence. As required in the ToR, the Managing Director Audit and Investigations will confirm at least annually to the Board A&I's independence. 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.