

**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 undertaken with a focus on the overall activity since the reconstitution of the function in 2015.
  - The on-going development of A&I as a function which is able to assess effectively the risks to which Gavi is exposed, communicate them appropriately to stakeholders (internally and externally), and evaluate plans of remediation prepared by management as being responsive to the issues identified in the course of audit.
- 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 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. The ToR have been newly updated and are presented to the Board for approval on the consent agenda, based on the AFC’s recommendation of its April 2019 meeting.
- 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. The A&I function is now approaching four years of experience and this briefing describes in outline the insights gleaned and the basis by which the future working focus of the A&I function will be informed.

## **Section B: Status Update**

### **1. Audit and Investigations activity 2016-2019**

1.1 Internal Audit (three staff). The objective of the Internal Audit activity is to review and evaluate all of Gavi's processes. The type of audit conducted is determined according to the understood risk of each process: higher risk (being approximately 9% of the total processes) are subject to a broad and intense testing-based assessment; medium risk (38% of the total), are subject to a testing-based assessment of the key controls only; lower risk (53% of the total) are subject to a limited scope risk validation without testing. The purpose of this tiered approach adopted half-way through the four-year target cycle of coverage, is to align the focus and capacity of the internal audit activity against the perceived risks. Following execution of the audit plans over these past years, the following areas were identified as representing the highest risks at the time of audit.

- a) Grant management, particularly as it relates to the timely disbursement of funds, grant closure and the accounting for residual grant balances in-country, and the consistent and effective operation of the grant management process. A significant initiative was established for the management of residual grant balances and this activity is now considered to be under control, but a final operational solution will be dependent upon the implementation of enhanced systems to support grant management generally, and residual grants specifically.

- b) Finance, particularly as it relates to certain operating controls and segregation of duties. A significant remediation effort has taken place over the last year in this respect and the successful implementation of the Enterprise Resource Planning (ERP) application, SAP, will finalise many of the outstanding items for remediation. This is likely to provide a basis for some improvements in grant management through improved reporting but alone will not satisfy the improvements necessary for the grant management process and it is intended that this further development will follow on from the SAP implementation.
- c) Technology, particularly as it relates to cyber-security, disaster recovery and contingency planning, and project management. Good progress has been made with respect to the management of cyber-security; enhancements are in progress for the other areas and this will continue through this year and into early next year for certain aspects.

In each of these cases, responsible management has regularly presented to the AFC on current status and plans for further improvement responding to the audit findings.

- 1.2 Programme Audit (seven staff). By the end of 2019, this team will have completed 42 audits of programmes covering financial and fiduciary issues but also certain aspects of programmatic management especially as it relates to vaccine logistics management. In addition to regular audits in-country, the team has worked on identifying themes emerging from individual audits (as previously shared with the Board) and has undertaken advisory work with Country Programmes management on certain key themes relating to budget management.
- 1.3 Investigations and Counter-Fraud (one staff). Investigations has undertaken eleven investigations in this four-year period, both internal within the Secretariat and external in programmes. The ability to undertake counter-fraud work has been more limited though a review of fraud exposure was completed; in 2019 and on-going, as agreed with the AFC, it is planned that significant focus will be applied to the conduct of counter-fraud activity which may require redeployment of A&I staff from time to time.
- 1.4 Whistleblower Reporting
  - a) Gavi provides a whistleblower reporting capability to allow third parties to report any concerns to Gavi confidentially and/or anonymously. The Managing Director A&I is the Compliance Officer for Gavi's whistleblower reporting, and this capability is run in conjunction with the Director of Legal. 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 report may be monitored on-going for further information to help determine ultimate resolution.

- b) The AFC receives general updates on whistleblower activity, and the AFC Chair is updated on specific reports received and their management. The AFC received a closed session briefing on whistleblower activity at its November 2018 meeting, and such briefings are to be scheduled annually in future.
  - c) The introductory narrative to the whistleblower reporting page on Gavi's website has been extended in the last 12 months to clarify that it specifically accepts reports relating to 'sexual exploitation, abuse and (sexual) harassment'; none have been received.
- 1.5 It is key that there is effective follow-up by Gavi and programme management in-country on the results of audits and investigations to ensure there is accountability on remediation and that opportunities for enhancement of process and control are implemented.
- a) A&I tracks the reimbursement of amounts identified as questionable in audits and investigations. Cumulatively, since the start of Gavi as an independent entity in 2009, US\$ 35.4 million has been identified for reimbursement in country programmes and agreed for repayment. Against agreed schedules, approximately US\$ 30.1 million is due for repayment (the remaining US\$ 5.3 million has been agreed for reimbursement but is not yet due). The overall recovery rate on amounts due remains high at over 99% (representing reimbursements received of US\$ 29.9 million).
  - b) A&I tracks the remediation of issues identified in internal audits and reports these to management and the AFC regularly.
  - c) As previously discussed with the Board, as A&I does not have a regular presence in countries which have been subject to audit, it is reliant upon the responsible Senior Country Manager to ensure that there is appropriate follow-up to implement. A&I is now working with Country Programmes management to establish routine systems and processes by which A&I may in future be routinely updated on the resolution of recommendations.

## **2. Developing Audit and Investigations Strategy, 2020 and Beyond**

- 2.1 The end of 2019 marks the completion of four full years of audit and investigation activity. There has been a need to ensure A&I coverage of all Gavi risks with a focus on those which are regarded as most significant. There is now significant insight resulting on the operation of process and controls. In future, drawing on these insights, it will be possible to consider how A&I may undertake its work in a way that is more focussed on the key risks, delivering an understanding of risk which is more tailored to the needs of management and stakeholders. The activities of audit and investigations will likely remain the mainstay of the function but there is scope to amend the way in which this work is undertaken, and already there are a number of examples of ways in which A&I have conducted its work so as to respond more effectively to needs. Further, the development of strategy will consider the

extent to which A&I can build on the past collaboration with a variety of audit, investigatory and other assurance activities across the Alliance and beyond to create strategic alliances which may enhance A&I's operating capability.

- 2.2 Therefore, in the second half of 2019 it is intended that A&I will undertake a consultative exercise with relevant management and stakeholders, managed to an appropriate number, with the objective of exploring alternative ways of delivering insight and assurance. Ultimately the results of this work would be reviewed and discussed with Secretariat management and the AFC with a view to informing choices which will be presented in the 2020 audit plan for approval. It is envisaged however that this approach will inform choices about the conduct of A&I's activity not only in the coming year but in future years. All work will continue to be undertaken within the framework set out by the ToR, as approved by the Board.

### **3. External Quality Assessment (EQA)**

- 3.1 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. As agreed with the AFC, it is intended that an EQA will be performed on the reconstituted audit activities in Q4 2019.

### **4. Independence.**

- 4.1 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.