

**INTERNAL AUDIT REPORT
DUE DILIGENCE PROCESS ON NEW NON-SOVEREIGN
DONORS
MARCH 2016**



Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board that a Due Diligence process on Non-Sovereign Donors (NSDs) is in place and that it is robust.

Through our audit procedures, we have confirmed that the key risks associated with the Due Diligence process of NSDs are well understood and are being effectively managed.

We have identified certain areas where there is opportunity to improve the design and operating effectiveness of internal controls to reduce the chance that an incident and/or controversy involving a donor will bear heavy reputational consequences on Gavi.

Internal Audit Issue Summary

Issue Description	Rating	Ref	Page
Guidelines for Due Diligence Process on Non-Sovereign Donor(s)	Medium	2015-06.01	3
Process of Review and Monitoring of Reported Incidents	Medium	2015.06.02	6
Completeness of Quarterly Due Diligence Reports	Medium	2015.06.03	6
Reporting Timeline of the Quarterly Monitoring Report of Matching Fund Partners	Low	2015.06.04	7

Summary Performance Ratings on Areas Reviewed

For ease of follow up and to enable management to focus effectively in addressing the issues in our report, we have classified the issues arising from our review in order of significance: High, Medium and Low.

In ranking the issues between 'High', 'Medium' and 'Low', we have considered the relative importance of each matter, taken in the context of both quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter. This is in accordance with the Committee of Sponsoring Organisation of the Treadway Committee (COSO) guidance and the Institute of Internal Auditors standards.

Rating	Implication
High	Address a fundamental control weakness or significant operational issue that should be resolved as a priority
Medium	Address a control weakness or operational issue that should be resolved within a reasonable period of time
Low	Address a potential improvement opportunity in operational efficiency/effectiveness

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Distribution

Title
Managing Director RMPSP
Director, European Strategy
Senior Manager, Global Expert Services

For Information

Title
Chief Executive Officer
Deputy Chief Executive Officer
Managing Director, Audit & Investigations
Executive Team
Manager, Global Expert Services
Analyst, Global Expert Services
Head, Risk

Summary of Findings

Audit Objective

Our audit assessed the design and operating effectiveness of the key controls in the Due Diligence process for Non-Sovereign Donors (NSD) and to establish whether there are robust processes in place to mitigate risk that an incident and/or controversy involving Non-Sovereign Donors will bear adverse reputational consequences on Gavi.

Audit Scope and Approach

We adopted a risk-based audit approach informed by our assessment of the internal controls and risks associated with the Due Diligence process. We reviewed a sample of monthly screening requests of prospective NSDs and corresponding reports, quarterly monitoring reports of Matching Fund Partners, master due diligence spreadsheet/database, minutes of the New Business Committee (NBC) meetings, NSD agreements, policies and guidelines to ascertain the existence, adequacy and effectiveness of the controls within the Due Diligence process.

This audit was designed to assess the:

- Design and operating effectiveness of the key controls;
- Economy and efficiency of the utilisation of resources;
- Quality of implemented governance and risk management practices; and
- Compliance with relevant policies, procedures, laws, regulations and where applicable donor agreements.

The scope of this audit covered the following key processes in the Due Diligence process:

- Maintenance of the master due diligence spreadsheet/database
- The 'basic' and 'thorough' screening process
- Deep dive prospect risk assessment memo process (for prospects nearing partnership agreement)
- The reporting process i.e. search firms' risk assessment reports, flagged incidents and quarterly monitoring reports of Matching Fund Partners
- The process of legalising the relationship/terminating the relationship with a Non-Sovereign Donor

- The continuous monitoring process of existing Non-Sovereign Donor (Due Diligence)
- Escalation process – for borderline new partnerships
- New Business Committee process – way of evaluating in-kind and cash partnerships (due diligence to evaluate pros and cons of relationship – weighing lift of partnership to Gavi)

Background

The Due Diligence process for Non-Sovereign Donors is managed by Global Experts Service (GES) team within the Resource Mobilisation and Private Sector Partnership's (RMPSP) team. RMPSP's mission is to mobilise higher levels of predictable and sustainable long-term funding from both public and private donors to finance Gavi's growing programmes and develop private sector operational partnerships, that lead to catalytic and irreversible positive impact for Gavi-supported countries.

Gavi is funded by governments, corporations, foundations and private entities. From 2000 to 2015, 77% (US \$ 8.99 Billion) of Gavi's funding came from governments, 22% (US \$ 2.58 Billion) from foundations, corporations and organisations, and the remaining 1% (US \$ 0.13 Billion) came from the private sector.

In 2014, a total of 17 non-sovereign donors made donations to Gavi Alliance and 216 through Gavi Campaign. In 2015, the number increased to 21 for the Gavi Alliance while donations through the Gavi campaign dropped to 83.

Gavi engages third party search firms to carry out a portion of the Due Diligence work on potential Non-Sovereign Donors (private individuals, private institutions, foundations and associations) during first stage of prospect engagement - before signing a partnership agreement.

A Master Due Diligence Spreadsheet is maintained using Microsoft Excel and 482 organisations screened either through basic or thorough screening. Five Gavi users have access to search firm's global platform (database) which has 11,312 screened companies.

Summary of Findings

Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the existence, adequacy and effectiveness of controls over the Due Diligence process.

We reviewed a sample of monthly screening request of prospective NSDs and corresponding reports, quarterly monitoring reports of NSDs who are part of the matching fund partners, master due diligence spreadsheet/database, minutes of the New Business Committee meetings and NSD agreements, policies and guidelines.

Through our audit procedures, we have confirmed that the risks associated with the due diligence process of NSDs are well understood and are being effectively managed. We have identified certain areas where there is opportunity to improve the design and operating effectiveness of internal controls to mitigate the risk that an incident and/or controversy involving a donor will bear adverse reputational consequences on Gavi as summarised below.

Summary of Issues Arising

Our audit identified three medium rated issues and one low rated issue. A summary of the medium rated issues identified along with the agreed management actions is provided below:

Guidelines for Due Diligence Process on Non Sovereign Donors

There are no approved guidelines for the Due Diligence process on Non Sovereign Donors. The draft guidelines were developed in 2014 but are yet to be reviewed and approved by management. There is a need to have all the Due Diligence process guidelines finalised and approved to ensure that there is clarity on how to deal with incidents and/or controversies involving NSDs that could have potential reputational consequences on Gavi. The guidelines and policies that are currently being used or in draft form but have not yet been approved at the management level are: Private Sector Due Diligence process/guidelines and the Gavi Matching Fund donation guidelines version 1.0.

In addition, we noted that there is a need to develop Anonymous and in-kind donations from NSDs.

Process of Review and Monitoring of Reported Incidents

We were unable to find documented evidence of how two incidents involving two private sector partners with potential reputational consequences on Gavi were dealt with by the Resource Mobilisation & Private Sector Partnership (RMPSP) team.

In addition, we have reviewed all minutes of the RMPSP leadership team meetings and see no documentary evidence of regular review of the quarterly due diligence monitoring reports on the existing Matching Fund partners submitted by the contracted professional firm. We note that some of the prospective donor issues from monthly screening reports are discussed at the RMPSP leadership team meetings.

Completeness of Quarterly Due Diligence reports

In our audit review, we noted two incidents involving matching fund partners with potential reputational consequences that were not highlighted in the quarterly monitoring reports submitted by the contracted professional firm.

Agreed Management Actions

In general we find that the RMPSP team has been aware of the risks associated with NSDs and has acted in the best interest of Gavi. Many of the observations in this report relate to the documentation of decision and processes- steps that will be necessary to protect Gavi from risks if and when they materialise.

We will continue to work with management to ensure that the audit issues are adequately addressed and the required actions are undertaken.

We take this opportunity to thank the RMPSP team for their assistance during this audit.

<Signature>

Chrysantus Nyongesa,
Head of Internal Audit

Appendix 1: Detailed Findings and Recommendations

Issue No.	Issue Rating	Issue Description	Risk/Implication	Recommended Actions	Management Comments	ET Member/ Action Owner	Target Completion Date	Status
2015-06.01	Medium	<p>Guidelines for Due Diligence Process on Non-Sovereign Donor(s)</p> <p>1. Private Sector Due Diligence Guidelines</p> <p>We noted during the audit review that there are no approved guidelines for the Due Diligence process on Non Sovereign Donors. The Private Sector Due Diligence guidelines were developed in 2014 but are yet to be reviewed and approved. There is need to have the guidelines finalised and approved by management to ensure that there is clarity on how to deal with incidents and/or controversies involving NSDs that could have potential reputational consequences on Gavi. For instance, there is lack of clarity on how the following incidents should be handled:</p> <ol style="list-style-type: none"> Any significant incident involving a private sector partner with potential reputational consequences on Gavi Any significant incidents and/or controversies involving senior management of NSDs with potential reputational consequences on Gavi Any significant incidents and/or controversies involving inactive NSDs that are still on Gavi's marketing materials/Gavi website How to handle borderline incidents or exceptions When the quarterly reports of the search firm do not pick incidents and/or controversies involving NSDs with potential reputational consequences on Gavi. 	<ol style="list-style-type: none"> Risk of partnering with NSDs whose activities are incompatible with Gavi's role and mission as an organisation focused on saving children's lives and protecting people's health e.g. reputational Laundering, Tax Evasion and/or terrorism financing from shell Charities. Increased risk of unpleasant surprises due to lack of clarity on how to deal with incidents and/or controversies involving NSDs with potential reputational consequences. 	<p>It is recommended that Management:</p> <ol style="list-style-type: none"> Reviews and approves the Private Sector Due Diligence guidelines Updates the guidelines to ensure that they provide clarity on how to deal with the various potential incidents and/or controversies involving NSDs, senior management staff of NSDs, crisis management, inactive NSDs and borderline cases with potential reputational consequences on Gavi. 	<p>Management agrees with the recommendation. The RMPSP department is currently finalizing their private sector approach for 2016-2020. The approved guidelines will be included in the annex of the document.</p>	<p>MD, RMPSP</p> <p><i>Senior Manager, Global Expert Services, RMPSP</i></p> <p><i>Analyst, Global Expert Services, RMPSP</i></p>	31 July 2016	Open

Appendix 1: Detailed Findings and Recommendations

Issue No.	Issue Rating	Issue Description	Risk/Implication	Recommended Actions	Management Comments	ET Member/ Action Owner	Target Completion Date	Status
		<p>2. Guidelines on Anonymous Donations</p> <p>Gavi receives anonymous donations through the Gavi Campaign from Foundations, Institutions, Companies and Philanthropists. However, we noted that there are no guidelines on how and what kind of due diligence should be carried out before the donations are accepted. Currently anonymous donations are reviewed and decided on a case by case basis e.g. the case of US \$1.5 Million received in 2014 from a High Net Worth Individual that was reviewed by a special internal committee formed to specifically look at the case and advice senior management.</p>	<ol style="list-style-type: none"> 1. Increased risk of accepting donations from individuals or entities that do not share Gavi's values as a organisation focused on saving children's lives and protecting people's health 2. Increased risk of partnering with individuals or entities that are involved in incidents and/or controversies that may have reputational consequences on Gavi. 	<p>Management should develop the Anonymous donations guidelines to mitigate the highlighted risks.</p>	<p>Management agrees with the recommendation. The RMPSP department is currently finalizing their private sector approach for 2016-2020. The anonymous donor guidelines will be addressed in the annex of the document.</p>	<p>MD, RMPSP <i>Senior Manager, Global Expert Services, RMPSP</i> <i>Analyst, Global Expert Services, RMPSP</i></p>	<p>31 July 2016</p>	<p>Open</p>
		<p>3. The Gavi Matching Fund Donation Guidelines Version 1.0. (2011-2015)</p> <p>The Gavi Alliance Matching Fund 1.0 donation guidelines were approved in August 2011. We noted the following exceptions during our review:</p> <ol style="list-style-type: none"> a) The guidelines were revised in November 2011 and have not been approved since then b) According to provision 1.2 of the guidelines, a set of criteria was to be developed before further solicitation of matching fund partners. The criteria was developed and is included in the ToR of the New Business Committee. However, provision 1.2 has not been updated to make reference to this criteria. c) Provision 3 of the matching fund guidelines conflicts with clause 3.6 of MoU between Gavi and the two matching fund Alliance partners. The guidelines require Gavi to engage a professional firm to screen 	<ol style="list-style-type: none"> 1. Loss of Gavi Matching Fund Donors' support in the event that Gavi engages a private partner that does not meet the agreed eligibility criteria 	<p>We note that the Matching Fund MoU continues to be in effect till 31 December 2017, but only specific funds can be matched after November 2016. Given that Gavi will seek new ways to increase the private sector's participation in the 2016-2020 strategy period:</p> <ol style="list-style-type: none"> 1. The Matching Fund guidelines should be revised and approved in line with the 2016-2020 private sector strategy (MF 2.0) 2. The guidelines should be harmonised with the MoU. 	<p>Management agrees with the recommendation. The RMPSP department is currently finalizing their private sector approach for 2016-2020. The matching fund guidelines will be included in the annex of the document and harmonised with any current MOUs.</p>	<p>MD, RMPSP <i>Senior Manager, Global Expert Services, RMPSP</i> <i>Analyst, Global Expert Services, RMPSP</i></p>	<p>31 July 2016</p>	<p>Open</p>

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		<p>each company to ensure that there is compliance with the letter and spirit of all donations criteria after which a committee of three representatives drawn from Gavi and the two matching fund Alliance partners is supposed to oversee implementation of the guidelines.</p> <p>On other hand, the MoU requires Gavi to conduct due diligence on potential matching fund partners and then periodically submit their details to the matching fund Alliance partners for approval prior to any formal engagement by any Participant.</p>						
		<p>4. Guidelines on In- Kind donation</p> <p>We noted that there are no guidelines on in-kind donation from NSDs.</p>	<ol style="list-style-type: none"> 1. Increased risk of unpleasant surprises, incidents or controversies involving in-kind NSDs that could have reputational consequences on Gavi. 2. Risk that Gavi will not be able to promptly and proactively address adverse incidents/controversy involving in-kind NSDs. 	<p>Management should:</p> <p>Ensure that in-kind donation guidelines are developed and that NSDs are subjected to the due diligence process.</p> <p>Furthermore, the New Business Pipeline and Process implemented in Q2 2015 should ensure that there is a formal review process for all new private sector donor arrangements, including in-kind donations.</p>	<p>Management agrees with the recommendation. The in-kind principles and guidelines are to be developed as part of the implementation of the private sector approach priority area of 'Integration.'</p>	<p>MD, RMPSP</p> <p><i>Senior Manager, Global Expert Services, RMPSP</i></p> <p><i>Director, Global Operational Partnerships, RMPSP</i></p>	<p>31 Dec 2016</p>	<p>Open</p>
2015-06.02	Medium	<p>Process of Review and Monitoring of Incidents Reported Quarterly by Contracted Professional Firm</p> <p>The contracted professional firm submits quarterly reports to Gavi on any incidents involving Matching Fund Partners. One of the reports submitted between quarter 1 and 3 of 2015 touched on adverse media reports about</p>	<ol style="list-style-type: none"> 1. Increased risk of unpleasant surprises, incidents or controversies involving matching fund partners that could have 	<p>Management should:</p> <p>Consider making review of the monthly screen reports and quarterly monitoring reports of matching funds</p>	<p>Management agrees with the recommendation. These matters will be made a standing</p>	<p>MD, RMPSP</p> <p><i>Senior Manager, Global Expert</i></p>	<p>30 June 2016</p>	<p>Open</p>

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		<p>a matching fund partner's unethical business conduct while another report indicated that there were reports in the media about one of the matching fund partner's business operations that potentially fail to meet the matching fund eligibility criteria. One of the partners has been inactive since 2011.</p> <ol style="list-style-type: none"> 1. We have not been able to evidence how these two incidents were dealt with by the Global Expert Service Team and donor managers within the Resource Mobilisation & Private Sector Partnership (RMPSP) Team and New Business Committee (RMPSP leadership team forum) 2. In addition, we have reviewed all NBC minutes and have not been able to see documentary evidence of regular review of quarterly due diligence monitoring reports on the existing Matching Fund partners submitted by the professional firm. <p>We do note that some of the prospective donor issues from monthly screening reports were discussed at the NBC.</p>	<p>reputational consequences on Gavi.</p> <ol style="list-style-type: none"> 2. Risk that Gavi will not be able to promptly and proactively address adverse incidents/controversy involving matching fund partners 	<p>partners a standing agenda item of the NBC.</p>	<p>item on the NBC agenda.</p>	<p><i>Services, RMPSP</i> <i>Analyst, Global Expert</i> <i>Services, RMPSP</i></p>		
2015-06.03	Medium	<p>Completeness of Quarterly Due Diligence Reports</p> <p>In our audit review, we noted that there were two incidents involving two existing Matching Fund Partners that were not reported at all by the contracted professional firm in the quarterly monitoring reports to Gavi.</p>	<ol style="list-style-type: none"> 1. Increased risk of unpleasant surprises, incidents or controversies involving matching fund partners that could have 	<ol style="list-style-type: none"> 1. There is a need to have periodic review of the performance of the contracted professional firm against agreed KPIs. 	<p>Management agrees with the recommendation and TOR will be revised and</p>	<p>MD, RMPSP <i>Senior Manager, Global Expert</i></p>	<p>30 June 2016</p>	<p>Open</p>

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		<ol style="list-style-type: none"> One of the incidents relates to a partner who generates more than 10% of revenues from activities that potentially do not meet the matching fund eligibility criteria. The other incident relates to adverse media reports about key management personnel of one of the matching fund partners. 	<ol style="list-style-type: none"> reputational consequences on Gavi. Risk that Gavi will not be able to promptly and proactively address adverse incidents/controversy involving NSDs 	<ol style="list-style-type: none"> The Terms of Reference of the contracted professional firm should be revised to reflect 'SMART' objectives and make the service provider more accountable 	strengthened accordingly.	<p><i>Services, RMPSP</i></p> <p><i>Analyst, Global Expert Services, RMPSP</i></p>		
2015-06.04	Low	<p>Reporting Timeline of the Quarterly Monitoring Report of Matching Fund Partners</p> <p>In our audit review, we noted that there is lack of clarity on when quarterly monitoring reports of existing matching fund partners should be submitted to Gavi by the contracted professional firm. This is not defined in the agreement (<i>Exhibt A6; _2403 2015</i> under provision C; Deliverables and Timeline nor Provision 2- Monitoring Report of Gavi Matching Fund Partner).</p>	Risk of delay in responding to adverse incidents or controversies relating to matching fund partners.	<p>We recommend the following:</p> <ol style="list-style-type: none"> The Global Expert Services(GES) Team and New Business Committee should review the monthly screening requests and quarterly monitoring reports regularly There is need to have periodic review of the performance of the service provider against agreed KPIs. The Terms of Reference of professional firm should be revised to reflect 'SMART' objectives that make the firm more accountable. 	<p>Management agrees with the recommendation and the periodic review has been set as a standing agenda item. The TOR will be revised and strengthened accordingly.</p>	<p>MD, RMPSP</p> <p><i>Senior Manager, Global Expert Services, RMPSP</i></p> <p><i>Analyst, Global Expert Services, RMPSP</i></p>	30 June 2016	Open