

**INTERNAL AUDIT REPORT**  
**IFFIm's Operations: Review of Key Processes**  
**MARCH 2017**



## Conclusion

Our audit procedures were designed to provide assurance to the IFFIm Board and the Gavi Board regarding the design and operating effectiveness of the key controls in place to ensure proper oversight of outsourced services of the International Finance Facility for Immunisation Company (“IFFIm”) and adherence to relevant reporting deadlines.

IFFIm uses long-term pledges from donor governments to sell 'vaccine bonds' in the capital markets, making large volumes of funds immediately available for Gavi programmes. Pursuant to the Finance Framework Agreement entered into among IFFIm, the Grantors, the Treasury Manager, and Gavi, IFFIm has no employees. IFFIm outsources all administrative support to Gavi, and outsources its risk management, treasury function, together with certain accounting and financial reporting support, to World Bank as Treasury Manager.

Through our audit procedures we have confirmed that the risks associated with the key processes of IFFIm are well understood and are being effectively managed including oversight of key processes outsourced to the Treasury Manager. In particular, the Treasury Manager’s expertise and quality of service provision to IFFIm has been instrumental in IFFIm’s low funding cost and reputation in the financial markets as a premiere issuer of social bonds.

As set out in the detailed description of the scope of this audit, significant activities are undertaken by the World Bank as Treasury Manager and these were not reviewed in this audit as they are undertaken outside of IFFIm.

We have noted a control weakness related to the oversight process of IFFIm’s overall performance and results reported by the Treasury Manager. The overall performance and results of IFFIm are heavily dependent on fair value movements of pledges, pledge swaps, bonds issued and swaps associated with the bond issuances. However, IFFIm does not seek explanations for these fair value movements to be able to understand the overall performance of the entity. We understand that going forward, the Treasury Manager will be required to provide quarterly analytics and explanations for review by the Gavi Secretariat team managing IFFIm activities.

## Key Internal Audit Issue Summary

| Issue Description   | Rating | Ref | Page |
|---|--------|-----|------|
| Oversight of IFFIm’ Overall Performance and Results                                     |        |     |      |
| The oversight process of IFFIm’s overall performance and results requires strengthening | M      | 1   | 3    |

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# Summary of Findings

## Audit Objective and Scope

The objective of this audit was to provide assurance to senior management and the Board regarding the design and operating effectiveness of the key controls in place to ensure proper oversight by the Gavi Secretariat of outsourced services and adherence to relevant reporting deadlines.

This audit was designed to assess the:

- Design and operating effectiveness, where possible, 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.

This audit focused mainly on the oversight role of the Gavi Secretariat team (i.e. managing IFFIm activities) of the operational processes that have been outsourced to the treasury manager, rather than the operational processes themselves due to the World Bank's single audit principle. In addition, this is in line with the Treasury Management Agreement between IFFIm and the treasury manager which states in clause 16.17 that neither IFFIm, nor any other person (except for the treasury manager's auditing firm acting under the engagement of the treasury manager) shall be permitted to have access to any books of account or other records maintained by the treasury manager. Therefore the following key activities undertaken by the treasury manager on behalf of IFFIm were not covered in this audit:

- Risk management (preparation and implementation of the strategy);
- Investment management (preparation and implementation of the strategy);
- Formulating recommendations for the IFFIm Strategies and in respect of other matters of policy;
- Preparation, implementation and annual review of the IFFIm Funding Strategy aimed at minimizing funding costs, ensuring stable and continuous market access and raising public awareness of IFFIm's objectives;

- Negotiation and entering into rating agreements with the Applicable Rating Agencies and management of the relationship on behalf of IFFIm;
- Management of investor outreach and marketing efforts;
- Monitoring the funding needs of IFFIm and ensuring that it maintains sufficient available resources in a manner consistent with the IFFIm Strategies to meet the aggregate amount of disbursements for Approved Programmes;
- Identification of funding opportunities which, offer a reasonable opportunity to achieve the objectives of the IFFIm Funding Strategy;
- Financial policy advice;
- Management services with respect to Grant Payments;
- Funding transaction execution;
- Account administration; and
- Execution of any and all transactions and operations in connection with the Treasury Management Services.

The audit also covered the key processes outsourced to Gavi.

## Summary of Findings

Through our audit procedures, we have identified one medium-rated issue as summarised below.

### Oversight process of IFFIm's overall performance and results requires strengthening

IFFIm overall performance and results are heavily dependent on fair value movements of pledges, pledge swaps, bonds issued and swaps associated with the bond issuances.

We noted a control weakness related to the oversight process of IFFIm's overall performance and results reported by the treasury manager. IFFIm does not seek explanations for the fair value movements to be able to understand the overall performance of the entity.

This is one of the recommendations made by the external auditors during the audit of the 2015 financial year that had not been closed as at 31 March 2017. We understand that going

# Summary of Findings

forward, the Gavi Secretariat team managing IFFIm activities will require the treasury manager to provide quarterly analytics for review.

## Other low-rated issues identified

In addition, we identified two low-rated issues related to compliance with IFFIm reporting deadlines by the outsourced service providers and oversight of process of agents/consultants contracted by Gavi to file returns/certificates/audited reports & financial statements on behalf of IFFIm. A detailed analysis of all issues raised, including low-rated issues, is included in the appendix.

## Background

The International Finance Facility for Immunisation Company ("IFFIm") is a multilateral development institution incorporated as a private company, and registered as a charity in England and Wales. IFFIm has control over IFFIm Sukuk Company Limited ("IFFImSC") and IFFIm Sukuk Company II Limited ("IFFImSC II"), Cayman Islands companies established for the sole purpose of issuing sukuk certificates in support of IFFIm's operations.

Launched in 2006, IFFIm was the first aid-financing entity in history to attract legally-binding commitments of up to 20 years from donors and offers the "predictability" that developing countries need to make long-term budget and planning decisions about immunisation programmes.

IFFIm benefits from US\$ 6.5 billion in donor contributions over 23 years from the governments of the United Kingdom, France, Italy, Norway, Australia, Spain, The Netherlands, Sweden and South Africa.

IFFIm uses long-term pledges from donor governments to sell 'vaccine bonds' in the capital markets, making large volumes of funds immediately available for Gavi programmes. IFFIm has raised more than US\$ 5.7 billion to date. IFFIm then disburses the funds to Gavi to support various Gavi vaccine procurement, immunisation and HSS programmes.

From its inception to 31 December 2015, IFFIm approved a total of US\$ 2,983 Million for

disbursement to help fund Gavi's Country-Specific Programmes and investment cases. Over the past five years, innovative finance mechanisms have generated 27% of Gavi's cash receipts.

Pursuant to the Finance Framework Agreement entered into among IFFIm, the Grantors, the Treasury Manager, and Gavi, IFFIm has no employees. IFFIm outsources all administrative support to Gavi, and outsources its risk management, treasury function, together with certain accounting and financial reporting support, to a Treasury Manager.

We will continue to work with management to ensure that the audit issue and improvement opportunities we have identified are adequately addressed and any required actions undertaken.

We take this opportunity to thank all the teams involved in this audit for their on-going assistance.

Head Internal Audit

# Appendix 1: Detailed Audit Finding & Improvement Opportunities

| Issue No. | Issue Rating | Issue Description   | Risk/Implication   | Recommended Actions for Management   | Management Comments   | Action Owner   | Target Completion Date | Status |
|-----------|--------------|---|--|--|---|--|------------------------|--------|
| 2017.03.1 | Medium       | <p><b>Oversight process of IFFIm's overall performance and results requires strengthening</b></p> <p>IFFIm overall performance and results are heavily dependent on fair value movements of pledges, pledge swaps, bonds issued and swaps associated with the bond issuances.</p> <p>We noted a control weakness related to the oversight process of IFFIm's overall performance and results reported by the treasury manager. IFFIm does not seek explanations for the fair value movements to be able to understand the overall performance of the entity.</p> <p>This is one of the recommendations made by the external auditors during the audit of the 2015 financial year and that was yet to be closed as at 31 March 2017.</p> | Management may not have a full picture of the overall performance of the entity.   | We recommend that management requests for and receives at least on a quarterly basis explanations for fair value movements (of pledges, pledge swaps, bonds issued and swaps associated with the bond issuances) to better understand the overall performance of the entity. | The World Bank has confirmed that, commencing with the first quarter of 2017, it will provide quarterly analytics to the Gavi secretariat for review. From its review, the Gavi secretariat will identify and communicate any audit-related or other significant issues that require the Board's attention.   | Director, Financial Accounting & Reporting, and IFFIm Controller | 30 June 2017           | Open   |
| 2017.03.2 | Low          | <p><b>There is need to enforce full compliance with the reporting requirements of the Treasury Management Agreement</b></p> <p>a) We identified one instance in 2015 where the treasury manager failed to meet the reporting deadline for submission of the audited US GAAP reporting package to IFFIm (treasury management agreement requirement). This reporting package is critical in the preparation of the audited trustees' report and consolidated UK GAAP Financial Statements</p>   | IFFIm may be late in the preparation of the audited trustees' report and consolidated UK GAAP Financial Statements for submission to the various authorities e.g. Luxembourg stock exchange and Japan authorities. | Management should ensure that there is prompt follow up with various service providers whenever a key deadline is missed to understand the circumstances behind this and to avoid recurrence.  | <p>Recommendation noted.</p> <p>a) IFFIm's 2014 Reporting Package was received from the World Bank on 5 June 2015, which was five days after the 31 May 2015 due date. Gavi's Financial Reporting Team maintains regular communication with the World Bank with respect to its delivery of reporting packages and other audit related items and no other such instances have occurred since; IFFIm's 2015 Reporting Package was received from the World Bank on 27 May 2016, prior to its 31 May 2016 due date and the 2016</p> | Director, Financial Accounting & Reporting, and IFFIm Controller | Next reporting period  |        |

# Appendix 1: High & Medium Rated Detailed Findings & Recommendations

| Issue No. | Issue Rating | Issue Description   | Risk/Implication  | Recommended Actions for Management  | Management Comments   | Action Owner   | Target Completion Date | Status |
|-----------|--------------|---|---|---|---|--|------------------------|--------|
|           |              | for submission to the Luxembourg stock exchange and the stock exchange in Japan by 30 June.<br>b) Similarly, the 2016 reporting deadline for submission of IFFIm Sukuk II company accounts for incorporation into IFFIm UK GAAP Financial Statements was not met by the firm that has been contracted to prepare these accounts.  |   |   | Reporting Package was received on 31 March 2017, the due date per the new accelerated reporting timeline.<br><br>b) IFFIm Sukuk II Company's 2015 management accounts were received from MaplesFS on 1 April 2016, which was only one day after the 31 March 2016 due date. The delay was due to logistical reasons and did not impact timing of any financial reporting work. Gavi's Financial Reporting Team maintains regular communication with MaplesFS with respect to timely delivery of management accounts and other audit related items; IFFIm Sukuk II Company's 2016 management accounts were received from MaplesFS on 1 February 2017, prior to the 31 March 2017 due date. |  |                        |        |
| 2017.03.3 | Low          | <p><b>Oversight of agents/consultants contracted by Gavi on behalf of IFFIm requires strengthening</b></p> <p>a) IFFIm has contracted agents in Luxembourg and Japan for purposes of filing the audited trustees' report and consolidated UK GAAP Financial Statements with the respective stock exchanges by 30 June. We have not been able to independently verify whether the audited report and Financial Statements were submitted to the Luxembourg and Japanese authorities on time for the period under review.</p> | IFFIm may not be able to independently confirm whether it is in compliance with the reporting requirements of various authorities given the risk associated with noncompliance. | We believe there is an opportunity to improve the accountability process by contracted agents regarding filing of returns/certificates/audited reports & financial statements on behalf of IFFIm. Contracted agents should be required to maintain proper documentary proof where the filing cannot be evidenced and/or independently verified either through correspondence or on the websites of the various authorities. | Recommendation noted.<br><br>a) Slaughter and May, IFFIm's solicitor, manages the filing of IFFIm's annual accounts with the Luxembourg and Japanese authorities and provides confirmation that the filings have been done by the 30 June due date each year. There have been no exceptions to-date.<br><br>b) KPMG, IFFIm's tax services provider until 2016, filed IFFIm's Senior Accounting Officer documentation annually with HMRC and provided confirmation that the documents were filed by their 30 September due date each year. There have been no exceptions to-date.  | Director, Financial Accounting & Reporting, and IFFIm Controller | 30 September 2017      |        |

# Appendix 1: High & Medium Rated Detailed Findings & Recommendations

| Issue No. | Issue Rating | Issue Description  | Risk/Implication | Recommended Actions for Management | Management Comments  | Action Owner | Target Completion Date | Status |
|-----------|--------------|--|------------------|------------------------------------|--|--------------|------------------------|--------|
|           |              | <p>b) IFFIm is required to file the senior accounting officer notification and certificate with the HMRC (UK tax authority). There is an email from the tax consultant confirming that the certificates for the period under review were filed on time. However, we have not been able to independently verify compliance either to correspondence from the HMRC or on the HMRC website.</p> |                  |                                    | <p>Per the recommendation, the process will be explored with Slaughter and May and IFFIm's tax services provider to determine if any filing receipt proof can be provided.</p> |              |                        |        |



## Appendix 2: Summary of Performance Ratings and Distribution List

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 the relative magnitude and the nature and effect on the subject matter. This is in accordance with the Committee of Sponsoring Organisations of the Treadway Committee (COSO) guidance and the Institute of Internal Auditors standards.

| Rating | Implication   |
|--------|---|
| High   | Address a fundamental control weakness in relation to internal controls, governance and/or risk management that should be resolved as a priority          |
| Medium | Address a control weakness in relation to internal controls, governance and/or risk management that should be resolved within a reasonable period of time |
| Low    | Address a potential improvement opportunity in relation to internal controls, governance and/or risk management   |

### Distribution

#### Title

Managing Director, Finance & Operations

### For Information

#### Title

Chair, IFFIm Audit Committee

Chief Executive Officer

Managing Director, Audit & Investigations

Senior Director, Finance

Director, Financial Accounting & Reporting

Director, Innovative Finance

Director, Legal