

INTERNAL AUDIT REPORT

Use of Monitoring Agents and Fiduciary Agents
July 2022



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Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the adequacy and effectiveness of key controls in the fiduciary risk assurance and mitigation processes specifically those related to use of Monitoring and Fiduciary Agents.

The Secretariat has developed a new strategic approach for Fiduciary Risk Assurance and Financial Management of cash grants for Gavi 5.0. It is anchored on three objectives: promoting timely and efficient funding of immunisation activities; building ownership and capacity; and ensuring fiduciary risk assurance and mitigation.

Gavi's strategy for the management of fiduciary risk in the cash grant portfolio has evolved over time. From an initial approach of relying on annual external audits for independent assurance over its grant portfolio, Gavi gradually introduced other risk assurance options to address specific country risks. This included mainly Fiduciary Agents and more latterly Monitoring Agents.

We assessed the design and operating effectiveness of key controls relating to the use of Monitoring and Fiduciary Agents and concluded that they are adequately designed and generally well implemented. In addition, the risks associated with the process are well understood and being managed. However, some medium risk rated issues were identified that may present a moderate risk to the achievement of the objectives some of which are summarised below.

Summary of Key Audit Issues

Ref	Description	Rating*
1.1 Sourcing, selection and contracting of fiduciary risk assurance providers.		
	Address the inconsistencies in the sourcing process of risk assurance providers.	Medium
1.2 Contract management including performance evaluation.		
	Address the control weaknesses related to performance evaluation of MAs/FAs.	Medium
1.3 Tracking and monitoring of Monitoring Agents' recommendations.		
	Enhance the process of tracking and monitoring MA and FA recommendations.	Medium
1.4 Structured collaboration among Secretariat teams.		
	Enhance the level of structured collaboration among the Secretariat teams to make the process of MAs and FAs more effective.	Medium
1.5 Definition of fiduciary risk management roles and responsibilities.		
	Clarify roles and responsibilities in the fiduciary risk assurance process.	Medium
1.6 Fiduciary risk assurance standard operating procedures (SOPs)		
	Document comprehensive standard operating procedures for fiduciary risk assurance and mitigation processes.	Medium

* The audit ratings attributed to each section of this report, the level of risk assigned to each audit finding and the level of priority for each recommendation, are defined in annex 2 of this report.

1. Summary of Issues

Through our audit procedures, we have identified six medium risk issues relating to the fiduciary risk assurance process with focus on use of monitoring and fiduciary agents as summarised below.

1.1 Sourcing, selection and contracting of fiduciary risk assurance providers.

Address the inconsistencies in the sourcing process of risk assurance providers.

Although primary bidding was competitively carried out for COVAX MAs, we observed the inclusion of additional local bidders who had not been previously prequalified. This inconsistency in the sourcing process was noted in three out of the seven contracts reviewed. After we highlighted the sourcing inconsistencies to the Director, PFM and Managing Director, Finance & Operations, immediate corrective direction was provided for the countries which were yet to procure a COVAX MA. Subsequently, we selected another sample of 18 countries for review and confirmed that the inconsistencies in the sourcing process of COVAX MAs had been addressed following our initial review.

The inconsistent application of procurement regulations may discourage vendors from participating and/or responding to future RFPs and impact Gavi's reputation. In addition, Gavi may not receive full value for money where inconsistencies in sourcing for assurance providers arise.

1.2 Contract management including performance evaluation.

Address the control weaknesses related to performance evaluation of MAs/FAs.

As per the PFM Quality Review (QR) guidance note, "QRs are required for Fiduciary Agents (FA) and Monitoring Agents (MA) at least on an annual basis or at the end of the contract agreement if its duration is shorter than 12 months." We noted through our audit procedures that four out of the ten sampled Quality Review assessments done by the PFM and SCM teams did not have supporting comments/feedback to justify performance ratings provided.

In addition, there is no provision in the current process to obtain independent feedback from the recipients of the service (i.e., countries) regarding the performance of the assurance providers. This feedback should be considered and incorporated in the performance evaluation of the assurance providers.

There is need for the Procurement team, PFM focal points and SCMs to ensure that the approach applied for performance scoring and evaluation of assurance providers is consistent with the 'letter and spirit' of the procurement policy and manual. This will ensure that contract renewal of service providers is based on the quality and consistency of work performed.

1.3 Tracking and monitoring of monitoring agent recommendations.

Enhance the process of tracking and monitoring MAs and FAs recommendations.

As defined in the objectives of the MA contracts, the assurance service provider is supposed to provide monitoring services in-country to support the roll out of vaccines. The MA is expected to have continuous and ongoing engagement with Gavi, the concerned Ministry of Health (MoH) and Alliance Partners. In addition, the MA should share regular reports with Gavi and the Alliance Partners with recommendations for improvement.

However, we noted through our audit procedures that the current process does not accord Gavi full visibility over the status of implementation of recommendations provided by monitoring agents for each country. Lack of a clear process for tracking and monitoring improvement recommendations may result in identified risks not being mitigated in a timely manner. In addition, monitoring agents' reports are useful to the extent that actions or improvement recommendations from them are tracked and monitored until there is full remediation. We recommend that the PFM team should develop a central database tracker to manage submission of reports by assurance providers. The tracker should additionally capture key recommendations arising from assurance providers' reports.

When assurance reports and recommendations are not formally tracked or monitored, remediation of the gaps noted may not happen in a timely manner potentially leading to materialisation of the risks.

1.4 Structured collaboration among Secretariat teams.

Enhance the level of structured collaboration among the Secretariat teams to make the process of using MAs and FAs more effective.

We conducted a survey of the Senior Country Managers and PFM focal points as part of our audit procedures on how the fiduciary risk assurance process is currently working and how it can be enhanced. Some of the observations are that:

- It is challenging to always get full collaboration of country support counterparts in the execution of the MA and FA mandate in-country. This calls for constant supervision and monitoring from PFM.
- The process of developing TORs and the scope of work to request for costed proposals could be faster and better coordinated between PFM and procurement.
- Coordination with SCMs/ Country Teams on engagement and performance monitoring needs enhancement.
- There is lack of capacity building of country systems in the MA model and that MAs/FAs are generally quite good at flagging risks, but challenges persist at the country level in terms of actual mitigating/resolving risk situations.
- Some of the MA reports prepared are not of good quality as they do not have clear and accurate improvement-oriented recommendations.

In our opinion, the PFM team should implement a structured process of engagement with the Country Support team on a periodic basis e.g., through surveys or meetings. Such a process can be rolled into the established Quality Review process to enable focus and identification of any bottlenecks related to the design and operating effectiveness of the fiduciary risk assurance process and to ensure it works as envisaged and so that it adds more value.

1.5 Fiduciary risk assurance roles and responsibilities

Clarify roles and responsibilities in the fiduciary risk assurance process.

Although roles and responsibilities have been broadly defined in the PFM mandates, roles and responsibility document, additional clarity needs to be provided on roles and responsibilities within the fiduciary risk assurance process. Examples of gaps noted are ownership and responsibility for developing, updating, and communicating fiduciary risk assurance guidelines and responsibility for renewing or cancellation of assurance provider contracts. We recommend that the Secretariat hastens the completion of the workstream between PFM and CS teams to develop role matrices that clearly define the Responsible, Accountable, Consulted, and Informed roles/responsibilities.

Clearly defined roles and responsibilities minimise the risk of overlap, duplication, and lack of ownership and accountability. In addition, it ensures that time and effort is targeted at the right focus areas.

1.6 Fiduciary risk assurance standard operating procedure (SOP) guidelines

Document standard operating procedures for fiduciary risk assurance and mitigation processes.

At an operational level, several guidance notes have been issued over time relating to fiduciary risk assurance and mitigation. Some of the guidance notes were issued prior to the formation of the new PFM function. There is need to consolidate and harmonize these guidance notes into a single standard operating procedure. In our opinion, the PFM team should develop a comprehensive fiduciary risk assurance SOP guideline for approval to be circulated to all relevant internal stakeholders involved in managing these risks. The document should consider the new approach approved by the Board, the reorganisation of the PFM function and provide a standardised reference from which implementation can occur.

The lack of clear guidelines causes delays in the sourcing and onboarding of fiduciary assurance providers. This ultimately results in known risks not being adequately mitigated on a timely basis.

2. Background

Gavi's focus on lower-income and therefore typically lower-capacity countries and its commitment to aid effectiveness principles (relying on, building on, and ensuring alignment with existing country systems, including joint financing and monitoring mechanisms, to the greatest extent possible) comes with inherent risks to its operational model. According to the latest Vaccine Alliance Risk and Assurance Report, some of Gavi's top risks include:

- **Country Management Capacity** – this is the risk that many countries may have insufficient EPI capacity and capabilities to maintain, restore and strengthen immunization programmes and reach zero-dose communities due to weak existing systems and technical capabilities, weak management capabilities, insufficient human resources or retention challenges, insufficient prioritisation of health and immunisation, inadequate support from the Alliance to build capacity and external programme disruption.
- **Misuse by countries** – this is the risk of deliberate misuse of Gavi support by Gavi-supported countries due to a culture of gifts/corruption, opportunity for personal gain, weak monitoring/deterrence, and weak institutions and systems. Inherent exposure is increasing – both due to the increase in the value of cash grants and the increasing concentration of those grants in countries with weaker systems (as stronger countries transition). In addition, the pandemic has weakened further the internal control environment.

Gavi's risk appetite statement indicates that "Gavi has a low appetite for risks related to fiduciary oversight and control while recognising the risks inherent to its model of channelling support through country systems where these are insufficiently robust". It also states that "The Alliance has a low appetite for the risk of misuse. When government systems are insufficiently robust, Gavi utilises alternative mechanisms to ensure strong fiduciary oversight. At the same time, it provides support to strengthen country systems to ensure they are fit for purpose." As one of several options to either mitigate risk or provide assurance over risk management, Gavi uses independent Monitoring Agents and embedded Fiduciary Agents. Prior to 2021, fiduciary risk assurance activities were funded through Health Systems Strengthening Support (HSS) and Partner Engagement Framework (PEF) and were managed by the CP (Country Programmes) team through the SCMs (Senior Country Managers).

Following the Board Approval in June 2021, the responsibility for Fiduciary Risk activities was moved to the newly constituted PFM (Portfolio Financial Management) team and enabled through operationalization of the Financial Management and Risk Assurance (FMRA) fund, which was approved for EAF (Equity Accelerator Fund), PSC (Programme Support Cost) and Fiduciary Risk Assurance & Capacity Building. Following this approval, the PFM (Portfolio Financial Management) team, using a differentiated financial risk framework, is responsible for risk identification and assessment, implementation of mitigating measures, design & monitoring of strengthening plan and deciding the best mechanism to put in place to mitigate financial risks in relation to direct financial support to countries.

In addition, given the evaluation of the risk landscape including provision of CDS funding to countries, the COVID-19 Delivery Support Risk Management (CDS-RMG) fund of \$25 million was approved by the Board in June 2021 and an email circulated to SCMs on its use dated 12 July 2021. As of 31 March 2022, \$11.7 million (47% of CDS funds) had been committed in assurance contracts, \$4M (16%) reserved for ongoing assurance contract variations and the balance of \$9.2M (37%) declared for reprogramming.

As of 31 March 2022, ten COVAX Monitoring Agents had been onboarded with signoff of 25 contracts to provide services in 25 countries. The 25 contracts covered 49% of the COVAX doses which had been delivered as of 31 January 2022 and 64% of CDS funds to Gavi AMC (Advance Market Commitment) countries.

Following completion of the contracting process, technical guidance for partners was disseminated to assurance service providers, a COVAX academy was held in Q1 2022 to bring together all Monitoring Agent staff, and another planned for Q4 2022. As at the end of March 2022, 92% of COVAX monitoring agents had started off their assurance assignments and 84% had delivered the first milestone of inception reports.

3. Objectives and Scope

3.1 Audit Objective

Our audit assessed the adequacy and effectiveness of the design and operating effectiveness of the key fiduciary risk assurance and mitigation processes governing the use of Monitoring Agents and Fiduciary Agents.

3.2 Audit Scope and Approach

We adopted a risk-based audit approach informed by our assessment of the system of internal controls. Our audit approach included:

- Review of applicable policies and guidelines including Grant Management Operational Manual, Procurement Policy, Procurement Manual, Guidance notes, Board papers and Board minutes. The audit assessed if the current design and processes with regards to fiduciary risk assurance and mitigation processes met the expectations and requirements set out in these documents.
- Review of relevant documents for a sample of Gavi countries. The audit team examined Monitoring Agent Contracts, Fiduciary Agent Contracts, Bid Evaluation Results and Bid Sourcing Documents. Contracts sampled for review were from the period FY 2020 to FY2021.
- Interviews with Senior Country Managers, PFM Director, PFM Heads and PFM Admin to understand the theoretical and practical aspects of fiduciary risk assurance and mitigation, using Monitoring Agents and Fiduciary Agents.
- Interview with the Procurement Team to understand the procurement aspects for the use of Monitoring Agents & Fiduciary agents both in the legacy, FM&RA and COVAX funds.
- Survey of Senior Country Managers and PFM focal points.

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

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

Head, Internal Audit

Annexes

Annex 1 – Acronyms

CS - Country Support

CT - Country Teams

MA - Monitoring Agent

FA - Fiduciary Agent / Fiscal Agent

PFM - Portfolio Financial Management

CDS RMG – COVID-19 Vaccine Delivery Support

FMRA – Financial Management & Risk Assurance

SCM - Senior Country Manager

HSS - Health System Strengthening Support

PEF – Partners Engagement Framework

MOH - Ministry of Health

EPI - Expanded Program of Immunisation

Annex 2 – Methodology

Gavi's Audit and Investigations (A&I) audits are conducted in accordance with the Institute of Internal Auditors' ("the Institute") mandatory guidance including the definition of Internal Auditing, the Code of Ethics, the Core Principles, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the audit activity's performance. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers are also adhered to as applicable to guide operations. In addition, the A&I's standard operating procedures manual is adhered to.

The principles and details of the A&I's audit approach are described in its Board-approved Terms of Reference and Audit Manual and specific terms of reference for each engagement. These documents help audit staff to provide high quality professional work, and to operate efficiently and effectively. They help safeguard the independence of the A&I's staff and the integrity of their work. The A&I's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

In general, the scope of A&I's work extends not only to the Secretariat but also to the programmes and activities carried out by Gavi's grant recipients and partners. More specifically, its scope encompasses the examination and evaluation of the adequacy and effectiveness of Gavi's governance, risk management processes, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve stated goals and objectives.

Annex 3 – Definitions: audit rating and prioritisation

Issue Rating

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
<p>High</p>	<p>At least one instance of the criteria described below is applicable to the finding raised:</p> <ul style="list-style-type: none"> • Controls mitigating high inherent risks or strategic business risks are either inadequate or ineffective. • The issues identified may result in a risk materialising that could either have: a major impact on delivery of organisational objectives; major reputation damage; or major financial consequences. • The risk has either materialised or the probability of it occurring is very likely and the mitigations put in place do not mitigate the risk. • Management attention is required as a matter of priority. • Fraud and unethical behaviour including management override of key controls.
<p>Medium</p>	<p>At least one instance of the criteria described below is applicable to the finding raised:</p> <ul style="list-style-type: none"> • Controls mitigating medium inherent risks are either inadequate or ineffective. • The issues identified may result in a risk materialising that could either have: a moderate impact on delivery of organisational objectives; moderate reputation damage; or moderate financial consequences • The probability of the risk occurring is possible and the mitigations put in place moderately reduce the risk. • Management action is required within a reasonable time period.
<p>Low</p>	<p>At least one instance of the criteria described below is applicable to the finding raised:</p> <ul style="list-style-type: none"> • Controls mitigating low inherent risks are either inadequate or ineffective. • The Issues identified could have a minor negative impact on the risk and control environment. • The probability of the risk occurring is unlikely to happen. • Corrective action is required as appropriate.