

# INTERNAL AUDIT REPORT

Audit of Pre-disbursement Controls, Cash Disbursement Process  
October 2022



## Table of Contents

1.	Summary of Key Issues	3
2.	Background	5
3.	Objectives and Scope	5
4.	Annexes	6

## Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the design and operating effectiveness of the key controls in the cash disbursement process.

The Operational Guideline (OG) 3.3 describes the process for the initiation, preparation, approval, and execution of cash grant disbursements to Gavi-supported countries or 3rd party recipients. Once a country submits an application to Gavi, it is reviewed by the Independent Review Committee which recommends it for approval. The Secretariat conducts an assessment of the country's capacity to manage all support including vaccines and cash-based support (i.e., the financing modality for receipt of Gavi cash support, and the structures to oversee the use of the support) and ensures that any pre-disbursement conditions are fulfilled before any disbursement is made to the country. This is followed by a Cash Disbursement Request (CDR) which is prepared through the automated workflow in SAP and Salesforce.

We assessed the design and operating effectiveness of the key controls in the cash disbursement process 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*
<b>1.1</b>	<b>Timeliness in the initiation and processing of Cash Disbursements to Countries</b>	
	The initiation and processing of Cash Disbursement Requests (CDRs) following the issuance of Decision Letters to Countries should be done on a timely basis.	
<b>1.2</b>	<b>Confirmation of receipt of funds by Countries</b>	
	Consistently obtain on a timely basis the confirmation of funds transferred to countries' bank accounts.	
<b>1.3</b>	<b>Cash-balance status check before disbursement</b>	
	Consistently obtain the status of cash balances in-country before disbursement.	
<b>1.4</b>	<b>Review of bank details and invoice amounts</b>	
	Maintain a proper audit trail of the review process of bank details and invoice amounts.	

\* 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 four medium risk issues relating to the Pre-disbursement Controls within the cash disbursement process as summarised below.

### 1.1 Timeliness in the initiation and processing of Cash Disbursements to Countries.

The initiation and processing of Cash Disbursement Requests (CDRs) following the issuance of Decision Letters to Countries should be done on a timely basis.

We selected samples of CDRs from years 2020, 2021 and 2022 for purposes of testing the effectiveness of the pre-disbursement controls as per OG 3.3. The sample was spread across the Gavi portfolio regions (mainly Africa, Oceania, Asia, and Eastern Europe) to enable us test both the existence of the controls and whether they are effectively and consistently applied.

Out of the sample selected (i.e., 32 CDRs from 2020, 33 CDRs from year 2021 and 10 CDRs from 2022), we noted that initiation and processing of 57% of the CDRs was delayed by between three months to 18 months on average following Decision Letter issuance.

Significant delay in the initiation and processing of CDRs not only affects the timely implementation of the HSS programme support but also impacts the achievement of Gavi's strategic objectives.

### 1.2 Confirmation of receipt of funds by Countries

Consistently obtain on a timely basis the confirmation of funds transferred to countries' bank accounts.

We noted through our audit procedures that Gavi had received confirmations of receipt of funds for only two of the four CDRs which were disbursed directly to countries' bank accounts in 2020. Operational Guidelines 3.3 section 4 require countries to confirm the receipt of funds within 2-3 weeks of funds being wired to them.

In addition, Gavi had received confirmation of receipt of funds for only five of the nine CDRs which were disbursed directly to countries' bank accounts in 2021.

When we brought this issue to the attention of the concerned staff during the audit, they immediately reached out to the countries and obtained the necessary confirmations.

Failure or delay in obtaining confirmation of receipt of funds from countries increases the risk of errors or unauthorized activity in the process remaining undetected for long.

### 1.3 Cash balance status check before disbursement

Consistently obtain the status of cash balances in-country before disbursement.

We selected and reviewed a sample of CDRs and noted that SCMs were not clearly indicating or including the cash-balance from the previously disbursed funds in the CDR amount as required by Operational Guideline 3.3. There was no explanation provided and/or document attached either in the 'reason for payment' column in Salesforce or in any other documents uploaded as an attachment to the CDRs.

In addition, we noted at the time of audit fieldwork (March 2022) that the Country Support team was yet to include the PFM team in the CDR approval workflow to cross-validate this control in accordance with OG 3.3. The cross-validation by the PFM team is supposed to ensure that the requested amount is justified taking into account the published HSS approval cap, approved budget, cash balances at the country/implementer level, historical absorption rates, forecasted spending, among other considerations.

Failure to fully implement this control increases the risk of misuse as countries may end up holding more cash than what is required for programme activities in a given year.

## 1.4 Review of bank details and invoice amounts

Maintain a proper audit trail of the process of review of bank details and invoice amounts.

We noted that the review of invoices, payment runs and validation of the country bank details by the Accounts Payable team is carried out manually by exporting CDRs created in Salesforce to an excel sheet document. However, we were unable to properly evidence the effective performance of this control. There is lack of audit trail and traceability.

The use of disaggregated and manual processes increases the risk of error and delay in detecting unauthorised activity.

### 1. Background

The cash disbursement process includes disbursement to implementing partners (i.e., the budget transfer to implementer level in SAP, creation of PR/PO for implementing partners in SAP, creation and review of the CDR in Salesforce and payment of grant funds in SAP), Country Partners and to Countries (i.e., the budget transfer to implementer level in SAP, creation and review of the CDR in Salesforce, PO approval and payment of grant funds in SAP to Countries).

We recommended in previous audits (i.e., the PCA process and the Cash Grants process) the need for independent review by the PFM team of the fulfilment of pre-disbursement conditions as part of the pre-disbursement controls. We established through our discussions with the PFM and PST teams that the technical/IT solution for the CDR review requirement by the PFM team was planned to be implemented in Quarter 1 2022. In the meantime, a manual control review process was to be implemented to mitigate the risk. Therefore, we did not test the technical solution as this was not ready at the time of the audit.

This audit mainly focused on the controls from the stage of CDR initiation to the processing of transfer/payment to the recipient of the funds. Our review was based on the process steps in the Operational Guidelines (OG 3.3) – Cash Disbursement which include CDR initiation, request for approval and attachments of required documents, independent validation by PFM team, processing of payment by Finance team, and confirmation of receipt of funds by countries or implementing partners.

The objective was to assess whether the pre-disbursement controls set out in OG 3.3 are well understood and being effectively implemented.

## 2. Objectives and Scope

### 3.1 Audit Objective

The objective of the audit was to assess the design and operating effectiveness of the key controls in the cash disbursement process to countries or implementing partners.

### 3.2 Audit Scope and Approach

This audit review was based on the process steps in the Standard Operating Procedure 3.3 – Cash Disbursement of the Pre-disbursement controls mainly from the stage of CDR initiation to the processing of transfer/payment to the recipient of the funds.

The following key areas were covered in the audit:

- CDR request approval and attachments of required documents
- Independent validation by PFM team – the interim manual review
- Processing of payment by the Finance team, and
- Confirmation of receipts of funds by country or implementing partner(s).

The sample test included CDRs initiated and disbursed in years 2020, 2021 and in January and February 2022.

We will continue to work with management to ensure that these 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

## Annexe 1 – Methodology

Gavi’s Audit and Investigations (A&I) audits are conducted in accordance with the Institute of Internal Auditors’ (“the Institute”) mandatory guidance which includes the definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of 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, A&I staff adhere to A&I’s standard operating procedures manual.

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 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.

## Annexe 2 – 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
<b>High</b>	At least one instance of the criteria described below is applicable to the finding raised: <ul style="list-style-type: none"> <li>• Controls mitigating high inherent risks or strategic business risks are either inadequate or ineffective.</li> <li>• 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.</li> <li>• 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.</li> <li>• Management attention is required as a matter of priority.</li> <li>• Fraud and unethical behaviour including management override of key controls.</li> </ul>
<b>Medium</b>	At least one instance of the criteria described below is applicable to the finding raised: <ul style="list-style-type: none"> <li>• Controls mitigating medium inherent risks are either inadequate or ineffective.</li> <li>• 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</li> <li>• The probability of the risk occurring is possible and the mitigations put in place moderately reduce the risk.</li> <li>• Management action is required within a reasonable time period.</li> </ul>
<b>Low</b>	At least one instance of the criteria described below is applicable to the finding raised: <ul style="list-style-type: none"> <li>• Controls mitigating low inherent risks are either inadequate or ineffective.</li> <li>• The Issues identified could have a minor negative impact on the risk and control environment.</li> <li>• The probability of the risk occurring is unlikely to happen.</li> <li>• Corrective action is required as appropriate.</li> </ul>