INTERNAL AUDIT REPORT

Internal Audit of Procurement Process
May 2024

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1. Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the design and operating effectiveness of key controls in the end-to-end procurement process. The audit covered the complete set of activities to support planning, sourcing, tendering, selecting, contracting, and performance management of suppliers, and procurement governance and risk management processes. The audit did not cover Gavi's grant-making activities.

During the period under review (1 January 2021 to 31 January 2023), Gavi incurred a total of US$453m in procurement spending. As a spending usage illustration, 2022 purchase orders totalled US$262m of which:

- 58% related to country-facing procurement:
  - 41% Portfolio Financial Management spending,
  - 17% programme implementation.
- 42% related to Secretariat-facing procurement.

We identified weaknesses in procurement governance, risk management, and across the full requisition chain; several of these weaknesses had already been reported in previous audits, however the audit showed that actions taken by management in the past either did not prove sufficient to mitigate the risks or have not been maintained over time. Management has already initiated actions to mitigate some of the risks; in this audit we recommend action in five areas where management has not already initiated actions. A summary of the key issues is provided below.

Summary of Audit Issues

Description		Rating*	Reported in previous audits
Theme 1: Procurement Governance			
1.1 Strengthen the procurement governance framework	Action 1	🔴	
1.2 Develop a procurement strategy aligned with Gavi's strategy and ensure that the procurement workplan effectively supports strategic priorities		🟧	✓
1.3 Implement a robust risk management framework and establish vendor risk assessments	Action 2	🔴	
1.4 Clarify and enhance roles, responsibilities, accountability, and segregation of duties in the procurement process		🟧	
1.5 Enhance the procurement framework (policies, procedures, guidelines, and training) and strengthen controls related to procurement reporting		🟧	
1.6 Design and institutionalise a robust supplier review, evaluation, and performance management process		🔴	✓
Theme 2: Design and operationalisation of key controls in the end-to-end procurement process			
2.1 Implement an effective procurement planning process		🔴	✓
2.2 Enhance the design and effectiveness of the vendor due diligence process and related controls	Action 3	🔴	✓
2.3 Strengthen controls in the pre-sourcing, sourcing, and selection processes	Actions 4 and 5	🔴	✓
2.4 Improve contract management		🟧	
2.5 Enhance the process of managing consultants		🟧	
Theme 3: Tools and systems used in support of the procurement process			
3.1 Adopt better tools and systems to manage procurements and improve the available SAP system to realise efficiencies and enhance controls in the procurement process		🟧	
The ratings attributed to each section of this report, the level of risk assigned to each audit issue and the level of priority for each recommendation, are defined in annex 2 of this report.			

2. Summary of issues

We recognise that various projects have been initiated by management to enhance the procurement process, however the process still requires major improvements to manage risk while ensuring alignment with the Gavi strategy and support to strategic priorities. Processes need to be simplified and streamlined while ensuring that key controls are effectively implemented, and risk mitigation in the prevention and detection of error, misuse and fraud is robust.

We encourage management to pursue current efforts and continue to remediate and address the gaps identified in the audit in a timely manner in line with proposed prioritisation determined on the basis of risk exposure to the organisation.

We identified issues across three key cross-cutting and interlinked themes and developed five recommendations to address issues where management has not already initiated projects.

Theme 1: Procurement governance

A robust procurement governance involves a combination of strategies to ensure adherence to Gavi's procurement principles in the end-to-end procurement process. Several elements of robust procurement governance were not yet in place in Gavi:

- A procurement strategy has not yet been defined. While a procurement workplan exists, we cannot conclude whether procurement activities are aligned with the overall Gavi strategy and whether the procurement workplan effectively supports strategic priorities.
- A robust procurement risk management framework has not yet been established, decreasing Gavi's ability to proactively address financial, operational, delivery, and reputational risks.
- Task allocation in the procurement process does not always ensure adequate segregation of duties within the procuring departments, with roles and responsibilities being delegated, which leads to unclear ownership and accountability and associated risks.
- Procurement policies and procedures could be streamlined and simplified, and we noted improvement opportunities regarding procurement reporting and Key Performance Indicators. This would improve efficiency and reduce the risk of error.
- A robust supplier review, evaluation, and performance management process has not yet been implemented. This leads to the risk of non-achievement of quality of services and value for money and may also impact the overall effectiveness of supplier relationship management, increasing the risk of potential unfair competition, unethical behaviour, and unreliable delivery of goods and services.

Overarching these observations, and ultimately their root cause, is the lack of a procurement oversight mechanism, which would contribute to the strategic, ethical, and efficient management of procurement activities within Gavi. In 2019, after similar audit observations, we recommended to establish a holistic procurement oversight mechanism, however at the time the Gavi Senior Leadership Team decided instead to focus on improving oversight at the vendor and transaction level by establishing a vendor review committee (which is not yet operationalised) and tender evaluation committees. We would stress that an effective oversight mechanism should identify and facilitate addressing governance, risk management and control issues as they arise. In response to this current audit, the CEO has mandated procurement oversight to the newly established Secretariat Management Sub-group of the Senior Leadership Team.

Theme 2: Design and operationalisation of key controls in the end-to-end procurement process

We reviewed the design and operating effectiveness of key controls in the full requisition chain covering: procurement planning, pre-sourcing, sourcing, tendering, selection, and contract management; and the management of consultants. We highlighted risks in the following areas:

- Procurement planning, though defined in the Manual, is not effectively implemented. This leads to reactive procurement, uncertainty around resourcing needs, missed opportunities for obtaining best value for money, and inefficiencies in the process.
- The vendor due diligence process as defined in the Manual and other procedural documents requires review, consolidation/streamlining and improvement, and is not effectively implemented. As a result, Gavi may inadvertently enter into contracts with service providers who are unsuitable, unreliable, incapable of delivering or whose activities are not aligned with Gavi's mission, potentially impacting objectives and bringing reputational risk.
- Various key controls in the pre-sourcing, sourcing and selection processes were not operating correctly and/or presented opportunities for improvement in their design, including the requirement for conflict of interest declarations which was not consistently applied; the lack of rate cards and pricing database, very

little market research; persistent single sourcing; few but nevertheless concerning cases of "after-the-fact" contracting; and opportunities for improvement in design of the vendor selection process, combined with weaknesses in implementation of the process. This gives rise to a series of risks including around competition, value for money, reputation, performance, and legal and insurance matters.

- Contract management, covering negotiation, contract templates and required clauses, and the contract closure process need improvement in both procedural guidance and in compliance. Consequent risks include value for money and reputational and legal exposure.

In 2022 Gavi conducted a comprehensive business review to assess the consultants' engagement process, and at the time of the audit had not yet determined how to address the results of this review. In early 2023 Gavi updated the procurement manual to provide more clarity on the procurement process around individual consultants. Furthermore, management recently launched an organisation-wide initiative and revamp of the management of consultants. Implementing a sufficiently robust process for procurement of consultants will mitigate risks including around the procurement principles.

Theme 3: Tools and systems used in support of the procurement process

Gavi does not have a system for managing the end-to-end procurement process. Consequently, the procurement team relies heavily on manual processes (standalone excel spreadsheets and other records) which are not integrated. This is time consuming, inefficient, and prone to error. Furthermore, the lack of an automated system makes it difficult to perform valuable data analyses, to generate reports, to perform a vendor risk assessment or trend reports. SAP (Gavi's ERP system) is not used as effectively and efficiently as it could be in the procurement process – we will cover this in the ongoing audit of SAP.

Use of manual processes and the sub-optimal use of the ERP system increases the risk of fraud and error and brings opportunity costs in terms of data analysis.

3. Background

"Procurement at Gavi involves the acquisition of goods and services. This includes the complete set of activities and processes to support tendering, contracting, performance management of suppliers, and the full procure-to-pay requisition chain."[1] Gavi's procurement policy sets out principles to guide procurement in Gavi: ethics; value for money; effective competition; transparency; accountability and impartiality; efficiency, effectiveness and economy; and gender equality, equity and non-discrimination.

A&I last audited procurement in 2019. Since then, management has initiated various projects to enhance the procurement process including: improving templates, guidelines and usage of e-tools, procurement training for stakeholders to increase awareness and understanding of the procurement process, strengthening procurement planning (i.e., to reduce After-The-Fact procurement), strengthening and streamlining tendering process (i.e., to reduce single-sourcing), and strengthening contract and performance management through the implementation of a contract management system.

4. Objectives and Scope

3.1 Audit Objective

The objective of the audit was to ascertain whether risks related to Gavi's procurement principles are being properly mitigated in the procurement of services and materials and to assess the design and operating effectiveness of the key controls set forth in the approved Gavi Procurement Policy and Gavi Procurement Manual.

3.2 Audit Scope and Approach

Our audit approach was risk based, informed by our understanding of Gavi's business, governance, risk management processes and internal control systems as well as our assessment of the risks associated with the audited area.

This audit was conducted through interviews, observations, documentation review, and process walkthroughs. Our focus was on strategic issues, operational efficiency, and effectiveness, as well as assessing the design and operating effectiveness of key controls including governance and risk management processes.

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[1] Gavi Procurement Manual

The following key areas were reviewed:

- Procurement Policy and Regulations;
- Procurement Planning and Strategy;
- Pre-Sourcing, Sourcing – Supplier Analysis (including due diligence) and Selection Process;
- Limited scope related to Contract Management and review of contractual agreements due to on-going CLM system implementation addressing already noted observations;
- Limited scope related to the management of consultants;
- Tools and Systems for managing the related procurement processes, and efficiency & effectiveness;
- Roles and Responsibilities; and
- Procure-to-pay process (including goods/services receipting).

The following areas were out of scope (i.e., distinct risk profile and / or not yet implemented):

- Accounts Payable (AP),
- Accruals process (Procurement and Financial),
- IT Outsourced Services,
- Credit Cards (Personal & Company),
- P-Cards (on-going project),
- Preferred vendors (currently not in place at Gavi),
- Major updates in Procurement manual (e.g., Pro Bono, consultants' rate increase, etc.) effective as at 1 March 2023 after the audit period (insufficient length / period to test for controls' effectiveness), and
- Vendor Master Data Management.

This audit did not address Gavi's grant-making activity.

We will continue to work with management to ensure that the issues observed in the audit 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.

Director, Internal Audit

Annexes

Annex 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 Core Principles for the Professional Practice of Internal Auditing, 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'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 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
High	**At least one instance of the criteria described below is applicable to the issue raised:** • 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. • Fraud and unethical behaviour including management override of key controls. **Management attention is required as a matter of priority.**
Medium	**At least one instance of the criteria described below is applicable to the issue raised:** • 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.**
Low	**At least one instance of the criteria described below is applicable to the issue raised:** • 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**.