

INTERNAL AUDIT REPORT

Internal Audit of Treasury Management
June 2024



Table of Contents

Conclusion	3
1. Summary of issues	4
2. Background	4
3. Objectives and Scope	4
4. Annexes	6

Conclusion

Our audit procedures were designed to provide assurance to management and the Gavi Board on the adequacy and effectiveness of the key controls in the processes related to the oversight and management of the Treasury function.

Gavi has established a Treasury Governance Framework to guide management of Treasury-related activities. The Front and Back Office Treasury activities have been segregated as follows:

- The Front Office activities entail overall Treasury plan definition, cash flow forecasting and liquidity management, hedging of financial exposures and management of banking relationships
- The Back Office activities entail maintenance of master data in Treasury systems, validation, and confirmation of executed financial transactions, monitoring, and controlling adherence to Treasury policies and predefined limits.

To effectively manage the performance and risks of the Treasury function, a governance framework has been instituted with a Treasury Policy and Standard Operations Procedures.

Overall, we have noted that the Treasury team possesses a high degree of experience and professionalism. They monitor Treasury-related risks and act in accordance with governance structures and policy. The team devotes considerable effort into creating structured reports, with excel serving as the foundation. These reports cover areas such as liquidity management, FX risk management, credit risk, and provide critical data for decision making.

1. Summary of Issues

We confirmed through our audit procedures that the key risks associated with Treasury processes are understood and being managed.

However, the audit identified five medium-risk issues. Management has agreed remediation, and the mitigating actions are in the course of implementation.

2. Background

Gavi has established a Treasury Governance Framework to guide the management of Treasury-related activities. The framework is structured in three layers:

- The Treasury governance policy which provides guiding principles and assigns responsibility to different organisational units to execute the Treasury mandate.
- Additional Treasury policies which detail further the major areas of Treasury's remit i.e., Treasury Risk Management Policy, Cash and Liquidity Management Policy and Cash Flow Forecasting Policy.
- Treasury Standard Operating Procedures which outline end-to-end (cross-functional) Treasury processes to ensure necessary controls are embedded.

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Various initiatives to automate processes within the Treasury function are in progress. The audit was focused mainly on the Treasury activities that are aimed at ensuring the effective and efficient use of Gavi's financial resources.

3. Objectives and Scope

3.1 Audit Objective

The objective of this audit was to assess governance, risk management and the design and operating effectiveness of key controls put in place by management to:

- Define and maintain an efficient banking landscape to accommodate Gavi's business requirements, minimise operational complexity and maximise flexibility.
- Establish strict segregation of duties and controls to minimise operational risks within treasury activities involving financial transactions.
- Manage security, liquidity, and yield (SLY principles) to fulfil Gavi's financial obligations in a timely and cost-effective manner.
- Identify financial risks and measure financial exposures to protect Gavi against negative financial impact by recommending and implementing suitable risk management strategies.

3.2 Audit Scope and Approach

This audit covered the following areas:

- Bank relationship management.
- Cash flow forecasting.
- Cash and liquidity management.
- Financial risk management (i.e., managing financial counterparty credit risk, performing credit rating reviews, implementing hedging for FX risk management, including controls around relevant tools etc).

The following areas were excluded from the audit scope (i.e., either they have been covered in other audits or have a distinct risk profile):

- Financial Guarantee
- Debt Management
- COVAX

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.

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	<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. • Fraud and unethical behaviour including management override of key controls. <p>Management attention is required as a matter of priority.</p>
Medium	<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. <p>Management action is required within a reasonable timeperiod.</p>

Rating	Implication
Low	At least one instance of the criteria described below is applicable to the finding raised: <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.