

**SUBJECT: REPORT FROM AUDIT AND INVESTIGATIONS**

**Agenda item: 13**

**Category: For Information**

### **Section A: Introduction**

- The Managing Director Audit and Investigations is required to report to the Board at least annually (reports are otherwise made to the Audit and Finance Committee (“AFC”) on matters arising, typically five times per year, and ad hoc as required). This report updates the Board on the results of the Audit and Investigations (“A&I”) activity (summarised in Annex A) since the last Board report of June 2016 and is a high level summary of matters reported to the AFC.
- The Board approved the reconstitution of the audit function from a single person Internal Audit activity in December 2014 (as part of Gavi’s enhancement of its risk management activities incorporating the three lines of defence model, a commonly used configuration of risk management). A&I comprises the third line of defence being independent of the operational activities of the first two lines, and reports to the Board, which is effected through routine reporting to the AFC, and the Chief Executive Officer. Audits are conducted against annual plans approved by the AFC, drawn from a risk-based assessment of priority.
- The A&I function was established in February 2015 with a 13 person authorised headcount. The Board approved the function’s charter of operation (“Audit and Investigations Terms of Reference”, ToR), reflecting this reconstitution, in December 2015. The A&I function comprises four main activities:
  - Internal Audit which is an independent and objective assurance and consulting activity to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
  - Programme Audit which conducts audits of programmes in-country to assess whether Gavi support, including cash, vaccines and related supplies, have been used as intended to provide value-for-money, considering both financial and programmatic aspects.
  - Investigations and Counter-Fraud which conducts an evidence-based examination of possible misuse and other misconduct within Gavi, in Gavi-supported programmes in-country, or which otherwise impact upon the organisation. It conducts preventive activities to minimise the risk of such conduct occurring and/or impacting the organisation.

- Whistleblower Reporting which receives reports from internal and external sources, on potential misuse or other misconduct.

## **Section B: Status update**

### **1. Internal Audit**

1.1 Since February 2015 when the department was reconfigured, 15 internal audits have been completed (expected to be 22 by year-end 2017). This risk coverage provides a significant insight on the operation of controls across the Secretariat though a full cycle of audits has not yet been completed. Generally, controls have been found to be operating effectively though, as is routine, issues have been identified and recommendations made for their remediation.

1.2 Two reports containing high risk issues have been completed since the last report to the Board. These have been discussed with relevant management and at Gavi's Risk Committee, and the AFC has been briefed accordingly. The reports relate to:

- a) Grant closure and the challenge of ensuring that all grants are closed timely to ensure, in particular, that residual grant balances in country are accounted for and reapplied as appropriate.
- b) Grant approval and disbursement. The issues identified are programmatic in nature and well-understood relating to the timeliness of grant disbursement, and the efficacy of the budget-setting and management process.

Actions and timeframes to remediate the identified issues have been agreed for these high risk and other issues identified.

1.3 It is essential that issues raised are remediated as appropriate and that A&I tracks and validates their closure. As reported at the April AFC meeting, for reports 2015 and earlier, all 24 outstanding issues (of 120 originally identified), are current in terms of remediation activity and none are high risk. The reports for 2016 identify 58 issues and 12 have already been closed. Overall, management is being responsive to the issues identified and is remediating them appropriately.

### **2. Programme Audit**

2.1 Since February 2015, 19 programme audits have been completed (expected to be 26 by year-end 2017).

2.2 The Board has been briefed previously that in reviewing the results of programme audits, clear themes emerge which recur frequently. These are set out in Annex B. As agreed with the Board and AFC, A&I has been working with Country Programmes management to identify ways in which processes can be improved across-the-board holistically rather than

piecemeal in each country in which the issues are identified. This work is on-going and an update will be provided at the Board meeting.

- 2.3 The resolution of programme audit issues is essential to ensure lessons learned are applied so as to enable the strengthening of programmes in country and country capacity, and to reduce the likelihood of misuse occurring. There is no automated means yet of tracking resolution of programme audit issues – instead their resolution is overseen by Senior Country Managers as part of overall programmatic enhancement – but new systems are in development which will facilitate the tracking of closure in the future.
- 2.4 Annex C sets out a summary of the identified cases of misuse and reimbursements achieved. The overall recovery rate on amounts agreed for reimbursement remains high at 99%. The amount of reported misuse has increased recently because certain audits with financial misuse identified have been finalised recently – Comoros, Ghana, Burkina Faso and Papua New Guinea – and the reimbursement for these have yet to be agreed, or else reimbursement has been agreed but is not yet scheduled for payment. Briefing sessions for donors are being set up on the results of these audits before the relevant reports are posted to the Gavi web, in keeping with agreed practice. In addition to the financial misuse shown in Annex C, certain audits have identified cases of mismanaged vaccine and countries have been requested to ‘make-whole’ by procuring additional vaccines or by cash reimbursement where country systems have been determined to be deficient.

### **3. Investigations and Counter-Fraud**

- 3.1 Since February 2015 six investigations and other reviews, internal and external, have been undertaken.
- 3.2 Counter-fraud review. The Head of Investigations and Counter-Fraud has undertaken a review of Gavi’s fraud exposure and has reported the results to management and AFC. The main conclusions are that:
  - a) Within the Secretariat, while the potential for fraud exists (as within any organisation), the review has assessed that major risks are generally well-controlled. The effectiveness of these controls will continue to be reviewed by Internal Audit drawing on the Counter-Fraud activity.
  - b) Externally, i.e. in Gavi programmes, the fraud risks are assessed as greater, in part because of the diversity and effectiveness of systems and processes through which Gavi funds are channelled. The review concluded that a key mitigant against fraud is effective programme monitoring which could comprise many different activities undertaken by a variety of participants across the Alliance. The Head of Investigations and Counter-Fraud is working with Secretariat management, particularly Country Programmes, to identify and enhance monitoring mechanisms which may further mitigate fraud exposures. This work is in progress.

#### 4. Whistleblower Reporting

- 4.1 As previously reported to the Board, Gavi operates an on-line whistleblower facility to allow third parties to report any concerns to Gavi confidentially and/or anonymously. Very few reports have been received through that mechanism; other reports are received both directly to A&I and via Gavi staff though these too are few in number. All reports are assessed for credibility and appropriate follow-through determined. This may lead to further follow-up in an audit or investigation, or if insufficient information is provided to allow effective follow-up, a reporting may be monitored for further information to help determine ultimate resolution.

#### 5. Development of the Audit and Investigations function

- 5.1 The Managing Director Audit and Investigations is responsible for the on-going development of the A&I function to ensure that it is fit for purpose. Two years on from its reconstitution, the A&I function is still maturing however a good base of activity has been established as set out in Annex A. The Board approved a headcount of 13 staff in December 2014 and all those positions have been filled Two positions are currently open reflecting one internal transfer and one external departure (recruitment is in progress). Audit management systems were introduced in May 2017 – an essential element in ensuring the effective operation of the A&I function to quality – and the new functionality will be introduced in a phased implementation.
- 5.2 Working with partners and other organisations. Agreement has been made with the audit functions of both UNICEF and the Global Fund for collaborative effort on a number of programme audits to be conducted in 2017. It is hoped that these arrangements can be extended to the audit function of WHO using a similar model.
- 5.3 A&I Terms of Reference (ToR). As described above the ToR set out the basis of operation of the A&I function. They are Board-approved on the recommendation of the AFC (the last approval being December 2015 following the reconstitution of the A&I activity); changes to the ToR must also be approved by the Board. I have reviewed the ToR to assess whether they continue to be adequate to enable A&I to accomplish its objectives. I have recommended to the AFC that no changes are necessary at this time as the ToR continue to be appropriate to the needs of the A&I function.
- 5.4 External Quality Assessment (EQA). The professional standards against which the A&I function operates require that an independent EQA is undertaken on a cycle of no more than 5 years. An EQA was undertaken in Q1 2015 on the then one-person Internal Audit function (pre-reconstitution). The results were shared with the Board and a full remediation plan was prepared and completed for the Internal Audit activity, with progress regularly reported to the AFC. It is intended that an EQA will be performed on the reconstituted audit activities once the Programme Audit function is mature and when the new audit management systems are fully operational. It has been agreed that the timing of this will be reviewed further with AFC at 2017 year-end.

5.5 Independence. As required in the ToR, the Managing Director Audit and Investigations will confirm at least annually to the Board A&I's organisational independence. Having considered the operation of A&I in practice, and its reporting structures, I confirm to the Board the organisational independence of the A&I function.

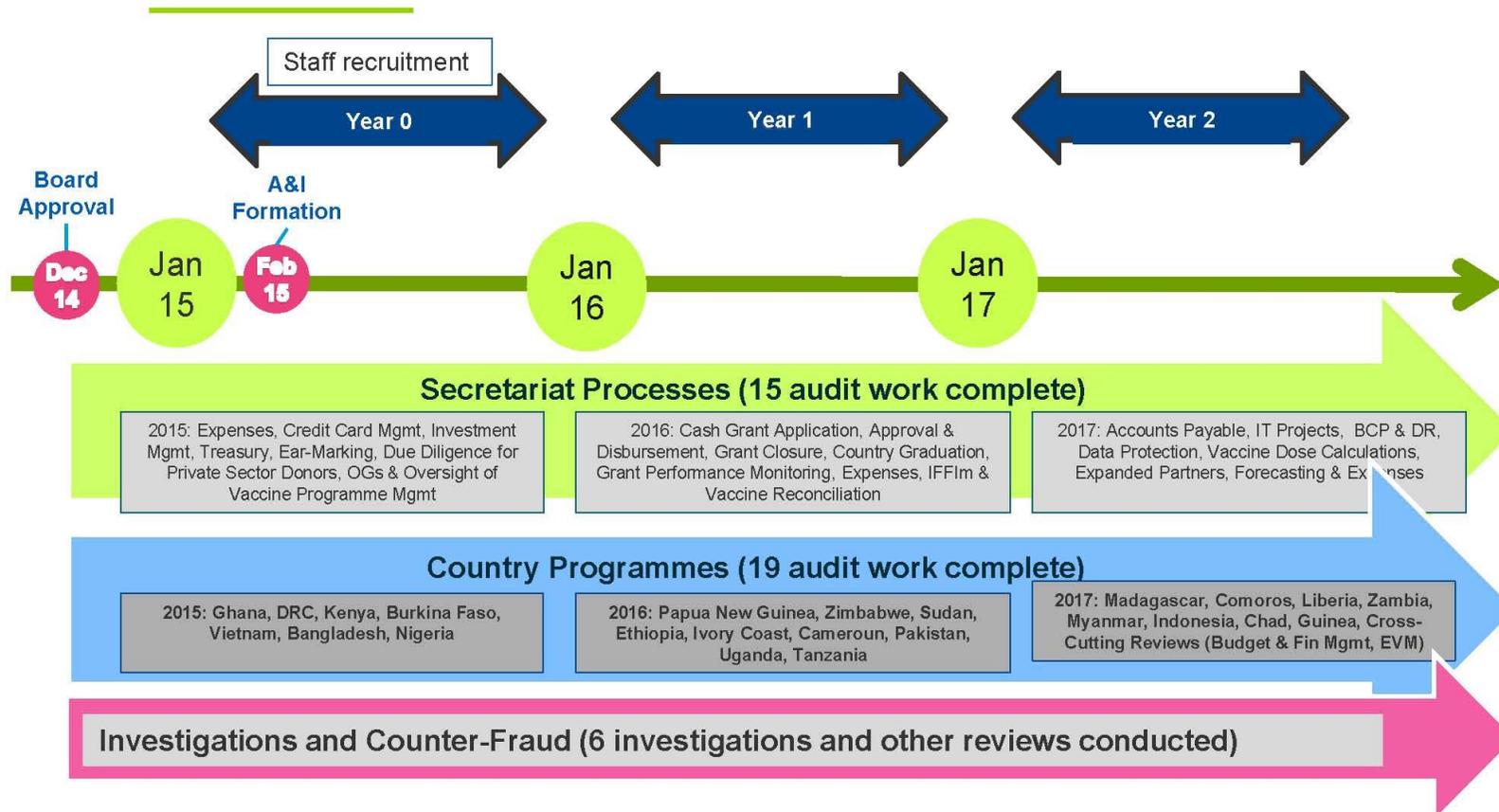
### **Annexes**

**Annex A:** Audit & Investigations Evolution

**Annex B:** Recurrent Themes from Programme Audits

**Annex C:** Country Reimbursement Schedule

# Annex A: Audit & Investigations Evolution



## Annex B: Recurrent Themes from Programme Audits

| Themes arising   | Observation frequency | Commentary on observations  |
|--|-----------------------|---|
| 1. Budget management – issues around budget setting, tracking and conformity | 47%                   | Poorly documented revisions, reprogramming not formally approved, expenditure and budget classification inconsistent.         |
| 2. Poor leadership, low capacity   | 47%                   | Weak programme management, low absorption of funds.   |
| 3. Poor follow-through on identified weaknesses                              | 53%                   | Lessons learnt from the past not applied, recommendations not implemented on audits/ evaluations/EVM.                         |
| 4. Oversight is inconsistent and incomplete                                  | 53%                   | Internal/external audits not done or poor quality, role and/or execution of ICC not consistent, insufficient local oversight. |
| 5. Non-compliance with national rules  | 68%                   | Impacts procurement, advances, asset management.  |
| 6. Campaigns funds not used effectively                                      | 47%                   | Funds not well used, excessive budgets, poor VFM achieved.  |
| 7. Weak traceability of use of Gavi funds                                    | 58%                   | Funds not adequately earmarked at sub-national levels.  |
| 8. Stock management not effective  | 68%                   | Non compliance with Earliest Expiry First Out, shelf-expired vaccines, omissions in vaccine stock records.                    |

## Annex C: Country Reimbursement Schedule

| COUNTRY REIMBURSEMENT SCHEDULE, CUMULATIVE<br>As at 29 May 2017  |               |              |                   |             |                   |
|--|---------------|--------------|-------------------|-------------|-------------------|
| COUNTRY  | REIMBURSEMENT | TOTAL REPAID | TOTAL OUTSTANDING | TOTAL DUE   | TOTAL NOT YET DUE |
| ----- US\$ million ----->  |               |              |                   |             |                   |
| Amounts fully reimbursed to 31 December 2016:  |               |              |                   |             |                   |
| Cameroon (\$2.95m); Nigeria (\$2.2m); Niger (\$2.1m); Kenya (\$1.6m); Uganda (\$0.8m); Malawi (\$0.55m); Sierra Leone (\$0.5m); Mali (\$0.5m); Cote D'Ivoire (\$0.5m); Madagascar (\$0.3m); Zambia (\$0.2m); Togo (\$0.03m). | 12.23         | 12.23        | 0                 |             |                   |
| <b>Total fully reimbursed against commitments</b>  | 12.23         | 12.23        | 0                 |             |                   |
| Countries with outstanding agreed reimbursements:  |               |              |                   |             |                   |
| DRC  | 0.08          | 0            | 0.08              | 0.08        |                   |
| Comoros  | 0.32          | 0            | 0.32              |             | 0.32              |
| Ghana  | 0.97          | 0            | 0.97              |             | 0.97              |
| Nigeria  | 5.4           | 0            | 5.4               |             | 5.4               |
| <b>Agreed for reimbursement but not yet paid</b>   | 6.77          | 0            | 6.77              | 0.08        | 6.69              |
| Countries with required reimbursements yet to be agreed:   |               |              |                   |             |                   |
| Burkina Faso   | 0.40          | 0            | 0.40              |             | 0.40              |
| Papua New Guinea   | 0.72          | 0            | 0.72              |             | 0.72              |
| <b>Total not yet agreed to be reimbursed</b>   | 1.12          | 0            | 1.12              | 0           | 1.12              |
| <b>Total overall reimbursement status</b>  | <b>20.12</b>  | <b>12.23</b> | <b>7.89</b>       | <b>0.08</b> | <b>7.81</b>       |
| Recovery rate on amounts due:  |               |              |                   | 99 %        |                   |
| Recovery rate on total agreed reimbursement:   |               |              |                   | 64 %        |                   |
| Recovery rate on total identified misuse:  |               |              |                   | 61 %        |                   |

