

## FOR INFORMATION

This document is being provided for information only. No requests are being made of the Board.

To support the Board in its oversight role, Internal Audit has evaluated management's consideration of risk in the preparation of the Business Plan and the Budget.

The main conclusions are:

- GAVI's current Risk Register, which has been provided to the Board, provides a good overview of the key risks and mitigation activities; Internal Audit is not aware of any other important risks that should be brought to the Board's attention.
- For each of the three risks rated as 'high' (resource mobilisation, cash-based programme risks, and country sustainability), management has provided the Board with a good description of the nature of each risk and how it proposes to (continue to) mitigate it through activities described in the business plan.

## Risk Oversight

### Introduction / background

Risk management can be defined as follows, as set out in a recent authoritative paper on the subject<sup>1</sup>:

*Enterprise risk management is a process, effected by the entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives.*

The paper suggests four areas that can contribute to Board oversight with respect to risk management. Specifically, the Board can undertake to:

- Understand GAVI's risk philosophy and concur with its risk appetite
- Know the extent to which management has established effective enterprise risk management within the organisation
- review GAVI's portfolio of risk and consider it against its risk appetite
- be apprised of the most significant risks and whether management is responding appropriately

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<sup>1</sup> 'Effective Enterprise Risk Oversight – The Role of the Board of Directors', Committee of Sponsoring Organisations of the Treadway Commission ('COSO'), September 2009

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In 2010, management has undertaken to further strengthen GAVI's risk management practices. Internal Audit reported to the Board on management's approach to this in its June 2010 meeting. The risks identified at that time as 'high' were resource mobilisation and misuse of cash grants.

Since then, the Business Plan 2011-2015 and the 2011 Budget were prepared. Risk management is an integral part of business planning and budgeting. To support the Board in its oversight role, Internal Audit has evaluated management's consideration of risk in the preparation of the Business Plan and the Budget.

### **The level of maturity of GAVI's risk management**

Although generally recognised as important, formalised, systematic enterprise risk management is nevertheless still in its infancy in most –even larger- organisations. A recent study into the maturity of risk management in The Netherlands<sup>2</sup> shows that organisations of GAVI's size on average achieve only a 4.2 on a 10 point scale.

One of the elements that determine the level of maturity is the extent to which management's consideration of risk is reduced to writing. GAVI's current Risk Register (which has been provided to the Board), in Internal Audit's opinion, provides a good overview of the key risks and mitigation activities, as assessed by management. Internal Audit is not aware of any other important risks that should be brought to the Board's attention.

Another important element is the extent to which the explicit consideration of risk is part of the regular business planning, execution and monitoring processes. The Secretariat, in its paper to the Board on the business plan and budget, has proposed the following risk management approach:

- review and update of the Risk Register on a quarterly basis, as part of the (also proposed) quarterly performance review process
- coordination by the GAVI Secretariat.

Internal Audit welcomes the integration of risk management into the performance review process as proposed. How this is actually implemented in practice will determine the ultimate effectiveness and Internal Audit will be evaluating this.

In summary, management in 2010 has begun to establish a formalised, systematic risk management process and has compiled, and provided to the Board, the most important risks and mitigation activities.

### **The most important risks in the business plan and budget**

The following risks are considered to be the most important to GAVI:

- securing sufficient funding / resource mobilisation

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<sup>2</sup> "Risk Management in Times of Crisis – and before and after", the Dutch Institute of Chartered Accountants, Nyenrode University, PricewaterhouseCoopers and the University of Groningen, November 2009.

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- cash-based programme risks
- country sustainability

For each of these three risks, management has provided the Board with a good description of the nature of each risk and how it proposes to (continue to) mitigate it through activities described in the business plan.

With respect to the cash-based programme risks, management has informed the Board that it will carry out an evaluation of the implementation of the Transparency and Accountability policy (one of the key mitigation mechanisms for this risk) and Internal Audit will be closely involved in this evaluation.

A risk currently rated as 'medium' is the Secretariat's capacity to deliver on the business plan. Internal Audit has indeed observed that the Secretariat has a more than desirable tension between the workload taken on and the capacity available.