



## Report to the GAVI Alliance Board

4-5 December 2012

<b>Subject:</b>	<b>Independent Auditor Selection and Evaluation Policy</b>
<b>Report of:</b>	Barry Greene, Managing Director, Finance and Operations
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<b>Agenda item:</b>	02d
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	Alliance operations

### Section A Overview

#### **1 Purpose of the report**

- 1.1 This paper presents to the Board a draft Independent Auditor Selection and Evaluation Policy (the "Draft Policy"), which the Audit and Finance Committee ("AFC") recommends to the Board for approval. This responds to the Board's request at its 16-17 November 2011 meeting.
- 1.2 It also recommends that the Board appoint KPMG as the independent auditor of the GAVI Alliance for the financial year ending 31 December 2012 and to provide tax services for the GAVI Alliance in respect of that year.

#### **2 Recommendations**

- 2.1 The Audit and Finance Committee recommends that the Board:
  - (a) **Approve** the GAVI Alliance Independent Auditor Selection and Evaluation Policy attached as Annex 1 to Doc 2d.
  - (b) **Appoint** KPMG SA/AG as the independent auditor of the GAVI Alliance for the financial year ending 31 December 2012.
  - (c) **Appoint** KPMG SA/AG to provide Swiss tax services for the GAVI Alliance for the financial year ending 31 December 2012.
  - (d) **Appoint** KPMG LLP to provide United States tax services for the GAVI Alliance for the financial year ending 31 December 2012.

### **3 Executive Summary**

- 3.1 The Board has sole responsibility to appoint the independent auditor. In 2008, following a call for proposals KPMG was appointed. The appointment has been renewed each year since then while KPMG remains the independent auditor of the World Bank. At its 16-17 November 2011 meeting the Board requested the AFC to oversee the creation of a GAVI Alliance policy to govern independent auditor appointment and renewal, to conform to general practice.
- 3.2 In consultation with the AFC and the World Bank, the Secretariat has prepared the attached Draft Policy which incorporates the guidance provided by the AFC, to apply to financial years commencing on or after 1 January 2013.
- 3.3 For the audit of the financial statements for the year ending 31 December 2012 and tax services related to that year, and given the current need to commence those services, the Board is requested to appoint the existing auditor, KPMG. If so approved by the Board, the Secretariat will execute the engagement letters for those audit and tax services in consultation with the AFC Chair.

### **4 Risk implication and mitigation**

- 4.1 See Section B below.

### **5 Financial implications: Business plan and budgets**

- 5.1 See Section B below.

## **Section B Content - Assessment of the Practicality of Appointing of a Firm Other than the World Bank Auditor**

### **1 Background**

- 1.1 The World Bank maintains a large portion of the financial records of the International Finance Facility For Immunisation ("IFFm") and the GAVI Fund Affiliate ("GFA"). Each of these entities is consolidated within the financial statements of the GAVI Alliance. The World Bank does not allow the audit or examination of its records by any firm other than its incumbent audit firm. This means that the audits of IFFm and GFA must be performed by the World Bank auditor, which currently is KPMG.
- 1.2 Because the assets and revenue of both IFFm and GFA represent significant portions of the GAVI Alliance's consolidated assets and revenue, respectively, the GAVI Alliance has historically also appointed the World Bank auditor as its auditor. While this has certain advantages, including efficiencies and cost savings in the audit process, it also has disadvantages, as outlined in section 4 below.

- 1.3 Therefore, in preparing the Draft Policy, the Secretariat has considered whether it would be possible and practical for the Board to appoint a firm other than the World Bank auditor as the GAVI Alliance's independent auditor. See sections 2 and 3 below for the Secretariat's analysis.

## 2 Review of Applicable Rules and Guidance

- 2.1 In order to assess the practicality of a policy where the GAVI Alliance appoints an independent auditor different from the World Bank's auditor, the Secretariat reviewed the auditing rules and guidance with which such an auditor would have to comply. These rules and guidance provide insight into:

- (a) the additional audit effort and cost that may be associated with adopting the policy.
- (b) the likelihood that a public accounting firm would be prepared to serve as the GAVI Alliance's auditor under such circumstances.

- 2.2 The Secretariat reviewed the following auditing standards that provide guidance in situations where one auditor (the "Principal Auditor") has to rely on the work performed by another auditor (the "Component Auditor"):

- (a) International Standard on Auditing 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* ("IAS 600").
- (b) Auditing Standard AU Section 543, *Part of the Audit Performed by Other Independent Auditors* ("AU 543"). This is a United States auditing standard.

- 2.3 While there are certain differences between the abovementioned international and United States auditing standards, in general any potential Principal Auditor of the GAVI Alliance would have to:

- (a) determine whether it is in a position to report as Principal Auditor. This would include an assessment of: (1) the materiality and importance of the information audited by the Component Auditor, (2) the extent of the potential Principal Auditor's knowledge of the overall consolidated financial statements and the activities of IFFIm and GFA included therein.
- (b) inquire about the reputation, competence and independence of the Component Auditor.
- (c) coordinate certain activities with the Component Auditor. These activities would include: (1) the timing of work, (2) communications of risks and errors identified, and (3) audit of specific balances such as intercompany balances.

- (d) decide whether to refer to the work of the Component Auditor in the report. If no reference is to be made, the Principal Auditor must be satisfied about the adequacy of the Component Auditor's work. Note that AU 543 gives the Principal Auditor more leeway to refer to the Component Auditor's work in its report; IAS 600 only allows reference to the Component Auditor's work if required by law.

### 3 Assessment of Practicality

- 3.1 Considering the requirements outlined in section 2 above, the Secretariat identified the following factors that impact the practicality of appointing an auditor other than the World Bank auditor:

*The materiality and risk of IFFIm and GFA:*

- As of 31 December 2011, IFFIm and GFA assets, after eliminated intercompany balances, made up approximately 40% of the GAVI Alliance total consolidated assets. This could decrease to 35% or less once GFA is removed from the IFFIm structure, but could increase significantly if IFFIm receives significant new pledges.
- Due to the complex nature of its business, including its international bond issuances and hedging activities, IFFIm may be considered by potential GAVI Alliance Principal Auditors as increasing their overall risk with respect to the GAVI Alliance consolidated financial statements.
- The above materiality and risk considerations would impact a potential GAVI Alliance Principal Auditor's assessment of whether it can comply with the requirements described in section 2.3 (a) above. Certain firms may not be comfortable acting as Principal Auditor under these circumstances, which would decrease the pool of firms that the GAVI Alliance has available to appoint as auditor.

*The auditor selected by the World Bank:*

- Any auditor selected by the World Bank would be a reputable international public accounting firm. As such the Secretariat does not anticipate that a potential GAVI Alliance Principal Auditor would have difficulty fulfilling the requirements described in sections 2.3 (b) and (c) above.

*The nature of the audit report issued by the GAVI Alliance Principal Auditor:*

- Based on the abovementioned materiality and risk considerations of IFFIm and GFA, the GAVI Alliance Principal Auditor auditing under AU 543 may want to refer to the work of the World Bank auditor in its audit report. Such a reference would, however, not constitute a qualification of the audit report.
- Although not a qualification, an audit report that makes reference to the work of another auditor could raise questions from donors and other stakeholders.

*The incremental cost:*

- The additional procedures described in sections 2.3 (a), (b) (c) and (d) above will result in additional time spent by the GAVI Alliance Principal Auditor and, therefore, additional audit fees.

#### **4 Advantages and Disadvantages of Appointing of a Firm Other than the World Bank Auditor**

4.1 The Secretariat has identified the following advantages:

- (a) The AFC and Board would have greater control over the GAVI Alliance auditor selection and greater ability to assess the auditor's performance and take remedial action as necessary.
- (b) The GAVI Alliance auditor would be less likely to prioritise its relationship with the World Bank above its relationship with the GAVI Alliance.

4.2 The Secretariat has identified the following disadvantages:

- (a) There would be increased risk of miscommunication and poor coordination between audit teams, which could result in a lower quality audit or missed deadlines.
- (b) There would be increased audit fees.
- (c) Increased effort would be required by the Secretariat to coordinate and support the audit.
- (d) An audit report that makes reference to the work of another auditor could raise questions from donors and other stakeholders.

#### **5 Conclusions**

5.1 Informed by the foregoing analysis, the Secretariat has prepared the Draft Policy in a manner that, while it does not state that the GAVI Alliance shall use the same auditor as the World Bank, does require the Secretariat and AFC to consider the following factors when selecting a firm to act as the GAVI Alliance's independent auditor:

- (a) each potential GAVI Alliance Principal Auditor's plan for dealing with and relying on the audit work performed by the World Bank auditor, including whether the firm plans to make reference to the World Bank auditor's work in its audit report on the GAVI Alliance's consolidated financial statements.
- (b) potential efficiencies and cost savings that may be realised by appointing the same firm to serve as the GAVI Alliance auditor, IFFIm auditor and GFA auditor.

5.2 At its 9 November 2012 meeting, the AFC discussed two potential approaches to assessing the practicality of appointing a firm other than the World Bank auditor:

- (a) Approach 1: The GAVI Alliance always issues a request-for-proposals (“RFP”) and the Secretariat and AFC assess practicality only upon receipt of proposals. This has the advantage that the firms’ responses to the RFP will include their plans for working with the World Bank auditor and, therefore, the assessment of practicality will be made with more complete information.
  - (b) Approach 2: The Secretariat and AFC assess practicality prior to issuing an RFP and, if they deem that it is clearly impractical, the GAVI Alliance does not issue an RFP and instead seeks to appoint the World Bank auditor. If it is considered practical, the GAVI Alliance would then proceed with an RFP. This approach has the advantage of potentially being simpler and quicker.
  - (c) The AFC considered Approach 1 to be the more appropriate and, accordingly, this is the approach reflected in the attached Draft Policy.
- 5.3 The Secretariat believes that the Draft Policy as written would give the GAVI Alliance sufficient leeway to reassess circumstances as they change over time and make auditor appointment decisions accordingly.

### **Section C Implications**

#### **1 Impact on countries**

1.1 No direct impact.

#### **2 Impact on GAVI stakeholders**

2.1 See Section B.

#### **3 Impact on Secretariat**

3.1 See Section B.

#### **4 Legal and governance implications**

4.1 There are no significant legal or governance implications arising from the recommendation in this report.

#### **5 Consultation**

5.1 The Secretariat consulted with the World Bank while gathering the background information that is summarised in section B.1 above.

#### **6 Gender implications**

6.1 No direct implications.

### **Annex 1**

Draft Independent Auditor Selection and Evaluation Policy.

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**Document Administration**

VERSION NUMBER	APPROVAL PROCESS	DATE
1.0	Barry Greene, Managing Director, Finance and Operations	
	Reviewed by: GAVI Audit and Finance Committee	9 November 2012
	Approved by: GAVI Alliance Board	[FULL DATE]
		Effective from: 1 January 2013
		Review: As and when required

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## **Independent Auditor Selection and Evaluation Policy**

### **1. Definitions**

1.1 The following definitions and acronyms shall apply:

- **“AFC”** – GAVI Alliance Audit and Finance Committee.
- **“Board”** – GAVI Alliance Board of Directors, or the GAVI Alliance Executive Committee acting on behalf of the Board of Directors.
- **“IFRS”** – International Financial Reporting Standards.
- **“Incumbent Alliance Auditor”** – the public accounting firm engaged to perform the audit of the consolidated financial statements of the GAVI Alliance.
- **“Incumbent Campaign Auditor”** – the public accounting firm engaged to perform the audit of the financial statements of the GAVI Campaign.
- **“Incumbent IFFIm Auditor”** – the public accounting firm engaged to perform the audits of the financial statements of the International Finance Facility for Immunisation and the GAVI Fund Affiliate.
- **“Records”** – all documents, reports, diagrams, correspondence, emails, and other physically or electronically stored material, and other business records regardless of where they are located or stored, including those stored in a desk drawer, office, file cabinet, record center, hard drive, personal computer or lap-top, or off-site location.
- **“US GAAP”** – United States Generally Accepted Accounting Principles.
- **“UK GAAP”** – United Kingdom Generally Accepted Accounting Principles.

### **2. Appointment of Independent Auditor**

#### Request for Proposals by Audit Firms

- 2.1 Prior to the end of the last financial year of a current Incumbent Alliance Auditor’s five-year term, as described in 2.5 and 2.6 below, the Secretariat shall request no less than three public accounting firms to submit written proposals to serve as the GAVI Alliance’s next independent auditor.
- 2.2 The Secretariat shall review and assess all proposals submitted to identify those proposals meriting consideration by the AFC. The Secretariat shall then submit those proposals meriting AFC consideration to the AFC, along with the Secretariat’s recommendations on which firm should be selected.
- 2.3 In assessing each proposal, the Secretariat and AFC shall consider:
- (a) the overall reputation of the firm, including whether the firm is an internationally recognised public accounting firm.
  - (b) the firm’s presence in Switzerland, the United States and the United Kingdom.

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- (c) the firm's experience with auditing organisations similar to the GAVI Alliance, including its experience with auditing organisations under US GAAP, UK GAAP and IFRS.
- (d) the firm's understanding of the GAVI Alliance's business and mission and whether the proposal has been tailored to reflect this understanding.
- (e) the quality, experience and qualifications of the individuals on the proposed professional team.
- (f) the firm's proposed risk assessment and audit methodologies, including whether the proposed methodologies are appropriate for the GAVI Alliance and sufficient to identify material errors and control weaknesses.
- (g) the firm's proposed plan for dealing with and relying on the audit work performed by the Incumbent IFFIm Auditor and Incumbent Campaign Auditor, including whether the firm plans to make reference to the Incumbent IFFIm Auditor and the Incumbent Campaign Auditor in its audit report on the GAVI Alliance's consolidated financial statements.
- (h) potential efficiencies and cost savings that may be realised by appointing the same public accounting firm to serve as Incumbent Alliance Auditor, Incumbent IFFIm Auditor and Incumbent Campaign Auditor.
- (i) any factors that may create conflicts of interest or impair the firm's actual or perceived independence from the GAVI Alliance.
- (j) the number of hours and whether sufficient partner and manager time is allocated to ensure proper supervision of the team.
- (k) the proposed fee and estimated out-of-pocket expenses.
- (l) if available, feedback from the firm's other clients on the firm's performance.
- (m) any other information that the Secretariat or AFC deems relevant to the firm or its proposal.

2.4 Based on the considerations described in 2.3 above, the AFC shall recommend a public accounting firm to the Board for appointment as the GAVI Alliance's independent auditor. The selected public accounting firm shall be appointed as Incumbent Alliance Auditor by resolution of the Board.

#### Term of Appointment

- 2.5 An Incumbent Alliance Auditor may serve a first term of up to five consecutive financial years. After completion of its first five-year term, an outgoing Incumbent Alliance Auditor may submit a proposal to be considered for appointment to a second term of up to five consecutive financial years.
- 2.6 No Incumbent Alliance Auditor may serve more than two consecutive five-year terms. After completion of an Incumbent Alliance Auditor's second consecutive five-year term, the Board shall appoint a different public accounting firm to serve as the GAVI Alliance's independent auditor.

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2.7 The Board may, by resolution, terminate an Incumbent Alliance Auditor’s services prior to completion of its five-year term. In the case of such a termination, the Board shall appoint a new Incumbent Alliance Auditor as described in 2.1 to 2.4.

### **3. Services to be Provided by Incumbent Alliance Auditor**

#### Audit and Related Services

- 3.1 Each financial year, the Incumbent Alliance Auditor shall perform the following audit and related services:
- (a) audit of the GAVI Alliance’s consolidated financial statements included in the GAVI Alliance Annual Financial Report.
  - (b) audit of supplemental information included in the GAVI Alliance Annual Financial Report.
  - (c) review of discussion and analysis information included in the GAVI Alliance Annual Financial Report.
  - (d) other audit and examination assignments that may be required from time to time by donors, partners or other GAVI Alliance stakeholders.
- 3.2 The services described in 3.1 (a), (b) and (c) above shall be included in annual audit engagement letters that the Secretariat shall execute on behalf of the GAVI Alliance with the Incumbent Alliance Auditor. Board approval of these engagement letters shall not be required.
- 3.3 The services described in 3.1 (d) above shall be included, as necessary, in separate engagement letters that the Secretariat shall execute on behalf of the GAVI Alliance with the Incumbent Alliance Auditor. Specific Board approval of these engagement letters shall not be required unless the aggregate fees associated with these services exceeds, or is expected to exceed, US\$ 250,000 during any financial year.

#### Tax Compliance Services

- 3.4 Each tax year, the Incumbent Alliance Auditor shall perform tax compliance services for the GAVI Alliance, including review of the GAVI Alliance annual tax Form 990 submitted to the United States Internal Revenue Service.
- 3.5 The services described in 3.4 above shall be included in annual tax engagement letters that the Secretariat shall execute on behalf of the GAVI Alliance with the Incumbent Alliance Auditor. Board approval of these engagement letters shall not be required.

#### Disallowed Services

- 3.6 The Incumbent Alliance Auditor shall not, without prior approval of the AFC, perform any audit, financial compliance or other examination procedures in GAVI implementing countries with respect to the use of GAVI funds.

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3.7 The Incumbent Alliance Auditor shall not perform any services that involve, or appear to involve, the Incumbent Alliance Auditor making management decisions on behalf of the GAVI Alliance.

#### **4. Assessment of Incumbent Alliance Auditor's Performance**

4.1 After the second financial year of an Incumbent Alliance Auditor's five-year term, the Secretariat will prepare an assessment of the Incumbent Alliance Auditor's performance and quality of service, and present that assessment to the AFC for review and consideration. This evaluation shall include assessments of:

- (a) the quality of communications with the AFC and the Secretariat.
- (b) how the audits for the first two financial years were planned and conducted.
- (c) the composition of the audit team.
- (d) the timeliness and responsiveness of the Incumbent Alliance Auditor.
- (e) the Incumbent Alliance Auditor's maintenance of independence.
- (f) any significant changes to the Incumbent Alliance Auditor since its appointment.
- (g) any other information that the Secretariat deems relevant.

4.2 The AFC shall consider the information in the Secretariat's assessment, along with information it has received directly from the Incumbent Alliance Auditor. Based on all this information, the AFC shall determine whether there are any issues that must be remedied.

4.3 The AFC or Board may also initiate a formal review of the Incumbent Alliance Auditor's performance at any time if they become aware of any issues that they feel must be immediately remedied.

4.4 The Secretariat shall work with the AFC and the Incumbent Alliance Auditor to promptly remedy any issues identified in 4.2 or 4.3 above.

#### **5. Audit or Examination of Records by Parties Other than the Incumbent Alliance Auditor**

5.1 The Incumbent IFFIm Auditor and Incumbent Campaign Auditor may, after consulting with the Secretariat, perform audit procedures on the Records of the GAVI Alliance to the extent such procedures are required to complete their audits of the International Finance Facility for Immunisation, the GAVI Fund Affiliate or the GAVI Campaign.

5.2 Unless exceptionally and specifically approved by the AFC or Board no individual or organisation other than the Incumbent Alliance Auditor, the Incumbent IFFIm Auditor and Incumbent Campaign Audit may perform audit or other examination procedures on the Records of the GAVI Alliance.