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To Fight AIDS, Tuberculosis and Malaria

## The Office of the Inspector General

### Audit Report on Global Fund Grants to Nepal

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### Acronyms

ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immune Deficiency Syndrome
ANC	Ante Natal Clinics
ART	Anti Retroviral Therapy
ARV	Antiretroviral
BCC	Behavior Change Communication
BNMT	Britain Nepal Medical Trust
CBO	Community Based Organization
CCM	Country Coordinating Mechanism
CP	Conditions Precedent
CQ + SP	Chloroquine and Sulphadoxypyremethamine
DACC	District AIDS Coordination Committee
DCR	Deputy Country Representative
DfID	Department for Infrastructure Development
DG	Director General
DOHS	Department of Health Services
DOTS	Directly Observed Treatment Site
DPHO	District Public Health Office
DR	Disbursement Request
DTCO	District Treasurer Comptroller Office
EDCD	Epidemiology and Disease Control Division
EOI	Expression of Interest
EWARS	Early Warning and Reporting System
FCGO	Financial Controller General Office
FCHV	Female Community Health Volunteers
FEFO	First Expiry First Out
FPAN	Family Planning Association of Nepal
GFATM	The Global Fund to Fight AIDS, TB and Malaria
GON	Government of Nepal
HERD	Health Research and Social Development Forum
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
IDU	Injecting Drug Users
IEC	Information, Education and Communication
INGO	International Non-Governmental Organization
IRS	Insecticide Residual Spray
LFA	Local Fund Agent
LHL	Norwegian Association of Heart and Lung Patients
LLIN/LLTN	Long-Lasting Insecticide-Treated Nets
LMD	Logistics Management Division
LMIS	Logistic Management Information System
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MOF	Ministry of Finance
MOHP	Ministry of Health and Population

## Audit on Global Fund Grants to Nepal

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MOU	Memorandum of Understanding
MSA	Management Support Agency
NATA	Nepal Anti TB Association
NCASC	National Centre for AIDS and STI Control
NGO	Non-Governmental Organization
NHWC	National Human Welfare Council
NLR	Netherland Leprosy Relief
NPR	Nepalese Rupees
NTC	National TB Centre
OAG	Office of Auditor General
OI	Opportunity Infection
OIG	Office of the Inspector General
OFP	Overseas Financial Policy
PMTCT	Prevention of mother to Child transfer
PMU	Program Management Unit
PUDR	Progress Update Disbursement Request
PR	Principal Recipient
PSI/PSI-N	Population Services International / PSI-Nepal
PSM	Procurement and Supply Chain Management
QA	Quality Assurance
RDT	Rapid Diagnostic Test Kits
R2	Round 2
R4	Round 4
R7	Round 7
SCiN	Save the Children in Nepal
SCUS	Save the Children USA, Himalayan Country Office
SDA	Service Delivery Area
SDPs	Service Delivery Points
SR	Sub-Recipient
STI	Sexually Transmitted Infection
TA	Technical Assistance
TB	Tuberculosis
TGF/GF	The Global Fund
TOR	Terms of Reference
TRP	Technical Review Panel
UN	United Nations
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
US\$	United States Dollars
VAT	Value-Added Tax
VBDRTC	Vector Biology and Disease Research and Training Centre
VCT	Voluntary Counseling and Testing
WHO	World Health Organization
XDR	Extensive-Drug Resistant

## Executive Summary

### Introduction and overview

1. The Office of Inspector General (OIG), as part of its 2009 work plan, carried out an audit of the Global Fund grants to Nepal. The purpose of the audit was to assess the adequacy of the internal control systems in managing the Global Fund grants in Nepal. The audit objectives were to:

- (a) assess the efficiency and effectiveness in the management and operations of grants;
- (b) measure the soundness of systems, policies and procedures in safeguarding Global Fund resources;
- (c) assess the effectiveness of established mechanisms/controls to safeguard the Global Fund resources in Nepal; and
- (d) assess any risks that Global Fund grants are exposed to and the adequacy of measures taken to mitigate them.

2. The audit covered all Global Fund grants in Nepal, the details of which are shown in the table below:

Principal Recipient	Grant Number	Grant Amount (US\$)	Amount Disbursed (US\$)
Ministry of Health and Population of the Government of Nepal	NEP-202-G01-H	5,430,349	4,849,147
	NEP-202-G02-M	2,738,773	2,362,775
	NEP-405-G03-T	10,126,706	3,908,421
	NEP-708-G08-T	4,358,040	776,876
	NEP-708-G07-M	2,101,608	716,734
<b>Subtotal</b>		<b>24,755,476</b>	<b>12,613,953</b>
Population Services International - Nepal (PSI)	NEP-202-G04-M	4,685,834	4,544,691
	NEP-708-G06-M	7,024,844	3,064,866
<b>Subtotal</b>		<b>11,710,678</b>	<b>7,609,557</b>
Family Planning Association of Nepal (FPAN)	NEP-708-G11-H	2,641,963	729,606
Save the Children USA, Himalayan country office	NEP-708-G10-H	2,944,832	1,046,449
United Nations Development Program (UNDP)	NEP-708-G09-H	6,734,717	1,807,803
	NEP-202-G05-H	4,935,646	4,551,995
<b>Subtotal</b>		<b>11,670,363</b>	<b>6,359,798</b>
<b>Total</b>		<b>53,723,312</b>	<b>28,359,363</b>

Table 1: Summary of grants (Source: The Global Fund website)

### Scope and methodology

3. The audit covered:

- (a) Compliance of the grant structures, systems and processes with the grant agreement; established GF and local policies, procedures and guidelines; and country laws;
- (b) Internal control where the adequacy of the structure and systems were assessed in safeguarding grant assets against possible misuse and abuse;
- (c) Financial review to ensure that funds were utilized in accordance with the grant agreements; and
- (d) Grant management i.e. obtaining assurance that the systems, processes and controls in place are efficient and effective in supporting the achievement of grant objectives.

4. The audit covered the operations of the Principal Recipients (PRs) and their interactions with the Country Coordinating Mechanism (CCM), the Local Fund Agent (LFA), Global Fund Secretariat and the sub-recipients (SRs). During the audit, emphasis was placed on Round 2 and Round 4 grants as these cover longer periods and have more significant disbursements. The Round 7 grants were only audited in view of obtaining assurance of adequacy of systems, policies and structures for delivery of Global Fund programs.

5. Audits of UNDP are guided by the single audit principle which states that *"The United Nations Board of Auditors and the appointed External Auditors of the specialized agencies and of the International Atomic Energy Agency retain the exclusive right to carry out external audit of the accounts and statements of the United Nations Organizations. If special reviews are required, governing bodies should request the appointed External Auditor to carry out specific examinations and to issue separate reports to them on the results"*.

6. The financial regulations and rules of the United Nations give the UN's external auditors the exclusive right to audit the accounts and statements of the UN. The UN's external auditors comprise three members appointed by the General Assembly, each of whom is the Auditor General (or officer holding the equivalent title) of a member state. The three members of the Board have joint responsibility for the external audit of the United Nations and its funds and programs. The auditors report to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions. Comparable principles apply to the specialized agencies of the UN system.

7. Whilst Global Fund can access the generalized reports of the work undertaken by the UN Board of Auditors UNDP policy does not allow Global Fund access to the reports of the Office of Audit and Investigations on the basis of the single audit principle and policy on confidentiality. The UNDP asserts that internal audit reports are confidential and may only be disclosed to member states in limited situations. Since the Global Fund is not a member state, it is not eligible to review such reports.

8. The OIG held several discussions with UNDP to seek appropriate access to program sites, records and audit reports. This has culminated in some improvements in the arrangements for access; however, during the audit the OIG focused on implementation of grants by partners other than UNDP.

### Country Context

9. A peace accord in November 2006 brought an end to 10 years of Maoist insurgency in the country. An interim government was established in January 2007. A Maoist-led coalition formed a government in August 2008, which was succeeded by one led by the Unified Marxist Leninist party in May 2009. A Constituent Assembly was formed to serve as a parliamentary body and a new constitution is due to be completed by May 2010.

10. The grant programs in Nepal have therefore operated in an environment of political transition and tension among the leading political parties resulting in frequent strikes and roadblocks ('bandhs'). The existing political instability and insurgency has a) resulted in delays in program implementation, b) partly contributed to many professionals leaving the country to work abroad, leading to a gap in technical and managerial skills in most government departments and c) contributed to infrastructural deficiencies in many of the 75 districts of the country.

11. With every changing government, the staff in key government positions have changed as well. These frequent changes in government technocrats at the Ministry of Health and Population (MOHP) have resulted in intermittent leadership.

### Summary of findings

12. This section briefly highlights the findings and conclusions arising from the audit and detailed findings are contained in the rest of the report. It is, however, essential that this report be read in its entirety in order to fully comprehend the approach to, and findings of, OIG's work.

13. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist management in deciding the order in which recommendations should be implemented. The categorization of recommendations is as follows:

- (a) *High priority*: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization's interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;
- (b) *Significant priority*: There is a control weakness or non-compliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization's interests, weaken internal control, or undermine achievement of aims and objectives; and
- (c) *Requires attention*: There is minor control weakness or non-compliance within systems and proportional remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or

enhance systems, procedures and risk management for the organization's benefit.

### Ministry of Health and Population

#### Epidemiology and Disease Control Department (EDCD) Malaria grants

14. Malaria is prevalent in 65 of the 75 districts of Nepal. The bulk of the cases are found in 13 districts, mostly in the Terai region bordering with India. Under Round 2, 12 districts in the Terai region with a population of over 5 million were identified as malaria-high-risk districts. The number of districts increased to 13 under Round 7, which increased the susceptible population that would benefit from the Global Fund program to over 6 million.

15. EDCD was able to implement many of the activities in its work plan. However, the achievement of targets was affected by the political environment. A PMU was set up in 2007 after the Global Fund stopped disbursements citing poor program performance and coordination at EDCD. There has been a marked improvement in the overall management of Global Fund activities since this PMU came into place. However, PMU arrangements are transitional mechanisms intended to accelerate program implementation in an environment assessed to have significant capacity deficiencies. In cases where they are used, there should always be a transition plan to move implementation back to the core structures of the concerned ministry. There was no documented plan on how EDCD intends to transition program implementation from the current PMU arrangement back to the mainstream ministry structures. There is also no clear plan to develop capacity within EDCD as a way of phasing out the PMU arrangement.

16. The grant agreement requires that PRs maintain proper books of account. Proper books of account were not maintained for the Global Fund programs. At the time of the audit, key accounting records such as cash books and bank statements were missing. None of the accounting records for Round 2 Phase I were available at the time of the audit. Failure to maintain proper books of accounts implies that MoPH cannot account for Global Fund monies received. The OIG will undertake a follow-up review within six months by which time the documentation should have been retrieved for audit.

17. OIG also noted that the financial records maintained at EDCD relating to bank transactions were incomplete. This implies that EDCD lacks proper records to account for Global Fund monies. Key information missing at EDCD included a cash book, bank statements and bank reconciliations for US\$ transactions for Nepal Rastra Bank.

18. Instances were noted where the MOHP/EDCD did not comply with the terms and conditions stipulated in the grant agreement. This weakened the control environment within which Global Fund programs are implemented. Specifically the PR did not:

- (a) Seek exemption from the payment of taxes for all Global Fund activities;
- (b) Submit PUDRs and annual audit reports to the Global Fund on time to ensure timely release of funds for grant programs;



- (c) Maintain an insurance coverage for all the assets procured under the Global Fund grants in order to safeguard against financial loss in the event of theft or damage; and
- (d) Appoint an independent auditor to undertake the financial audits of program revenues and expenditures.

19. The liquidation of advances was not done in a timely manner. At the time of the audit, advances of NPR 1,700,000 (US\$ 22,973) and NPR 400,000 (US\$ 5,405) provided to Morang and Doti districts respectively in the year 2006-7 remained unliquidated. It is not clear whether the activities for which those outstanding advances were carried out.

20. The MOHP adopted a practice of prescribing rates for travelling allowances at the time of approving budgets for each training/workshop/seminar to be held. The actual payments for travelling allowances did not conform to the established rates with some participants receiving payments at rates exceeding the approved Government rates.

21. Drug management at district level was suboptimal as characterized by poor storage, stock control and lack of re-ordering levels. Although EDCD management mentioned that annual physical verification of assets and stocks is carried out, there were no reports to evidence such counts.

22. At the time of the audit, OIG noted Rapid Diagnostic Test kits (RDT) and ACT drugs worth US\$ 47,152 that had expired in Morang and Jhapa districts. This was due to failure by the store management to follow the first-expiry, first-out (FEFO) method for issuing drugs. The expired drugs had not been disposed of at the time of the audit. This raises the risk that expired drugs can be issued by mistake.

### National Tuberculosis Centre (NTC) - Tuberculosis

23. Nepal has had a well-functioning TB control program for over a decade and both case detection and treatment success rates have been consistently high. The annual report of the TB control program for 2007-2008 published in March 2009 showed that 2.9 percent of TB patients have Multi Drug Resistance (MDR). Surveillance surveys estimate that 2.4 percent of TB patients are co-infected with HIV.

24. According to the Secretary of Health, the TB program in Nepal has been considered one of the best in the South Asia region. NTC has achieved commendable success in the implementation of program activities despite the challenging country of political complexities, and delay in disbursements of funds. Program implementation has been put on hold pending the approval of budget provisions for taxes on program inputs.

25. A PMU was established in September 2008 as part of the efforts to build capacity within NTC and also accelerate program implementation. However, there is no plan to develop capacity within NTC as a strategy to phase out the PMU arrangement. Such a plan would be in line with the Global Fund principle of working with national structures and systems and not building parallel systems.

26. During the period of review, there was a lack of clear collaboration arrangement between NTC and the National Council for AIDS and STI Control (NCASC) regarding the integration of TB-HIV activities.

27. There is no system in place to track advances to ensure that all funds advanced are put to their intended use and that any unused cash is refunded in a timely manner. Advances are treated as expenditure, leading to weak tracking of accountabilities from districts and SRs. The records for managing advances were noted to be incomplete. Advances taken by staff were sometimes not accounted for.

28. NTC follows the government financial management system, which is manual and cash-based. Financial management policies and procedures are contained in Nepal Government Financial Policies and procedures manual which NTC follows. NTC complies to a large extent with the policies and procedures that are stipulated in the manual.

29. Procurement of equipment and other office facilities has been delayed because there was no provision made for related taxes in the government budget. OIG was informed that the budgetary provision for VAT is likely to be made in the next financial year. Delays in procurement will inevitably affect the progress of program activities. No efforts have been seen to resolve the impasse in the short term.

30. The delay in releasing the first installments due to the districts in the financial year 2007-2008 impacted implementation. The delays are mainly caused by the bureaucratic government funds flow mechanisms which require that funds are disbursed to districts after receipt of a fund release order from FCGO.

31. NTC did not have a functional system of monitoring SRs. Only two visits were conducted in Round 4. There was no record to confirm that any monitoring visits had been undertaken in Round 7.

32. Drug registers at NTC were not updated when drugs expired. At the time of the audit, drugs worth NPR 615,000 (US\$ 8,311) were a year past their expiration but the store register had not been updated. There were some discrepancies noted between the records and the physical verification.

### National Centre for HIV and STI Control (NCASC)

33. MOHP assigned the implementation of the HIV/AIDS grants to NCASC. NCASC is mandated to implement and monitor government HIV/AIDS programs financed by both the Government of Nepal and external development partners. Other development partners that finance NCASC include DFID, WHO and FHI who have established a logistics management unit in NCASC that covers the transportation of HIV health products to different sites.

34. The institutional arrangements for the policy making, implementation and M&E of the HIV response are complex, duplicative and unclear. Although the roles

and responsibilities of the NSASC are governed by an Act of Parliament there is an overlap in roles between the NSASC and the HIV, AIDS and STI Control Board (HIV Board).

35. Under Round 7, the authority for approving NCASC planned activities is cumbersome and lengthy, requiring day to day decisions to be passed through the Director General and even through the Secretary of MOHP and the Minister. This structure and general method of work has led to an ineffective working environment that has affected productivity, efficiency and teamwork.

36. NCASC has experienced frequent turnover in the leadership position since signing of the first grant agreement in August 2003 with the directorship changing nine times in the past six years. All new directors took time to acquaint themselves with the working arrangements of the department and with the Global Fund programs and this affected the implementation of the program activities.

37. There were staffing challenges within the unit with several staff positions remaining unfilled. The M&E unit has had a Program Officer only for eight months (January to August 2008) and a data analyst for only five months (April to September 2008) throughout the two-year grant implementation period. The tasks of the M&E Officer were handled by the M&E assistant.

38. NCASC signed a MSA agreement with UNDP in 2005 and became PR in March 2009 but to date no capacity building plan has been developed to transition the program management back to NCASC. Staff were recruited and various support arrangements put in place but this was done in an ad hoc manner and does not provide assurance in terms of sustainability. Job descriptions for recruited staff were not available at the time of the audit.

39. A review of NCASC's compliance with the conditions precedent specified in the grant agreements as well as with the laws of the country revealed some conditions that were not complied with. NCASC did not comply with requirements to submit annual reports to the Global Fund 45 days after year-end, and no independent audits have been undertaken for the grant programs.

40. NCASC procured 16 semi-auto analysers for 16 district sites. However, no training was provided to users of the equipment and this equipment was not in use at sites visited by OIG.

41. There was no documented system for periodic budget monitoring except under PUDR. Comparisons between the budget and the actual expenses were done for reporting purposes on a trimester basis as opposed to more regular monitoring over expenditure.

### United Nations Development Program

42. Because of the UN single-audit principle, the audit of UNDP as a PR could not be conducted by OIG. However, the OIG reviewed the operations of SRs managed by UNDP, namely: the Association of Medical Doctors of Asia - Nepal (AMDA) and Nepal Association of PLHA (NAP+N)

43. UNDP was able to achieve performance on several indicators for VCT and treatment. It was hampered by:

- (a) The security situation in Nepal;
- (b) The six-month delay in signing the Round 2 Phase II grant; and
- (c) An eight-month delay in the approval of the procurement and supply management plan by the Global Fund Secretariat.

44. Under the Round 2 (Phase II) and Round 7 grants, UNDP was expected to play a capacity building role in relation to NCASC. However, the OIG noted that there was no capacity building plan in place and that the capacity building support to NCASC was under taken in an ad hoc manner.

45. There is scope for enhancing capacity building efforts as evidenced from the OIG visit to NAP+N, one of the SRs. NAP+N was found to be weak in the following areas:

- (a) The financial and operational manual was still in draft form and there were no standard per diem rates;
- (b) No personnel files were maintained and Global Fund funds were used for non-project activities;
- (c) No bank reconciliation statements were prepared for the Global Fund bank account;
- (d) The SR did not make tax deductions to salaries in accordance to the Income Tax Act thus exposing the program to the risk of penalties; and
- (e) OIG obtained and reviewed external audit reports and noted that several audit recommendations were not implemented.

46. Under Round 7, UNDP procures medical supplies. All the SRs reviewed under the Round 2 program complained of delayed disbursements of funds and delayed distribution of medical supplies by UNDP.

47. During the field visits, OIG observed that a CD4 counting machine with a malfunctioning power supply unit had been delivered to Doti district and despite several reminders having been sent to UNDP, the problem was not rectified four months after the machine was delivered.

### Population Services International - Nepal

48. Population Services Nepal (PSI-N) is the extension of PSI in Washington with a mission to deliver reproductive and other health products, services, and information to enable low-income and vulnerable people to lead healthier lives. PSI-N began operations in early 2002 and it works in the areas of HIV/AIDS prevention, child survival and family planning in support of Government of Nepal's National Reproductive Health and HIV/AIDS Prevention Strategies.

49. PSI Nepal made significant accomplishments in the areas of LLINs service delivery and BCC communications, with the PR exceeding most of the targets.

50. PSI head office carries out annual internal audits of the operations in Nepal. Although these audits cover the PSI-Nepal, there is no coverage given to Global

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Fund activities with regard to SRs. The OIG also noted that PSI-N has not implemented many of the recommendations made.

51. PSI-N has an adequate organizational structure which has evolved since inception. However, the job descriptions have not been updated. Since 2006, there have not been any performance assessments for PSI-N staff. However, salaries are increased and promotions given to staff, contrary to the organization's human resources policies.

52. PSI-N receives funding from more than one donor and employees are assigned to more than one project. To apportion personnel costs between the various donors, time sheets are maintained. Management allocates overhead costs by donor on the basis of funds disbursed in a given month. The computation of overheads should be driven by the level of effort and not disbursements because the latter does not necessarily translate into more work.

53. The OIG noted significant lapses in compliance with the requirements of the grant agreement and the laws of the Government of Nepal.

- (a) PSI did not submit annual reports to the Global Fund within 18 months after the date of signing the grant agreement as required;
- (b) The PR did not obtain tax exemption from the Government of Nepal. PSI also has not filed annual tax returns as required by the laws of Nepal. PSI does not remit taxes on the salaries of expatriate staff, and taxes were not withheld on supplier payments in several cases.

54. PSI-N charges the Global Fund overhead costs at a rate of 12 percent on all non-procurement-related program costs and 5 percent for procurement. These rates appear high when compared to those charged by other PRs. For example, the Save the Children USA (SCUS) charges 5 percent on all program costs while UNDP charges 7 percent on all program costs inclusive of procurement.

55. There was no approved schedule for conducting field visits to the SR. Such field visits are conducted as and when necessary by the PSI program officers and the reports on the visits were not shared with the SR. Additionally, there was insufficient evidence that the PR undertook periodic financial reviews of its SRs.

56. On review of the compliance with the provisions of the procurement policy, the following was noted:

- (a) A vendor master file of all the short-listed suppliers with brief profiles was not maintained as required by the policy;
- (b) There was no evidence of minutes of the Purchase Committee meetings conducted to make procurement decisions; and
- (c) There was no evidence of annual evaluations of the performance of the contracted suppliers by the purchase committee as required by the policy.

### Family Planning Association of Nepal (FPAN)

57. The Family Planning Association of Nepal (FPAN) is a national non-governmental organization operating in the field of sexual and reproductive health. It was founded in 1959 when it became an associate member of the

International Planned Parenthood Federation (IPPF), and a fully fledged member in 1969. FPAN was registered with the district administration office, Kathmandu in 1965.

58. The process for contracting and assessing SRs was stopped when one of the SRs, Blue Diamond Society, contested the selection process. The Blue Diamond Society mobilized activists who blocked off the offices of FPAN protesting the method of selection of SRs for activities for men having sex with men (MSM) and male sex workers. The Blue Diamond Society complained that in selecting SRs FPAN did not consider the experience of organizations in implementing activities among the affected communities. Blue Diamond Society maintained that as a result of the flaw in the selection criteria, SRs with a history of stigma towards MSM were selected.

59. There was no evidence seen of senior management oversight over the Global Fund programs. A review of senior management meeting minutes revealed that the Global Fund program was only discussed during the stand off with the Blue Diamond Society. OIG noted that despite FPAN being behind schedule on performance targets and fulfillment of conditions to the grant agreement, there was no discussion of Global Fund programs in management meetings.

60. The LFA identified significant capacity weaknesses in the internal audit function. and these weaknesses were raised in the LFA assessment report. These were included as special conditions to the grant agreement that were time-bound. However, at the time of audit the OIG did not see any actions taken by management to strengthen the department despite the deadline of 31 March 2008 having passed.

61. OIG reviewed the compliance of FPAN with the grant agreement and noted the following outstanding commitments:

- (a) Submission of guidelines for the selection, assessment and management of the performance of SRs;
- (b) Submission to the Global Fund of a plan to strengthen the PR's internal audit function; and
- (c) Obtaining tax exemption from the Government of Nepal.

62. A review of the external auditor's reports for the years to 31 December 2006 and 2007 revealed several recurring weaknesses that were not addressed. These included weaknesses in recording fixed assets; unsettled donor receivables and inter branch accounts; weaknesses in the internal audit department; and non-compliance with requirements to withhold taxes on payments for goods and services.

### Save the Children USA (SCUS)

63. Save the Children USA, Himalayan country office (SCUS) is a non-governmental, non-sectarian, apolitical non-profit organization committed to bringing lasting, positive changes in the lives of children in need. Save the Children USA began work in Nepal in 1981 and steadily expanded its activities to over more than 20 districts in the past 20 years.

64. SCUS has established a Global Fund unit, which has been integrated within its organizational structure. The staff within the Global Fund unit report to their technical heads as per the SCUS organizational structure (SC Alliance) whereas their activities are coordinated by a Global Fund Team Leader who reports to the Assistant Country Director, Program. There are altogether 23 staff recruited for Global Fund activities which include 12 full-time staff and 11 part-time staff.

65. SCUS's general agreement with the Social Welfare Council which was dated 3 February 2004 expired on 2 February 2009. On 1 April 2009, SCUS merged with Save the Children Norway and Save the Children Japan to form Save the Children in Nepal (SCiN) which is now registered with the Social Welfare Council. After merging, SCUS wound up its activities in Nepal and all employee contracts terminated. The PR is seeking legal counsel from the Global Fund on how the grant agreement can be amended to take care of the PR's institutional changes.

66. In the first trimester, SCUS has been able to achieve targets in some of the service delivery areas (SDAs). Management of SCUS attributes the low achievement of targets in the first trimester to time spent on SR selection, assessment, setup and other support activities undertaken in the first phase; delays in the supply of condoms and VCT equipments by UNDP; delays in supply of STI medicine and HIV test kits to the SRs, and political instability as evidenced by frequent strikes.

67. SCUS has an internal audit department with only one staff who covers all the programs of SCUS. There is scope to increase the staffing of the department and provide adequate coverage to Global Fund programs.

68. The Global Fund-related financial transactions were reported in MS Excel. MS Excel does not provide adequate controls over recording and reporting of the Global Fund-related activities. The initial entries were made in the Sun accounting system in the local currency, but reporting to the Global Fund was based on an MS Excel spreadsheet where the transactions were translated using an appropriate exchange rate in the reporting currency (US\$).

### Disease-specific systems that support program implementation

#### Tuberculosis

69. Nepal has had a well-functioning TB control program for over a decade and both case detection and treatment success rates have been consistently high. DOTS-based TB services are available in all 75 districts in Nepal.

70. TB diagnosis is generally made at district hospitals and primary health care centres whilst DOTS treatment is additionally available at health post and sub-health post. The district level is responsible for supervision, monitoring and evaluation, training and logistical management within the district.

71. The latest drug resistance survey estimated that 2.9 percent of TB patients have multi-drug resistance (MDR) and by 2008 494 patients had been registered for

MDR TB treatment. The DOTS Plus facility visited in Kailali was following up patients and ensuring that they were compliant with their treatment.

72. Revised DOTS guidelines have been developed for the updating of knowledge and skills but these have not yet been distributed to the various facilities. In the site visits to a DOTS centre in the Kailali district, it emerged that no active case finding was taking place.

73. TB data is also routinely captured on a monthly basis by the national health and management information system (HMIS). There is good correlation between the NTC data and the HMIS data for case finding, but poor correlation in respect of treatment outcomes which requires cohort analysis. In this case the NTC data is viewed as the official data set, thereby undermining the value of the HMIS.

74. TB patients form one of the highest-risk subgroups for HIV in Nepal. Current estimates are that 2.4 percent of TB patients are likely to be co-infected with TB. There is no formal written strategy for the management of TB/HIV co-infection and no objectives and targets for the implementation of such a strategy.

### Malaria

75. Although there are policies and guidelines for the malaria control program these were not available throughout the districts and facilities that were visited on the field visits. There were no revised guidelines for RDTs and ACTs and staff at facilities were unclear as to how they should implement these strategies. There were no clear algorithms for testing and treatment of malaria available at the facility level.

76. A number of targets set by the PRs in conjunction with the Global Fund were unrealistic. In the case of the EDCD the numbers of malaria cases specified to be diagnosed and treated are overstated. The reason for this is that the overall numbers of malaria cases are declining because of a reduction in transmission rates and also because of tighter diagnostic criteria.

77. One of the PSI's key targets is the proportion of children sleeping under LLINs. One of the fundamental aims of the PSI strategy is to saturate households in high-risk areas with LLINs. Within these households pregnant women and children under five are the key high-risk targets for the intervention. The current target set by PSI of 70 percent of children sleeping under LLINs at the end of three years is extremely conservative given that the current baseline is already over 60 percent. This target needs to be increased significantly.

### HIV/AIDS

78. The HIV epidemic is a typical South Asian variety with a relatively low prevalence in the adult population (0.5 percent) and the focus of the epidemic in high-risk subgroups. The reported prevalence rate in injecting drug users (IDUs) has been coming down over the past six years and is currently 23 percent with a range between geographical areas. The Kathmandu Valley has the reported highest prevalence concentration in IDUs of 35 percent. The prevalence rates in FSWs, MSM



and migrant workers are approximately between 1.5 percent and 2 percent. It is estimated that around 2,500 of the 10,000 people who need ARTs are actually receiving treatment.

79. The HIV epidemic in Nepal is thought to be stable and estimates of the prevalence in the adult population indicate that in 2008 around one in every two hundred people were infected (0.49 percent). It is estimated that approximately 70,000 people are currently infected including nearly 2,000 children under the age of 14.

80. There is no functional senior management technical working group to oversee the HIV/AIDS activities in the ministry. There is no coordination mechanism established to ensure that the response by the various line ministries on HIV/AIDS activities (e.g. education, social welfare) is harmonized and coordinated.

81. The existing HIV and AIDS action plan is not comprehensive and does not deal with HIV/TB. The current institutional arrangements for the policy making, implementation and M&E of the HIV response are complex, duplicative and unclear.

82. There is a lack of a clear policy related to HIV and TB; despite the fact that people with TB have the second highest prevalence rate (2.4 percent) in Nepal. There is no written HIV/TB implementation strategy with targets. However, in the field visits the OIG team came across sites (e.g. Doti district hospital) where all patients diagnosed as HIV positive are also screened for TB.

83. The NCASC collects and aggregates data routinely for a range of activities at a number of facilities. There is little analysis and interpretation of these data and no written feedback to the districts and facilities from which the data was obtained.

### Procurement and supply management

84. The LFA performed PSM capacity assessments in October 2005 for all the three components. The OIG reviewed the conclusions of the PSM assessments for the Round 7 Malaria/PSI grant and HIV/AIDS/UNDP. However, no written PSM assessment report was available for OIG review on the Round 7 TB component.

85. Major health product procurement for all three components are performed by UN agencies: UNDP procuring inputs for HIV/AIDS rounds 2 and 7, WHO for Malaria Round 2 and 7 as well as first- and second-line TB drugs for Round 4 and 7 TB grant. The OIG did not see effort to build the capacity of Government of Nepal to take over procurement of pharmaceutical and health products.

86. Due to lack of experience and reliable domestic data, the forecast for the Round 2 HIV/AIDS grant needs were based on the African ratio on the need for first- and second-line ARVs (10 percent instead of 1 percent). Because of this overestimation, the surplus of second-line drugs expired in large quantities and went to a waste of US\$ 126,000.

87. The OIG team found that the drug management at district level was suboptimal as demonstrated by the lack of guidelines. Staff were not trained and inducted to manage the drug system. There was poor storage of drugs with drugs being strewn on the floor. There was inadequate stock control and record-keeping e.g. there was no use of bin cards. There was inadequate understanding of minimum stock levels and re-order quantities resulting in stock outs and/or expiries.

88. The OIG team visiting the Far Western Region found that there were no stock of RDTs and ACTs at the zonal store and the district store in Kailali. Some of the facilities visited had never stocked or ordered ACTs and RDTs.

89. At present the "warehouse" used in NCASC has two office rooms. One is used for ARVs, STI/OI drugs and test kits while the other serves as storage for commodities used by the HIV/AIDS grant countrywide. The rooms used for warehousing are small, overcrowded, disorderly and dirty. In fact the room used to store ARVs had cartons lying on the floor blocking access to the shelves. The floor is covered with wooden pallet racks to avoid flood damage to the drugs kept at low level. Physical stocktaking is not possible due to the lack of space required to move cartons, open them and count the contents. An immediate solution should be found for the appropriate storage of high-value lifesaving medicines.

90. The central warehouse visited at the EDCD site was below standard. The warehouse consists of three commercial shop boxes each measuring about 3x3x4 metres. Each one has an entry/exit to a narrow and dirty commercial street. The boxes were closed with metal rolling shutters. Expensive medicines and sensitive RDTs are kept in conditions that are not ideal. The storage rooms were full of litter, used cartons and dirt.

91. The OIG noted a lack of standard operating procedures in PSI for quality assurance and control for bed nets. The provision in the purchase contract allowing for PSI to take samples of the bed nets and test their quality by an independent laboratory was not exercised.

### Oversight

92. The CCM has the responsibility of facilitating the development of a single national technical assistance framework for Global Fund-related processes and activities. The OIG did not see evidence that the CCM was facilitating technical assistance for Global Fund programs implemented by Government departments. The OIG noted that capacity gaps with the MOHP identified by various have not been addressed. This has affected MOHP's ability to effectively implement Global Fund programs.

93. The CCM does not undertake oversight of program implementation as required under its mandate. There was also no guidance in the form of report formats with which the CCM would review the performance of PRs. The CCM does not review audit reports or annual reports of PRs. CCMs as part of their oversight role have not undertaken field trips.

94. The CCM is also required to facilitate linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities. OIG's review of CCM minutes presented no evidence of discussion or review of programs funded by other development partners for HIV/AIDS, malaria and TB.

### Local Fund Agent

95. The Local Fund Agent was described by most stakeholders as "effective and supportive". The LFA has effectively played an oversight role in relation to updating the Global Fund Secretariat on some country and grant specific issues; undertaking verification of data exercises; reviewing PUDRs and giving feedback to PRs on required actions; attending CCM meetings and explaining Global Fund policy.

96. The OIG in reviewing the work undertaken by the LFA in assessing the capacity of PRs observed that the Finance and Management Systems assessment of FPAN by the LFA overlooked significant issues. The issues relate to the external auditor's qualified opinion on the financial statements as well as the management letter that were not brought to the attention of the Global Fund.

97. On receipt of the final version the first disbursement request from the PR, the LFA is required to review and forward it to the Global Fund within five working days. In the case of Round 7 grant, there were delays of between six and 11 working days in the review and submission of the first disbursement requests to the Global Fund Secretariat.

98. The LFA in reviewing the conditions precedent to the grant agreements did not notify the Global Fund Secretariat of failure by the MOHP PRs to meet the requirements for annual audit by an external auditor apart from the Auditor General of Nepal. The LFA only made comment on audit undertaken by the Auditor General, as providing audit coverage for Global Fund programs.

### Audit Arrangements

99. Audits conducted by the Office of the Auditor General of Nepal do not meet the minimum standards set by Global Fund in the guidelines to audit of principle recipient audit arrangements, as they do not provide coverage of the requirements to ensure: adequacy of systems of internal control; compliance to the grant agreement and best value in undertaking procurement and supply management activities.

100. The government internal audit arrangements are weak and do not provide adequate oversight assurance as there is no mention (to the auditees) of the scope of the internal audit work carried out by the district Financial Comptroller & Auditor General's Office (FCGO). There were no internal audit reports relating to the Global Fund grant programs issued for the entire period of the audit.

### Global Fund Secretariat

101. The Global Fund Secretariat oversees program management by ensuring that both the Global Fund and PRs adhere to the provisions of grant agreements. The OIG noted the following cases where non-compliance to grant agreements provisions was not followed by action from the Secretariat to enforce compliance.

102. After the appointment of UNDP as PR for HIV Round 7, there was no guidance from the Secretariat for UNDP's transitory role. The country and specifically Ministry of Health would have benefited from guidance on what needs to be put in place before resumption of the PR role.

## Ministry of Health and Population - Malaria grants

### Background

103. The Ministry of Health and Population (MOHP) plays a leading role in improving the health of the people including mental, physical and social well-being at a national level. There has been increased participation of the private sector and non-government institutions in the implementation of health programs in Nepal. The ministry is also responsible for making arrangements and formulating policies for effective delivery of curative services, disease prevention, health promoting activities and establishment of a Primary Health Care (PHC) system. The National Health Policy was adopted in 1991 with its primary objective as extending the PHC system to the rural population in order for them to benefit from modern medical facilities and trained health care providers.

104. MOHP signed the Round 2 Phase I grant agreement on 13 August 2003 under the program title "Malaria Control in Nepal through Primary Health Care System Strengthening & Partnership". The Epidemiology and Disease Control Division (EDCD) is responsible for the implementing the Malaria grants. EDCD implements the Malaria program through the country PHC system. EDCD also collaborates with PSI, the second PR under the Malaria program, to implement activities related to long-lasting insecticide-treated nets (LLTNs) and behaviour change communication (BCC).

105. The ministry received the first disbursement on 29 January 2004. Phase I of the Round 2 Malaria grant commenced on 1 April 2004 and ended on 30 September 2006. Phase II commenced on 1 October 2006 and ended on 31 March 2009. In March 2009, the ministry requested for a no-cost extension for Phase II and at the time of the audit, was still waiting for its approval by the Global Fund Secretariat. The table below provides a summary of the Round 2 grant. Under Phase II, the amount spent is higher than the amount received because some of the money used under Round 2 relates to the Round 7 grant:

Narration	Phase I		Phase II	
	US\$	%	US\$	%
Total budget	1,007,665	100	2,738,773	100
Funds received to date	644,638		1,718,107	
Funds spent to date/percentage of budget	613,177	60	1,766,549	64
Funds spent to date as a percentage of receipts	613,177	95	1,766,549	102

Table 2--: Fund flow status (Source MOHP-EDCD records).

106. The Round 7 grant agreement was signed on 25 March 2007. Phase I commenced on 16 July 2008 and ends on 15 July 2010. The table below provides a summary of the Round 2 grant.

Narration	Phase I	
	US\$	%
Total budget	2,101,608	100
Funds received to date/percentage of budget	716,933.93	34

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Narration	Phase I	
	US\$	%
Funds spent to date as a percentage of budget	385,963	18
Funds spent to date as a percentage of receipts	385,963	53

Table 3--: Fund flow status (Source MOHP-EDCD records). Above does not include US\$ 704,513 provided to WHO (net of US\$ 200,000 provided through EDCD included above)

107. Malaria is prevalent in 65 of the 75 districts of Nepal. The bulk of the cases (more than 75 percent of total cases and those due to falciparum) are found in thirteen districts, mostly in the Terai region bordering with India. Under Round 2, 12 districts in the Terai region with a population of over 5 million were identified as malaria-high-risk districts. The number of districts increased to 13 under Round 7, which increased the susceptible population that would benefit from the Global Fund program to over 6 million.

108. Nepal has been divided into four strata based on the malaria-related risk profile. The strata determine the intervention strategies that will be employed to combat the disease. The interventions employed are the early warning system (EWARS); long-lasting insecticide-treated nets (LLINS); indoors residual spraying (IRS); testing with rapid diagnostic tests (RDTs) and treatment of positives with Artemisinin-based combination therapy (ACT); as well as involving community participation with the use of information, education and communication (IEC).

### Achievements and challenges

109. At the time of signing the Round 2 grant in 2003, EDCD had several conditions precedent set in the agreement which mainly related to capacity deficiencies and the highly bureaucratic institutional setup at the ministry. At the end of the grant Phase I of Round 2, EDCD set up a project management unit (PMU) to boost its capacity to implement the grant. The new structure contributed to some improvement in program performance at the end of Phase II. There were indications of even better performance under Round 7.

110. Under Round 2, EDCD:

- (i) Conducted national workshops on diagnosis and treatment and management support for unusual increase of malaria cases in the district;
- (ii) Established and operated sentinel sites (one or two sites/district) for early detection of epidemic/outbreak conducted in six districts;
- (iii) Participated in international workshops ;
- (iv) Provided technical assistance to sites on management of severe malaria, drug resistance, M&E, quality assurance, human resource, organizational development, finance and logistics;
- (v) Conducted susceptibility and bioassay tests;
- (vi) Conducted training and initiation of drug resistance tests;
- (vii) Prepared manuals;
- (viii) Procured supplies for the sentinel sites;
- (ix) Established EWARS in four districts, namely Ilam, Dadeldhura, Kavre and Sindhuli; and undertook training (two days); including EWARS strengthening - eight districts; strengthening Kankad Bhatta malaria check post; and

- (x) Equipped a health check post on the eastern border to identify and treat potentially infected migrant workers.

111. Within a period of five months since receipt of the first disbursement for Round 7, EDCD has implemented several planned activities including:

- (a) Training on rational use of ACT;
- (b) Establishment of a National Technical Advisory Group for malaria with representation from MOHP, EDCD, NPHL, NHEIC, INGOS/NGO, and WHO;
- (c) Holding an M&E orientation and training for PMU staff;
- (d) Recruiting seven district-based M&E officers; and
- (e) Distribution of bed nets in a well-maintained record-keeping environment with clear identification of recipients.

112. However, the achievement of targets has also been hampered by the political environment. The Global Fund programs in Nepal operate in an environment of political transition and tension among the leading political parties with frequent strikes and roadblocks hindering the accessibility of many areas where program activities are taking place. Staff in key government positions change with every change in government. This frequent change in government technocrats at the Ministry of Health and Population (MOHP) has resulted in interrupted leadership in the programs. The political instability has also partly contributed to many professionals leaving the country to work abroad, leading to a gap in technical and managerial skills in most government departments.

### Strengthening grant management

#### Institutional aspects

Proper structures have been established in the MOHP to manage and implement the Global Fund programs. However, some of the structures that have been established are not operating effectively and this has affected the implementation of Global Fund activities.

113. The Global Fund grants presented a substantial scale-up of the malaria response activities within the ministry. The OIG reviewed the arrangements that were in place for the effective implementation, monitoring and oversight of grant activities. EDCD is headed by a Director, who reports to the Director General of the Department of Health Services. The Director General reports to the Secretary of Health in the MOHP.

114. Until October 2008, there was no evidence of mechanisms to oversee Global Fund programs in the MOHP. OIG did not see evidence of the involvement of the office of the Director General of Health Services or the Secretary of Health in Global Fund activities or matters. OIG was informed that senior management meetings to review grant performance were held regularly. However, there were no minutes available to evidence such meetings.

115. In October 2008, a nine member high-level technical working group was established under chairmanship of Director General to oversee the malaria

activities in the ministry. No terms of reference were developed for the working group and at the time of the audit, this group had not yet started meeting.

116. Since the inception of the Global Fund programs in 2003, EDCD has changed directors four times. Frequent changes in the leadership contributed to an already weak oversight as new directors required a lot of time to acclimatize themselves to the modalities of Global Fund grants. The lack of oversight meant that issues that affected grant performance were not identified and resolved early enough and this affected the overall poor performance of the Round 2 Phase I grant.

### ***Recommendation 1 (High)***

- (a) *The oversight role of senior management within the ministry should be formalized. Terms of reference should be developed for the working group and these should include a review of the performance of the Global Fund grants across the different disease interventions. Minutes arising from all management meetings should be documented and retained for future reference. Creation of an active committee to oversee the performance of Global Fund programs for all three diseases would strengthen the oversight function at a senior management level.*
  
- (b) *The technical working group should also ensure that the EDCD leadership is stabilized. In the event that there is a leadership change, a proper handover should take place.*

117. A PMU was set up in 2007 after the Global Fund stopped disbursements citing poor program performance and coordination at EDCD. There has been a marked improvement in the overall management of Global Fund activities since this PMU came into place. However, the OIG noted that the PMU staff were not actively involving the ministry core staff, a key requirement in capacity building. PMU arrangements are transitional mechanisms intended to accelerate program implementation in an environment assessed to have significant capacity deficiencies. In cases where they are used, there should always be a transition plan to move implementation back to the core structures of the concerned ministry. There was no documented plan on how EDCD intends to transition program implementation from the current PMU arrangement back to the mainstream ministry structures. There is also no documented plan to develop capacity within EDCD as a strategy to phase out the PMU arrangement.

### ***Recommendation 2 (High)***

*As part of its capacity development plan, the MOHP should develop and implement a comprehensive transition plan to phase out the PMU and integrate the Global Fund programs into mainstream ministry structures and programs. The PMU staff should be encourage to work with ministry staff and vice versa. This effort should be coordinated with the Global Fund Secretariat drawing upon the capacity assessment gaps indentified in the LFA reports and other sector studies undertaken.*

118. The MOHP also signed a memorandum of understanding (MOU) with World Health Organization (WHO) worth US\$ 400,000 for the provision of technical assistance. The Director, EDCD, and PMU Coordinator stated that the activities



under this MOU had been satisfactorily completed. However, the ministry did not have documentary evidence in form of reports on what activities were undertaken by WHO and how they contributed to the achievement of the program activities.

### Compliance aspects

The Global Fund signed three grant agreements with the MOHP and these agreements require the latter to comply with the conditions in the grant agreement and the laws and regulations of Nepal. This would ensure that the conditions put in place to safeguard the Global Fund assets are operational and therefore reduce the risks to which Global Fund money is exposed. Instances of non-compliance noted are highlighted in the paragraphs below.

119. The grant agreement requires that PRs maintain proper books of account. Proper books of account were not maintained for the Global Fund programs. At the time of the audit, key accounting records such as cash books and bank statements were missing. None of the accounting records for Round 2 Phase I were available for OIG audit. Failure to maintain proper books of accounts raises the risk that MoPH cannot account for Global Fund monies received and the implicit risk that funds cannot have been used for their intended purposes.

120. There was commingling of grant funds for the different rounds and this resulted in MOHP using approximately US\$ 45,000 from the Round 7 grant to implement activities under Round 2. The use of funds for activities that are not listed in the grant's work plan even when the funder is the same represents ineligible expenditure. This raises the risk that funds may not be available under Round 7 to implement the intended activities as elaborated in the approved work plan.

121. The grant agreement requires the MOHP to maintain, where available at a reasonable cost, insurance on program assets. The ministry procured many assets under the Global Fund grants such as vehicles, photocopy machines, computers, photocopy machines etc. The assets are highly susceptible in the current political environment where there are a lot of strikes. However, these assets were not insured although insurance cover over assets was budgeted for. This exposes the Global Fund to financial loss if the assets are lost or damaged.

122. The grant agreement requires that PRs obtain tax exemption from goods purchased under the programs. OIG noted that District Public Health Officers (DPHOs) did not seek exemption and paid taxes on all the goods and services they purchased using the grant funds. The payment of taxes reduces the amount of money available for implementation of grant activities.

123. The grant agreements require MOHP to submit periodic reports to the Global Fund not later than 45 days after the reporting period. Annual audited reports should be submitted to the Global Fund not later than six months after the end of the fiscal year. However, most of the progress update disbursement requests (PUDRs) and annual audit reports were submitted with delays of up to four months and 12 months, respectively. As an example, the PUDR 2 for Round 7 had not been submitted to the Global Fund at the time of the audit, i.e. 14 June 2009, although

its deadline was 30 April 2009. Delays in the submission of reports affects the disbursement cycles of the grants and inevitably the ability of the PR to implement programs on a timely basis.

124. The Round 2 Phase II grant agreement requires the PR to have annual financial audits of grant revenues and expenditures undertaken by an independent auditor. In addition to the audit undertaken by the Office of the Auditor General, the special terms and conditions to the grant agreement provide for the appointment of an independent auditor to undertake an audit of the Global Fund programs. The MOHP/EDCD have not appointed an independent auditor to undertake an audit of the program revenues and expenditures as required in the grant agreement. This has been budgeted for and the budget remains unutilized.

### ***Recommendation 3 (High)***

*The MOHP/EDCD should ensure compliance with all the terms and conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically the PR should:*

- (i) Seek exemption from the payment of taxes for all Global Fund activities and communicate this to all implementers. Efforts should be made to recover taxes paid to date from the tax authorities;*
- (ii) Submit the PUDRs and annual audit reports to the Global Fund on time to ensure the timely release of funds for grant programs;*
- (iii) Maintain the insurance coverage for all of the assets procured under the Global Fund grants in order to safeguard against financial loss in the event of theft or damage; and*
- (iv) Appoint an independent auditor to undertake the financial audits of program revenues and expenditures.*

### **Financial management**

The financial management system does not meet the mandatory standards defined in the grant agreement signed with the Global Fund. At the time of the audit, the financial documentation for Round 2 Phase I was not available. Key documents such as bank statements for the US dollar bank account were not available. Funds disbursed to districts were not followed up. The OIG cannot give assurance on whether the funds disbursed to the MOHP under Phase I of Round 2 were used for the intended purpose and in accordance with the agreed work plan.

125. EDCD management maintained one set of financial records for grants under both Round 2 and Round 7. The accounting system was not able to separate the funds by grant or establish the fund balances for each of the grants at the time of the audit. This resulted in some Round 7 funds being used to fund Round 2 activities.

126. The financial records maintained at EDCD relating to bank transactions were incomplete. Without key financial documentation in place, the use of Global Fund

resources for their intended purposes remains questionable. Key information missing at EDCD included:

- (a) A cash book to record the transactions for the US\$ account with Nepal Rastra Bank where disbursements from the Global Fund are deposited;
- (b) Bank reconciliations for the same account; and
- (c) Bank statements for the same account for the period August 2003 to June 2007.

127. Documentation relating to program activities under Round 2 Phase I was not made available to the OIG team. The ministry officials attributed this to the absence of the concerned officials. Without records with which to audit Global Fund program activities, OIG cannot give assurance on whether the funds disbursed to the MOHP under Round 2 Phase I were used for the intended purpose and in accordance with the agreed work plan.

128. The program financial records are maintained manually. The program budget for Round 2 included a provision of US\$ 30,000 for procurement of a computerized accounting package, which was not purchased. The use of a manual accounting system has resulted in tardy reporting, inaccurate reports and inefficient tracking of transactions.

### *Recommendation 4 (High)*

- (a) The financial management system at the PMU should acquire computerized accounting system without further delay.*
- (b) The financial records maintained for different rounds should be separated. Borrowing of grant monies from one grant should be discouraged and should only be with explicit approval of the Fund Portfolio Manager. In light of this, Round 7 funds used for Round 2 should be refunded.*
- (c) Proper documentation should be maintained for all financial transactions and retained for future reference in accordance with the grant agreement.*
- (d) All documents referred to above as missing should be retrieved and this will form part of a follow-up review of this audit by OIG.*

129. There were considerable delays noted between issuing spending authorization and the actual release of funds to the districts. This is contrary to core Global Fund principles that promote rapid disbursement of funds. This inevitably affected the timely implementation of program activities. As an example, EDCD requested funding from the Financial Controller General's Office (FCGO) on 23 November 2008 and funds were only released by FCGO to districts on 9 February 2009.

130. There is no system to track advances systematically to ensure all funds are put to their intended purpose and that any unused cash is refunded in a timely manner. The liquidation of advances was not done in a timely manner. In the year 2006-2007, advances of NPR 1,700,000 (US\$ 22,972) and NPR 400,000 (US\$ 5,405) provided to Morang and Doti districts respectively remained un-liquidated at 31 May 2009. It is not clear whether the activities for which those outstanding

advances were intended were carried out. However, these districts have continued to receive further advances before liquidating these two advances.

131. The supporting documents relating to the actual expenditure incurred by the DPHOs spending units from the advances granted by MOHP under cash grant mechanism is retained at the respective DPHOs. The MOHP settles such advances granted on the basis of expenditure reports. No review of supporting documents is carried out. The MOHP/EDCD has not established a mechanism for verifying the accuracy of the reports provided to the centre by the DPHOs.

132. At the time of the audit, the capacity of eight out of 13 DPHOs receiving funds under Round 7 had not been assessed by the EDCD finance and accounting team. Although EDCD management stated that assessments had been undertaken for the other 5, there were no reports to evidence this. The assessment of DPHOs is important since the districts are not expected to send supporting documents as evidence of expenditure. Reliance is placed on their systems and resultant financial reports sent to the centre by the district to evidence the just use of program resources.

133. Actual expenditure against budget expenditure monitoring reports were not prepared on a monthly basis. There was also no evidence of review of the few financial reports received by EDCD management.

134. The MOHP adopted a practice of prescribing rates for travelling allowances at the time of approving budgets for each training/workshop/seminar to be held. The actual payments for travelling allowances did not conform to the established rates with some participants receiving payments at rates exceeding the approved rates. Additionally, there was no documentation maintained to support payments made for travel or adequate documentation to support implemented activities for some training workshops. It was therefore difficult to ascertain whether such payments were authentic and for the purpose of the program.

135. A photocopy machine purchased under Round 2 Phase I for US\$ 2,845 was no longer in use at the time of the audit because it had not been repaired. The program has had to incur extra costs on photocopying which does not represent value for money.

### ***Recommendation 5 (Significant)***

- (a) The MOHP should put in place a system of verifying the accuracy of the financial reports submitted by DPHOs.*
- (b) The MOHP should prepare actual against budgeted expenditure analyses and provide explanations for large and/or unusual variances.*
- (c) Additional advances should not be provided to districts that have not liquidated earlier amounts advanced.*

### ***Recommendations 6 (Significant)***

*The MOHP should assess the capacity of DPHOs to account for Global Fund monies. Results of such assessments should be documented with clear recommendations on how identified weaknesses will be addressed at DPHO level.*

### *Recommendation 7 (Significant)*

*The MOHP should pay allowances in accordance to the approved ministry travel policy. The actual reimbursement of additional expenses made, if any, should be based upon the actual invoice/tickets/receipts supporting the travel. All training-related costs should be supported by a report with attendance sheets attached.*

### Strengthening program management

A PMU was established under Phase II to address the capacity deficiencies and this resulted in an improvement in meeting program targets. However, at the end of Round 2, a number of activities had not been implemented. The MOHP does not document completed work through preparation of activity reports. Without such information, the information in the PUDR cannot be authenticated.

136. At the time of the audit in June, the PUDR relating to Round 7 for the period 16 November 2008 to 15 March 2009 has not been submitted to the Global Fund. This inevitably affects the timely release of funds by the Global Fund and in due course grant implementation. At the time of the audit, many program activities planned under the first trimester of Round 7 grant agreement had not been carried out due to this cash flow deficit.

137. The grant agreement for Round 2 Phase II ended on 31 March 2009. The MOHP/EDCD continued to carry out the budgeted activities under Phase II even after the expiry of the grant agreement. This was on the basis of a no-cost extension application dated 22 March 2009, which had not been approved at the time of the audit. Accordingly, the actual expenses incurred of US\$ 356,695 under the requested no-cost extension period were not approved by the Global Fund.

138. OIG reviewed the performance of the MOHP in the implementation of the Global Fund programs against the work plan and targets. While a number of activities outlined in the work plan under Round 2 were completed, some activities had not been implemented at the time of the audit, by which time the grant period was supposed to have expired. The failure to implement all activities and the need to implement an accelerated work plan was attributed to political unrest including frequent strikes and poor security at the advent of Round 2 which resulted in a slow start up and failure to gain steady implementation pace until much later in the program. Also noted as part of the reasons for delay to implement Phase II activities was the non-disbursement of funds requested in PUDR 14. Therefore an accelerated work plan was put in place to meet the set targets in the remaining period.

139. Several activities in the work plan were registered as completed, with relevant budgets utilized, but these lacked adequate documentation to support the work done. For example instances were noted where activity completion reports for training, workshops and or seminars were not prepared. It was difficult to confirm whether the activities reported were undertaken and, if so, whether they met the desired program outputs. Examples of this include trainings held by DPHOs in Dadeldhura and Kailali where only attendance sheets were submitted to EDCD

without reports being attached. Manuals which were supposed to have been developed by the Vector Biology and Disease Research and Training Centre were not available at the time of the audit.

140. Some of the activities had been partly performed or not performed at all by the EDCD during Round 2. Instances were also noted where activities were not implemented on time as planned in the work plan. The non-performance or delay seriously hampers the related programs like the Round 7 grant as well as those implemented by other PRs. Unless accelerated plans are initiated without compromising the quality of delivery, this will have a negative impact on the overall program.

### ***Recommendation 8 (Significant)***

- (a) The MOHP/EDCD should prepare and submit PUDRs within the stipulated time frame. This directly affects the timely release of funds for program implementation.*
- (b) EDCD should ensure that all the activities conducted are substantiated with valid and proper supporting documentation. Reports should be prepared at the end of activities which contain among other things a work schedule, confirmed that the target group intended was selected, attendance of the participants, whether and how the activity met the objective and challenges/ lessons learned for future activities.*
- (c) Regular monitoring and inspection of the activities should be performed by the EDCD.*
- (d) Timeliness is a key parameter of the work plan and to the extent possible EDCD should therefore ensure that all the activities outlined in the work plan are performed within the period mentioned in the plan.*

### **Procurement and logistics management**

141. The procurement and supply management (PSM) plan was developed without the input of the relevant officers at the district level. The plan had not been shared with the district officers at the time of the audit.

142. The MOHP signed a MOU with WHO on 30 April 2007 providing for WHO to procure supplies. Whilst the agreed administration rate was set at 13 percent, the actual rate charged by WHO was not consistent as the charges levied on procurements made under the Global Fund grants in some cases reached 90.17 percent of invoice value. EDCD management observed that the extra charges made by WHO related to insurance and freight costs paid on the handling of goods procured. However, invoices for such incidental charges paid had not been forwarded by the WHO to MOHP/EDCD. Although the OIG obtained a breakdown of the charges, it was not possible to confirm accuracy of the computations/charges in the absence of third party supporting documentation.

143. Further, a review of the MOU signed revealed that it did not set out the terms and conditions of what and how WHO should handle incidental costs related to their activities. Such costs should be borne by the MOHP but only upon the receipt of relevant invoices for commodities or services procured under the agreement with MOHP. Some clauses in the MOU like provision of a copy of WHO's

certified accounts and audit report had not been complied with. The MOHP did not have reports on the services procured through WHO under technical assistance. WHO told OIG that these reports had been submitted to the MOHP but these reports could not be found within EDCD.

144. The lead times between the order and delivery of commodities were some times very long. OIG noted that some orders for drugs, equipment and stationery made on 7 January 2009 had not been delivered at the time of the audit i.e. 15 June 2009. WHO officials noted that the delivery of goods takes three to six months and that they were in the process of delivering the requisitioned goods.

### ***Recommendations 9 (High)***

- (a) The MOU with WHO should be amended to include a provision on how costs incidental to procurement should be handled. WHO should provide supporting documentation for all incidental costs before payment is effected. Also, a copy of financial statements certified by an external auditor should be requested from WHO as required in the MOU.*
- (b) The MOHP/EDCD should retain all the reports relating to Technical Assistance for future reference. Documentation of work done is critical in confirming the outputs from the areas of intervention. The records can also be used by the different stakeholders to understand how support is enhancing capacity within the ministry.*
- (c) Discussions should be held with WHO on how to reduce the current lead time taken in delivering products for program implementation.*

## Ministry of Health and Population - Tuberculosis grants

### Background

145. MOHP entered into a grant agreement with the Global Fund in March 2006 as Principal Recipient for Round 4 to implement a program: *Building on foundations laid, and accelerating progress towards the National Tuberculosis Program goal of tuberculosis no longer being a public health problem*. The agreement for Round 7 Phase I was signed in November 2008 covering the period 16 November 2008 to 15 November 2010. Round 4 Phase I ended on 31 October 2007 and Phase II started on 1 May 2006 and will end on 30 April 2011.

146. Nepal has had a well-functioning TB control program for over a decade and both case detection and treatment success rates have been consistently high. The annual report of the TB control program for 2007-2008 was published in March 2009. This report provides a comprehensive overview of the TB control program. A drug resistance survey estimated that 2.9 percent of TB patients have Multi Drug Resistance (MDR). Surveillance surveys estimate that 2.4 percent of TB patients are co-infected with HIV.

147. The implementing agent for TB within the MOHP is the National TB Centre (NTC) in which a PMU was set up to manage the Global Fund programs. NTC is headed by a Director who oversees the work of the PMU. NTC implements the TB program through both the 75 districts and SRs. NTC started working with four sub-recipients namely Britain Nepal Medical Trust (BNMT), International Nepal Fellowship (INF) Netherland Leprosy Relief (NLR) and Nepal Anti TB Association (NATA) under Round 4. Under Round 7, Health Research and Social Development Forum (HERD) was added as fifth SR. The TB program has adopted international best practice strategies (e.g. DOTS (Directly Observed Treatment Site), DOTS Plus, and WHO Stop TB initiatives).

148. The district level is responsible for supervision, monitoring and evaluation, training and logistical management within the district. By July 2008 there were 4,226 health facilities which provided DOTS. The NTC oversees a network of 427 microscopy centres with a well-regulated quality assurance system. According to the program records, the treatment success rate has consistently exceeded global targets, currently around 88 percent of new sputum positive.

149. The table below summarizes the flow of funds under both Round 4 and 7.

Round4	Phase I		Phase II	
	US\$	%	US\$	%
Total budget	3,354,080	100	10,126,706	100
Funds received to date/percentage of budget	3,187,952	95	736,172	7
Funds spent to date/percentage of budget	2,894,384	86	292,077	3
Round 7				
Total budget	4,358,040	100		
Funds received to date/percentage of budget	776,876	18		
Funds spent to date/percentage of budget	289,894	7		

Table 4---: Fund flow status at 31 March 2009 (Source MOHP-NTC records)



### Achievements and challenges

150. NTC has achieved commendable success in the implementation of program activities despite the challenging country of political complexities, and delay in disbursements of funds. According to the Secretary of Health, the TB program in Nepal has been considered one of the best in the South Asia region. The Global Fund contributes over 80 percent of the national TB response budget. Achievements registered under Round 4 include the following:

- (a) TB/DOTS orientation to Mukta Kamaiyas in Mid & Far West Region;
- (b) TB/DOTS Orientation to the FCHVs;
- (c) Stakeholder meeting workshops on TB/HIV;
- (d) Orientation of PR/SR on the Global Fund rules, regulations, recording, reporting, M&E, program management; and
- (e) Observation and training for NTP staff in Bangalore.

151. NTC has had a fairly stable leadership with directorship position having changed twice only since 2003. The PMU has resulted in enhanced capacity within the NTC. However, the high remuneration of PMU staff (relative to other NTC staff) has caused tensions between the two sets of staff and undermined teamwork within the unit.

152. At one of the SRs (Netherlands Leprosy Relief), analysis and interpretation of quality is done on a quarterly basis at each microscopy centre. Supervision and on the job training is then prioritized based on the previous quarter's scoring. Poorly functioning microscopy centres are visited first. The DOTS Plus facility visited in Kailali were following up patients and keeping them compliant.

153. The environment within which NTC operates has constrained program performance as characterized by:

- (a) The manual systems within the public financial managements system of the government of Nepal, which presents challenging conditions for generation of reliable and timely reports;
- (b) Heavy reliance on the capacity in districts to carry out and monitor activities at local government level;
- (c) The political environment characterized by frequent strikes and civil unrest which has affected progress of work at district level; and
- (d) Government bureaucracy especially relating to national budget approvals for a value-added tax. Program implementation has been put on hold pending the approval of budget provisions for tax purposes.

### Strengthening grant management

#### Institutional arrangements

The NTC directly oversees implementation of the National Tuberculosis Program managed by the PMU. The NTC is a ministry organ headed by a Director who reports to the DOHS of the Ministry of Health. The leadership at NTC has enhanced the good working relationship between the PMU and the ministry staff under NTC. The program oversight is still weak with no documentation available to evidence

senior management meetings. There is no plan in place for the transition from the current PMU arrangements to the mainstream ministry structures.

154. The NTC is a ministry organ headed by a Director who reports to the DOHS of the Ministry of Health. The PMU is headed by a Coordinator who is assisted by 14 other staff. The PMU is housed by NTC and its operations are integrated within the ministry overall strategic plan. Whereas the PMU has resulted in enhanced capacity within the NTC, the high remuneration of PMU staff (relative to other NTC staff) has caused tensions between the two sets of staff and undermined team work within the unit.

155. The PMU management meets on a daily basis to discuss program performance. Minutes of these meetings were available although records of the meetings from January to June 2009 were missing. The PMU management has demonstrated commitment towards achieving the work plan targets. While NTC management explained that its Senior Management Team meetings are held to review program performance, the OIG did not see any documentation to evidence this. A recommendation to address this issue has already been raised under the Malaria grant section (see recommendation 1).

156. The PMU was established in September 2008 as part of the efforts to build capacity within NTC and to also accelerate program implementation. However, there is no plan to develop capacity within NTC as a strategy to phase out the PMU arrangement. Such a plan would be in line with the Global Fund principle of working with national structures and systems and not building parallel systems. A recommendation to this problem has been raised under the Malaria section (see recommendation 2).

### ***Recommendation 10 (Significant)***

*The transition plan from the PMU arrangement to the ministry should address the disparity in remuneration packages between PMU and ministry staff.*

### **Compliance aspects**

The grant agreement contains conditions that should be met to safeguard Global Fund programs. A review of NTC's compliance with the terms of the agreement revealed one aspect of non-compliance i.e. the exemption of Global Fund monies from tax.

157. The grant agreement stipulates that the Global Fund assistance should be free from import duties, custom duties, taxes and VAT in Nepal. Expenditure charged to the Global Fund under Round 7 includes expenditure incurred for paying the VAT on some of the payments. SRs continue to incur expenditure with VAT costs and this reduces the funds available for program implementation.

158. NTC management explained that meetings have been held with MOF and other responsible stakeholders to ensure recovery of VAT. However, the OIG did not see any documentation to support these efforts. Additionally, NTC did not

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maintain separate ledger accounts for VAT to ensure easy tracking of VAT payments for future reimbursement by the GON.

### *Recommendation 11 (Significant)*

*NTC should also secure VAT exemption status for SRs. NTC should also formally communicate to the districts the tax-exemption status of Global Fund grants and the relevant guidelines for compliance. VAT general ledgers should be maintained at the PMU for future recovery from GON. Negotiations with MOF and other stakeholders, regarding the availability of a VAT budget, should be documented and expedited.*

### Financial management

NTC follows the government financial management system, which is manual. Its financial management policies and procedures are contained in the Nepal Government Financial Policies and procedures manual. NTC complies to a large extent with the policies and procedures that are stipulated in this manual. The manual financial accounting system exposes the grants to the risk of delayed and inaccurate reporting. The verification of financial reports from both districts and SRs is still weak with reports received only on a trimester basis. The reporting timeline for districts coincides with the reporting timelines to the Global Fund. Periodic review of program financial reports by a senior management team is lacking, which exposes the grants to the risk of failed detection of potential financial irregularities.

159. The audit revealed some expenditure incurred under Round 7 that was not adequately supported as noted in the table below:

Vr. No	Particulars	Amount charged to The Global Fund NPR	Amount Supported NPR	Amount not supported NPR	Support documentation missing
18	Workshop expenses	42,000	25,700	16,300	Whole of the advance amount was recorded as expenditure and was supported only up to the amount of expenditure incurred.
18	Lunch Expenses	22,500	4,950	17,550	
17	Workshop on Regional Financial Meeting	68,000	53,906	14,094	
30	Advertisement Expense	10,000	5,000	5,000	
Total NPR		142,500	89,556	52,944	
Total US\$		1,926	1,210	715	

*Table 5 -- Unsupported expenditure*

### *Recommendation 12 (High)*

*Adequate documentation should be obtained for all program expenditure; all expenditure should be adequately reviewed by a responsible official before approval.*

160. There is no system for tracking advances systematically in order to ensure that all funds are put to their intended use and that any unused cash is refunded in a timely manner. Advances were recorded as expenditure, leading to weak tracking of accountabilities from districts and SRs. The records for managing advances were noted to be incomplete and in some cases missing. Advances taken by staff are sometimes not accounted for. In one particular case, a staff at the PMU who had completed program activities in April 2009 only refunded cash during the audit exercise in June as a result of the OIG's findings. This raises a risk of loss of the Global Fund grant money.

***Recommendation 13 (High)***

- (a) *NTC should maintain advance ledgers that record advances taken and against which accountabilities are offset once accounted for. Expenditure should be recognized upon receipt of approved accountability for advances and disbursements.*
- (b) *NTC should expedite the process for computerization of its accounting records*

161. SRs are required to prepare financial and programmatic reports on a trimester basis. However, the reporting by SRs coincides with the reporting to the Global Fund. There was a very limited time left to compile reports and quality assure them before they were sent to the Global Fund.

***Recommendation 14 (Significant)***

*SR reporting should not coincide with the reporting to the Global Fund in order to give the NTC enough time to compile and quality assure information from SRs and report to the Global Fund on time. The reports should be submitted with supporting documentation, which should be verified by a designated official. Desk reviews would enhance the monitoring role of the PR in addition to the regular physical monitoring visits which are also needed.*

162. The Global Fund Secretariat has previously disbursed funds for procurement of TB drugs directly to WHO. However, in May 2009, the funds were disbursed to the NTC bank account in Nepal. The new arrangement presents serious challenges in accessing and transmitting the foreign currency to WHO. The procurement of TB drugs is likely to be delayed owing to a cumbersome bureaucratic foreign exchange system in Nepal.

***Recommendation 15 (High)***

*Funds for the procurement of TB drugs should be disbursed directly to the WHO account until such a time that the Global Fund money inflows are not affected by the foreign exchange laws.*

163. Procurement of equipment and other office facilities have been delayed because there was no provision made for taxes in the government budget. OIG was informed that the budgetary provision for VAT is likely to be made in the next

financial year. Delays in procurement will inevitably affect progress of program activities. Moreover, payment of taxes reduces the funds available for program implementation.

***Recommendation 16 (High)***

*The process for approving the VAT budget provision should be expedited to ensure timely implementation of program activities.*

164. There has been inter-grant borrowing among the Global Fund, Government of Nepal and the Norwegian Association of Heart and Lung Patients (LHL) during the financial year 2006-2007. The Global Fund balance at 15 July 2007 had a balance of NPR 1,025,274 (US\$ 13,855). This included NPR 206,010(US\$ 2,784) shown as recoverable from LHL and this was refunded to the Global Fund Account on 16 July 2007. Further, NPR 736,000 (US\$ 9,946) from the Global Fund was used on 25 November 2008 for conducting LHL activities but remained un-refunded on 8 June 2009.

***Recommendation 17 (High)***

*The practice of inter-grant borrowing should be discouraged since it disrupts program implementation in the event that funds are not readily available for program implementation.*

165. There has been considerable delay in releasing the first installments due to the districts as detailed below. The delays are mainly caused by the bureaucratic government funds flow mechanism which requires funds to be disbursed to districts after receipt of a fund release order from FCGO affected program implementation.

Disbursement activity	Actual date of activity execution	Delay in days from start of FY.
Fiscal year starts	16 July 2007.	NA
Delegation of Authority to district is sent	26.8.2007	40
Fund Release Request from NTC to FCGO	8.10.2007	80
Fund Release Order from FCGO to DTCO	7.11.2007	100
Actual fund received by service units	not known	Over 100 days

*Table 6 --Table showing delays in transfer of program funds to implementing districts*

**Strengthening program management/performance**

The MOHP has not met its objectives for the first quarter of Round 7 Phase I. The implementation process should be accelerated given the relatively slow progress made under Phases I and II of Round 4 and 7 respectively. Program management should be strengthened through improved reporting, increased monitoring visits and stronger oversight. Verification of work done at both SR and district level should be prioritized by the PMU. There should be timely disbursement of funds to both SRs and districts.

166. The MOHP has not met its objectives for the first quarter of Round 7 Phase I. One of the key reasons was the delayed procurement of equipment because of the tax issues related earlier in this report. Also, some of the activities mentioned in the first and second trimesters of Round 4 either were not completed or were

partially completed. The only activity that was undertaken under the first quarter work plan was TB training at NIT Bangalore. However, the report for the training was not available for review at the time of the audit.

167. NTC management explained that the activities mentioned in Round 4 Phase I were completed in full but the supporting reports to validate those activities were not available for review. The activities in the first and second trimester work plan for Round 4 Phase II were either not completed or partially completed.

168. SR assessments were undertaken but these did not cover district offices. As a result districts that lacked capacity were allowed to implement the Global Fund activities without a plan to strengthen their capacity or guidelines to follow. An example is the NATA office visited by the OIG in Morang district that lacked basic systems for record-keeping. NTC only undertook two SR monitoring visits under Round 4 and there was no record to evidence any such visits under Round 7.

169. In case of the Britain Nepal Medical Trust (BNMT), time sheets for staff that were paid a certain percentage of their salary from the Global Fund money were not maintained. The job descriptions of the staff with salaries that are partly covered from Global Fund resources do contain any description that relates to the Global Fund activities.

### ***Recommendations 18a & 18b (High)***

*(a) Monitoring of SRs should be strengthened based on a comprehensive monitoring and supervision plan. Supervision needs to be formalized with a written checklist and written feedback given after each visit.*

*(b) Technical staff whose salaries are charged to the Global Fund should maintain time sheets as evidence of the level of effort spent on Global Fund activities.*

170. The MOU between the PR and the WHO signed on 23 February 2006 stipulates that WHO is required to provide the PR at regular intervals with technical reports on the progress in the activities financed under the MOU. There were no technical reports available for review at NTC for the entire MOU period. There was also no evidence that NTC had requested the reports. It is difficult to evaluate the progress of technical assistance provided to the ministry in the absence of adequate documentation of deliverables. Further WHO is also required to submit certified financial statements on a biannual basis to the PR but the certified financial statements were not available at NTC. There was not evidence of follow-up of these documents by NTC. Discussions with WHO officials indicated that all reports relating to TA are delivered to the ministry as required. A recommendation to address this issue has been raised under the Malaria section (see recommendation 8).

### **Procurement and logistics management**

171. The Procurement Act and Procurement rules of Government of Nepal are applied for the procurement of laboratory and other equipments. The MOU between the MOHP and WHO covers the procurement of Anti TB Drugs.

172. At NTC, drug registers were not updated when drugs expired. Drugs amounting to NPR 615,000 (US\$ 8,311) had expired in a period of one year. The store register was also not updated and some discrepancies were found between the records and the physical verification.

***Recommendation 19 (High)***

*NTC should put in place strict controls over the risk of expiry of drugs, including procedures to ensure that expired drugs are not issued for distribution. The drugs register should show when drugs expire, as should the store register.*

## Ministry of Health and Population - HIV/AIDS grants

### Background

173. MOHP signed a grant agreement with the Global Fund as the Principal Recipient on 13 August 2003 for Round 2. Implementation of the program was assigned to the National Centre for AIDS and STD Control (NCASC), a centre within the ministry. Towards the end of Phase I, performance at NCASC was noted to be unsatisfactory with several capacity deficiencies remaining unresolved. To address this, the MOHP signed a management support agency (MSA) agreement with the UNDP on 27 February 2005. NCASC was assessed under Round 7 and found to still lack the capacity to be PR and was appointed as SR under UNDP.

174. MOHP received the initial disbursement on 29 January 2004. Phase I of the Global Fund grant commenced on 1 April 2004 and ended on 30 September 2006. Similarly, Phase II commenced on 1 October 2006 and ended on 30 September 2008. The table below summarizes the funds flow.

Narration	Phase I		Phase II	
	US\$	%	US\$	%
Total budget	4,365,996	100	2,311,450	100
Funds received to date	3,922,425		926,722	
Funds spent to date as a percentage of budget	3,118,899*	71	1,374,332	59
Funds spent to date as a percentage of receipts	3,118,899*	80	1,374,332	148*
Balance at bank at 31 May 2009	491,174**		43,564	

*Table 7: Summary of funds utilization (Source MOHP NCASC records)*

\* Out of the total amount spent in Phase I, US\$ 2,550,944 (81.8%) was spent by UNDP under the MSA agreement.

\*\* Balance from Phase I carried forward and spent in the Phase II period.

### Achievements and challenges

175. NCASC implemented a number of planned activities, but with significant delays. Some of the achievements are highlighted below:

- (a) The third National AIDS Conference was held successfully in early July 2008.
- (b) A National AIDS Strategy 2006-2011 and the manual for scaling up training for prevention, care and support were developed, although the training manuals were not yet implemented.
- (c) Guidelines and books related to HIV/AIDS have been developed. These include guidelines on voluntary counseling and testing (VCT), anti retroviral therapy (ART), opportunistic infection (OI), prevention of mother-to-child transfer (PMTCT), operating procedures for CD4/PCR, a training manual on clinical management, etc.
- (d) Several programs were conducted in early July 2008: operational research on HIV/AIDS counseling and testing, access and utilization, ART services; barriers in service provision and its utilization; mapping risk groups of HIV/AIDS in selected districts of Nepal; operational research gaps and its prioritization in HIV and AIDS in Nepal; and a review of National STI program and second generation surveillance.



- (e) Training on STI CM to health personnel has been provided to 1,228 personnel (against 750 planned) and training on community home-based care has been provided to 1,699 personnel (against 1,650 planned).
- (f) 23 ART with integrated VCT and 15 PMTCT sites were established.

176. NCASC management provided the following challenges as the cause for delayed program implementation:

- (a) There was no disbursement of funds for a year, i.e. between October 2006 and November 2007, leading to a lack of funds to implement program activities. NCASC borrowed funds from UNDP but these were insufficient to cover the funding gap and impacted program implementation.
- (b) There has been a high staff turnover within NCASC with the directorship changing nine times since the inception of the Global Fund programs in 2003.
- (c) There was political instability in the country and the work could not be undertaken due to frequent strikes across the country;
- (d) When the MSA management was set up, there was no plan to build capacity within NCASC which resulted in a further decline in capacity by the time the Round 7 assessments were undertaken; and
- (e) NCASC recruited 11 staff to support NCASC to implement the work plan. However, NCASC failed to retain them which hampered the achievement of program objectives.

177. At the time of the audit, the following activities that should have been undertaken were still outstanding:

- (a) Training/orientation on M&E at national and district level;
- (b) Training for Chemist and Druggist in Phase II orientation training to FCHVs on STI/HIV/AIDS in eight districts;
- (c) Mainstreaming of HIV/AIDS into line agencies and local bodies;
- (d) Capacity training of NCASC staff; and
- (e) STI mobile camps targeting migrants in eight districts.

178. The MOHP signed the SR agreement with UNDP for Round 7 on 1 March 2009 covering an 11-month period to 31 December 2009. The first trimester report was scheduled for July 2009. NCASC only received the first disbursement in May 2009. However, there was inadequate preparation to implement activities planned for the first trimester. At the time of the audit, several activity plans were in the early stages of formulation and it was unlikely that these tasks would be completed on time.

### Strengthening grant management

#### Institutional arrangements

179. MOHP assigned the implementation of the HIV/AIDS grant to NCASC. NCASC is headed by a Director who reports to the DG of the MOHP. NCAC is mandated to implement and monitor government HIV/AIDS programs financed by both the Government of Nepal and external development partners. Other development partners that finance NCASC include DFID, WHO and FHI who have established a

logistics management unit in NCASC that covers the transportation of HIV health products to different sites.

180. The institutional arrangements for the policy making, implementation and M&E of the HIV response are complex, duplicative and unclear. Although the roles and responsibilities of the NSASC are governed by an act of Parliament there is overlap in roles between the NSASC and the HIV, AIDS and STI Control Board (HIV Board).

181. NCASC's organizational structure consists of the director, deputy director and the unit i.e. finance, monitoring and evaluation and support. The deputy director position has not been filled. Five program officers, three assistants, one data analyst and three support staff were recruited under Round 2 for the implementation of the program. There was no proper delegation of authority within the unit with all staff in the unit reporting to the director.

182. Under Round 7, the authority for approving NCASC planned activities is cumbersome and lengthy, requiring day to day decisions to be passed through the Director General and sometimes even through the Secretary of MOHP and the Minister. This structure and general method of work has led to an ineffective working environment that has affected productivity, efficiency and teamwork.

183. NCASC has experienced frequent turnover in the leadership position since signing of the first grant agreement in August 2003 with the directorship changing nine times in the past six years. All new directors took time to acquaint themselves with the working arrangements of the department and with the Global Fund programs but this affected the implementation of the program activities.

184. There have been staffing challenges within the unit. The M&E unit has had a Program Officer only for eight months (January to August 2008) and a data analyst for only five months (April to September 2008) throughout the two-year grant implementation period. The tasks of the M&E Officer were handled by the M&E assistant.

185. As already mentioned, NCASC signed a MSA agreement with UNDP in 2005 and became PR in March 2009 but to date no capacity building plan has been developed to transition the program management back to NCASC. Staff were recruited and various support arrangements put in place but this was done in an ad hoc manner and does not provide assurance in terms of sustainability. Job descriptions for recruited staff were not available at the time of the audit.

### ***Recommendation 20 (High)***

- (a) *UNDP should work with NCASC to develop a comprehensive capacity development plan which should outline the strategy and approach to ensure that NCASC's core capacity weaknesses are identified and addressed. The plan should be time bound with the objective of NCASC taking full responsibility for the grants within a two-to-three-year period.*

- (b) *The institutional arrangements between the CCM, NCASC, UNDP and the HIV board should be revisited. All roles, responsibilities and associated authorities should be clearly defined to ensure that there is no duplication.*
- (c) *The vacant positions in the PMU should be filled without further delay ensuring that they are in line with the approved capacity development plan. The process should utilize the various studies and assessments that have been undertaken in the past three years to identify actions that should be taken to strengthen capacity at NCASC.*
- (d) *Greater attention needs to be given to HIV by the Ministry of Health, with the ministry ensuring that NCASC has stable management. This can be achieved by reducing the transfer of directors of NCASC. A more effective structure for NCASC with proper delegation and lines of authority should be developed. The capacity development plan should mirror the structures approved by the ministry.*

### Compliance aspects

186. The grant agreements contain conditions that should be in place to safeguard the Global Fund grants. A review of NCASC's compliance with the conditions precedent specified in the grant agreements as well as with the laws of the country revealed some conditions that were not complied with. These resulted in weaknesses in the internal control environment that is meant to safeguard Global Fund resources.

187. NCASC is required to report to the Global Fund within 45 days after the close of the trimester. Most of the reports due under Round 2 were not dated and it was therefore not possible to determine the period of delay. NCASC is also required to submit an annual report to the Global Fund within 45 days of the close of the fiscal year. NCASC had not submitted such a report since the inception of Round 2 i.e. for the last five years.

#### ***Recommendation 21 (High)***

*NCASC should submit the requisite reports to UNDP in a timely manner as stipulated in the grant agreement. This will ensure timely decision making at the Global Fund and the release of further grant money for program implementation.*

188. The grant agreement with MOHP required an independent audit to be undertaken in addition to that conducted by the OAG. The PR was required to notify the Global Fund of who will audit the Global Fund grants within three months of starting the program. However, at the time of the audit, the Global Fund not been notified about who the auditors would be and the Global Fund grants under NCASC had not been audited.

### Financial management

189. NCASC has maintained a computerized financial management system to record financial transactions related to the activities of the Global Fund since September 2005. A single user application accounting software application called

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“EX Next Generation” was set up. The accounting software only provides a trial balance and cannot produce reports such as budgets analyses. The lack of essential financial management information affects management’s ability to make informed decisions. There was no documented system for periodic budget monitoring except under the PUDRs prepared for reporting to the Global Fund. Comparisons between the budget and the actual expenses were done for reporting purposes on a trimester basis as opposed to more regular monitoring over expenditure.

190. NCASC follows the financial management policies and procedures established by the GON. There was compliance with laid-down policies and procedures to a large extent except in the cases reported below.

191. NCASC borrowed funds from UNDP and GON to conduct grant activities because of a delay in the receiving funds from the Global Fund. This was done without the approval of the Global Fund. Instances noted are detailed below:

Date	Borrowed from	Amount borrowed NPR	Amount borrowed in US\$
26 September 2007	GON	500,000	7,143
8 October 2007	UNDP	3,200,000	45,714
13 November 2007	UNDP	50,000	714
5 December 2007	UNDP	3,147,500	44,964

Table 8 -- Summary of borrowings from UNDP and GON. (Source MOHP NCASC records. Applied US\$ 1 = NPR 70 at annual average exchange rate)

192. There was expenditure charged to the Global Fund amounting to NPR 44,381 (US\$ 600) for which third-party supporting documentation was not available as detailed in the table below:

Particulars	Amount NPR	Questioned Amount NPR	Questioned Amount US\$
Hiring of tele spot on HIV	98,219	9,540	129
Hiring of media	91,832	6,041	87
Payment of overtime	520,000	28,800	389
<b>Total</b>		<b>44,381</b>	<b>605</b>

Table 9: Summary of transactions without supporting documentation (Source: NCASC records)

### Recommendation 22

- (a) The accounting software should either be updated or a more suitable package procured to enable the provision of financial information for analyses and decision making.
- (b) Third party documentation should be attached to payment vouchers for all expenditure.

### Strengthening program management

193. There was no comprehensive data base in place to capture information. However, the initiative has been taken by the PMU under Round 7 to create such a

database and the contract has been signed with Yomori Pvt. Ltd, a software company.

194. Districts AIDS Coordination Committees (DACCs) were established in 20 districts to coordinate the program in their respective districts. A DACC Coordinator was appointed to coordinate their meetings and monitor program results reported to NCASC. After Round 2 Phase II, these coordinators have been discontinued creating a gap in the execution of this important role.

195. There have been delays in the submission of reports by districts and no evidence of adequate analysis of results reported at all levels. There was no functional feedback system to the districts. NCASC did not conduct field visits to validate the results reported by the districts.

196. A work plan and budget were prepared at the central level without the involvement at district level. This included identifying equipment for the establishment and/or strengthening of different HIV sites. Computers and other equipment provided to support grant implementation were lying idle at different sites owing to excess supply and/or its use was considered to be of low priority. NCASC procured 16 semi-auto analysers for 16 district sites. However, although planned, no training was provided to users of the equipment and this equipment was not in use at sites visited by OIG. Instances were also noted where items procured were charged to the wrong category e.g. a LCD projector and a laptop were charged to the medical equipment budget.

### ***Recommendation 23 (High)***

- (a) The DPHO as end users/direct implementers should be actively engaged in preparing the work plan and budget to ensure that appropriate needs are identified.*
- (b) Major equipment purchases should to be accompanied by a clear training and maintenance plan.*
- (c) The M&E unit should be strengthened to ensure that regular analysis and interpretation of data are performed and feedback provided to districts/sites in a timely manner. Furthermore regular supervision visits should be undertaken.*

### **Procurement and logistics management**

197. Under the MSA agreement, all activities related to the procurement of health products was assigned to UNDP. A procurement plan was developed for 2005 and 2006 and procurements were made accordingly. The HIV/AIDS logistics system is relatively well developed. A fully funded logistics unit, well-supported by USAID/FHI, is currently housed in NCASC. The national store supplies drugs to the districts based on a bimonthly consumption of drugs report. Field visits are conducted every two months to confirm that the processes are working as agreed. However, OIG noted that although these visits are said to take place, reports are not produced to document what was observed.

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198. NCASC manages the drugs on first-expiry, first-out (FEFO) basis. The expiry of drugs was monitored manually until October 2008 when a logistics management software was installed. The software however does not track whether the issuance of drugs follows the FEFO system.

199. NCASC does not have a policy on the disposal of expired drugs. Expired drugs are kept in the same stores as unexpired drugs. In an effort to resolve this problem, management has decided that all expired drugs will be returned to the respective donors. This had not been implemented at the time of the audit.

200. One instance was noted where a request to procure STI and OI drugs was made on 11 September 2008 had not been satisfied at the time of the audit. There was no evidence seen that this was followed up.

201. Several issues of budget overrun and non-compliance with the procurement rules and regulations were noted. These were also raised by the LFA in an in-depth review of NCASC as highlighted below:

Particulars	Issue	Amount US\$
<b>Cases of manipulation of Procurement Rules</b>		
Awareness raising (1.8)	Broadcasting of TV spots through three parties for a total value of NPR 294,100 by splitting them into three contracts to make each contract within the authority limit of NPR 100,000 (as per GON rules)	4,028
NCASC Facility Expansion (SDA3.2)	Electrical wiring of ground floor and 1 <sup>st</sup> floor done by two parties @ NPR 82,638 and NPR 81,691 by splitting the total contract value making it come within the limit of NPR 100,000	2,250
	<b>Air conditioner</b> Procurement of four sets of air conditioners (two each from two different suppliers for a total value of NPR 251,328 by splitting them into two contracts to make each contract within the authority limit of NPR 150,000 (as per GON amended rules)	3,960
Support in national STI program review (SDA1.11)	Hiring of three consultants @NPR 70,000 each for a single report "Review of Sexually transmitted infection program in Nepal" for a total value of NPR 245,000 (including NPR 35,000 paid to a third party for assisting in the review) by splitting them into three separate contracts to make each contract within the authority limit of NPR 150,000 (as per GON amended rules)	3,355
Operation Research Expenses (SDA3.22)	Hiring nine consultants @NPR 150,000 each to produce three separate reports (i) OR on VCT (ii) OR on Mapping Risk Group (iii) OR on ART services procured for a total value of NPR 1,350,000 by splitting them into three separate contracts to make each contract come within the authority limit of NPR 150,000 (as per GON amended rules)	21,267
<b>Procurement in excess of work plan</b>		
Procurement in excess of work	Procurement of 16 semi-auto analysers (with a total cost of US\$ 40,208) against six units (cost of US\$ 12,857) planned	27,351

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Particulars	Issue	Amount US\$
plan		
Expenses in excess of approved budget	Expenditure exceeded the budget for the trimester by US\$ 48,636 and some of the overspending was not inline with the work plan.	48,636

Table 10: Instances of non-compliance with the procurement rules and regulations and budget overruns.

### **Recommendation 24 (High)**

- (a) *Stock position reports should be prepared periodically to reflect the results of the physical verification of stock.*
- (b) *The logistics management software should be updated to detect cases where the FEFO principle is not applied.*
- (c) *There should be better coordination between NCASC and UNDP to ensure that there is a continuous supply of essential drugs.*
- (d) *Steps should be taken to dispose of all expired drugs. Expired drugs should be kept at a different location to reduce the risk that expired drugs are issued by mistake.*

## United Nations Development Program (UNDP)

202. UNDP signed a management support agreement with the Government of Nepal on 27 February 2005 to assist the Ministry of Health and Population to manage specific activities funded by the Global Fund under Round 2 Phase I; and carry out the procurement of medical supplies and equipment, manage and monitor SRs. This would allow time for:

- (a) Restructuring and strengthening of NCASC as the “technical authority” in Nepal as regards to evidence-based HIV/AIDS policy/strategy, research, monitoring and evaluation, epidemiology and surveillance, STD, and technical assistance to government e.g. line ministries, DACCs etc; and
- (b) Establishment of and capacity building for a new entity to execute the program within the framework of the National Strategy and the objectives of 10th five-year health plan and medium-term economic program.

203. During the Phase II of Round 2, UNDP was nominated as second PR by the CCM and in March 2009 was contracted as PR under the Round 7 grant. The table below provides a summary of the grants received by UNDP to date.

Narration	Round 2		Round 7	
	US\$	%	US\$	%
Total budget	4,935,646	100	6,734,717	100
Funds received to date	4,551,995	92	1,807,803	26
Funds spent to date as a percentage of budget	4,355,967	88	22,209	0.3
Funds spent to date as a percentage of receipts	4,355,967	95	22,209	1.2

Table 11: Summary of fund utilization (Source: UNDP reports to Global Fund Secretariat)

### Limitation in scope

204. Because of the UN single-audit principle, the audit of UNDP as a PR could not be conducted by OIG. But OIG did review the operations of two of the SRs managed by UNDP; the Association of Medical Doctors of Asia - Nepal (AMDA) and Nepal Association of PLHA (NAP+N).

### Achievements and challenges

205. UNDP has achieved good success in the implementation of program activities despite the very challenging environment in which it was operating. The achievements registered to date under Round 2 Phase II are summarized in the table below.

Particulars	Planned	Actual
Number of school teachers trained in life skills education	2,095	2,115
Number of youth (in and out of school) reached with life-skill-based education, peer education and counseling	325,195	213,606
Number of labour migrants reached by peer education and counseling	547,912	837,692
Number of labour migrants trained as peer educators on HIV/AIDS	850	874



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Number of uniformed services personnel receiving HIV/AIDS and STI information	19,400	21,634
Percentage of labour migrants who both correctly identify ways of preventing the sexual transmission of HIV and who reject major misconception about HIV	50%	NA
Percentage of young people who both correctly identify ways of preventing the sexual transmission of HIV and who reject major misconception about HIV	50%	NA
Number of people completed counseling and testing process for HIV/AIDS	42,000	41,127
Number of individual trained to provide home-based care	1,200	2,105
Number of PLWHA receiving home-based care/palliative care	2,200	3,515
Number of new case diagnosed and treated for STIs	5,282	19,674

Table 12-- Summary of achievements against target for R2 phase II (Source PUDR no 14)

206. The UNDP achievements under Round7 are listed in the table below, however, the actual results reported for the first four indicators in the table below include results from activities funded by other development partners. The baseline indicators had also not been updated. These errors were brought to the attention of the Secretariat and the performance framework has now been corrected.

Particulars	Planned	Actual
Number of people counselled and tested for HIV	780	18,986
Number of service outlets providing counseling and testing according to the national standards	119	123
Number of people with advanced HIV infection currently receiving ARV	2,360	2,817
Number of PLHA receiving diagnosis and treatment for opportunistic infections	750	4,045
Number of districts reporting all indicators according to national guidelines (including using the national list of core indicators)	25	0
Number of DACCs coordinators trained on HIV/AIDS program management	25	0

Table 13-- Summary of achievements against target for R7 (Source PUDR no 2)

207. The performance of UNDP has been hampered by the following factors:
- The security situation in Nepal affected the timely implementation and reporting of program activities.
  - The six-month delay in grant signing between UNDP and the Global Fund for the Round 2 Phase II resulted in a delay in the selection and contracting of sub-recipients.
  - Delays in the approval of the procurement and supply management plan affected timely procurement. The plan was submitted on 7 June 2007 and UNDP only received approval on 18 February 2008 i.e. after more than eight months i.e.

208. UNDP put in place SR management arrangements that OIG found to be satisfactory and in compliance with the grant agreement requirements. OIG reviewed the SR capacity assessments and observed that a plan was put in place to address the capacity gaps identified during the assessments and UNDP reviewed

the implementation of these plans by carrying out annual reviews/capacity assessments. However, the capacity building efforts had not been effective as the SRs visited still lacked capacities to manage the program e.g. the FMS for NAP+N was found to be weak in the following areas:

- (a) The financial and operational manual was still in draft form and standard per diem rates had not been established. These per diem rates varied between donors. No personnel files were maintained. OIG also noted that Global Fund funds were used for non-project activities. However, these were identified during UNDP reviews of program expenditure and were refunded.
- (b) NAP+N maintains a separate bank account for the Global Fund program. However, bank reconciliation statements were not prepared on a monthly basis but only at the time of reporting to UNDP. OIG further observed that NAP+N did not comply with the Income Tax Act e.g. monthly tax deductions were not effected as required by the Income tax Act and taxes withheld were not deposited timely into the Inland Revenue office.
- (c) OIG obtained and reviewed external audit reports and noted that several audit recommendations were not implemented. OIG further observed that NAP+N charges an overhead fee of 9 percent on all expenditures incurred. The basis for the payment of this overhead fee could not be ascertained.

209. The recording and reporting system used by NAP+N for its own community-based SSRs were still very weak despite repeated orientation. OIG reviewed the programmatic reports prepared by NAP+N and submitted to UNDP and observed that some of the reported results were not sufficiently supported by details from the CBOs acting as SSRs in implementing the program activities. This was also referred to in the LFA report. The LFA on site data verification carried out in December 2008 revealed data quality issues where data compiled by the UNICEF, a SR under Round 2, did not match with the data reported by IFCD an SSR to UNICEF.

210. The UNDP country office in Nepal has informed the OIG that since the audit, a fulltime consultant has now been seconded to NAP+N. The consultant is required to develop operational and financial manuals for the NAP+N and its related CSOs. The other reported improvements include: updating of personnel files; the payment of tax deductions to the authorities and the follow-up of audit recommendations.

211. Under Round 7, UNDP has the responsibility of procuring medical supplies. All the SRs reviewed under the Round 2 program complained of delayed disbursements of funds and delayed distribution of medical supplies by UNDP. FPAN and SCUS did not achieve some of the first trimester targets related to the distribution of condoms and lubricants because of the delayed procurement of these items by UNDP. Although UNDP explained to OIG that the budget was not sufficient to procure the condoms and lubricants, SCUS and FPAN said they were not aware of this constraint.

212. During the field visits, OIG observed that a CD4 counting machine with a malfunctioning power supply unit had been delivered to Doti district and the problem had not rectified four months after the machine was delivered. Auto analysers were also purchased and distributed by UNDP but the staff at two of the sites visited by OIG where they were delivered did not know how to use the machines. UNDP Nepal has informed the OIG that the faulty machine has now been repaired.

213. Under the Round 7 HIV grant, UNDP was expected support NCASC by way of capacity building. However, the OIG noted that the capacity building support to NCASC was only on ad hoc basis and no documented plan had been put in place to develop the capacity of NCASC. Recommendation 20 (a) covers this issue. There was also no transition plan for UNDP to transfer the PR role back to NCASC. Development and implementation of a capacity building plan would be affected by lack of clarity in roles between the NSASC and the HIV, AIDS and STI Control Board (HIV Board). The issue of the confusing roles between NCASC and the HIV Board has been raised in paragraph 191 and addressed by recommendation 20 (b). The OIG has been informed that since the end of the audit field work, there has been Capacity Development strategy for NCASC as well as a definite plan to clarify the mandates of NCASC and the HSCB. The OIG has been informed that a Capacity Building Strategy for NCASC has now been developed with the support of UNDP. A resource to manage the capacity building process has been identified and duly appointed since September 2009.

214. UNDP informed the OIG that although a PSM Plan was prepared and submitted to the Global Fund Secretariat on 19 September 2008 and approved on 5 January 2009, an amendment was requested of the PR to accommodate requirements for FPAN and SCUS. The developments led to a revision in the PSM plan, and subsequent approval on 19 May 2009. UNDP Nepal explained that the change in PSM scope as well as procedural delays in the revision and approval process contributed to delays in commencement of the procurement process.

### *Recommendation 25 (Significant)*

*UNDP should ensure that all sophisticated medical equipment purchased is accompanied by a complete installation, training and maintenance contract.*

## Population Services International (PSI)

### Background

215. PSI is a not for profit organization based in Washington DC, USA. It is a global health organization with programs targeting malaria, child survival, HIV and reproductive health. Working in partnership with the public and private sectors, and harnessing the power of the markets, PSI provides life-saving products, clinical services and behavior change communications that empower the world's most vulnerable populations to lead healthier lives.

216. Population Services Nepal (PSI-N) is the extension of PSI in Washington with a mission to deliver reproductive and other health products, services, and information to enable low-income and vulnerable people to lead healthier lives. PSI-N began operations in early 2002 to work in the areas of HIV/AIDS prevention, child survival and family planning in support of Government of Nepal's National Reproductive Health and HIV/AIDS Prevention Strategies. PSI-N's current portfolio contains programs in malaria, safe water, pediatric zinc and fortified complementary food for young children. The programs implemented by PSI-N are funded by the U.S. Agency for International Development (USAID), Micronutrient Initiative and World Food Program.

217. PSI Nepal signed the grant agreement as PR under Round 2 for US\$ 4,685,830 on 23 December 2005 and on 23 July 2008 under Round 7 for US\$ 7,024,844. The Round 2 Project was implemented by PSI Nepal in collaboration with GON-EDCD. The program was focused on prevention, early detection and the importance of prompt treatment of malaria in the 12 targeted districts including 'Social Marketing of Malaria Prevention and Control in Nepal' program involved in LLIN distribution and behavior change communications. These activities were complemented by training to private sector service providers on malaria case detection and management, use of LLINs and social marketing for improving their overall capacity and understanding for early diagnosis and treatment.

218. The table below provides a summary of the grant information

Narration	Round 2		Round 7	
	US\$	%	US\$	%
Total budget	4,685,830	100	7,024,844	100
Funds received to date	4,544,691	97	3,064,866	44
Funds spent to date as a percentage of budget	4,702,190	100.3	1,000,190	14
Funds spent to date as a percentage of receipts		103.5		33

Table 14 -- Summary of fund utilization (Source PSI reports to Global Fund Secretariat)

### Achievements and challenges

#### Round 2

219. Major activities undertaken by PSI-N under the Round 2 include:

- (a) Procurement and distribution of LLINs under the national distribution

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- strategy of one LLIN per household.
- (b) Trainings to private sector health care providers in malaria case detection and management, social marketing and use of LLINs and RDTs.
  - (c) Printing and distribution of IEC materials.
  - (d) Production and broadcast of radio adverts, radio programs and video programs.

220. PSI Nepal's achievement of Round 2 targets and achievements against the identified coverage indicators is illustrated below:

Indicator Description	Target	Actual Results
No of posters, inserts and leaflets produced and distributed	1,104,748	1,492,362
No of TV/ radio BCC programs designed/ developed/ produced/ broadcast/ aired	36	44
No of people reached through BCC outreach activities	289,542	400,674
No of private health care providers trained on malaria case detection and management, use of LLINs and social marketing.	1,869	1,877
Number of LLINs distributed to population	427,125	458,410
No of Market Research/ Social marketing/ Behavioral Research Studies conducted	3	3

Table 15 --Table showing summary of achievement targets (Source PSI Nepal Annual Report 2008)

### Round 7

221. In the table below the Round 7 first trimester performance is summarized comparing targets against actual results. The delays in program implementation noted were mainly attributed to: the delayed approval of duty free import of LLINs from the GON, which has resulted in delays in procurement and the distribution of the LLINs. A lot of time was spent on SR selection resulting in delays in disbursements to SRs, and there were delays in providing orientation to field-based BCC staffs.

Indicator Description	Target to Date	Actual Results
Number of LLINs procured, imported and warehoused/ packed and transported to districts	192,592	0
Number of LLINs distributed to at - risk population	25,000	0
Number of radio spots developed on benefits of LLINs and malaria prevention and treatment	9	18
Number of radio spots on benefits of LLINs and malaria prevention and treatment	0	1,068
Number of people reached through interpersonal communication	7,500	0

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Indicator Description	Target to Date	Actual Results
No of people reached through BCC activities	0	0
Number of private health care providers trained on malaria case detection, national treatment guidelines and use of LLINs	0	0

Table 16 -- Summary of performance of PSI Nepal for trimester 1 Round 7 (Source PUDR for period Nov 2008 - March 2009)

### Limitation in scope

222. Because all LLINs were procured from PSI Washington and the OIG did not have access to the documentation neither did it review the LLIN procurement process, the OIG cannot give assurance on the procurement processes followed to procure LLINs.

### Strengthening grant management

#### Institutional aspects

PSI-N has a well-established organization structure to manage the Global Fund grants. PSI head office carries out annual internal audits of the operations in Nepal. Although these audits cover the PSI-Nepal, there is no specific coverage given Global Fund activities with regards to SRs. The OIG also noted that PSI-N has not implemented many of the recommendations.

223. PSI has a governance structure with a board of directors in place managing its affairs through committees of directors. The headquarters of PSI is situated in Washington USA and the grant agreement was signed between PSI (Washington) and the Global Fund. PSI is responsible for the procurement of LLINs on behalf of PSI-N and provides oversight of PSI-N. The scope of the audit did not include review of the procurement processes of PSI Washington.

224. During the period under review, PSI (Washington) carried out internal audits of PSI-N for the periods November 2005 to August 2006, September 2006 to October 2007 and October 2007 to May 2008. The objectives of these audits were to ensure that the financial data was properly recorded and adequate operational procedures existed to safeguard the assets of the organization. The scope of the audits did not include the operations of the SRs neither did they give assurances on program performance nor compliance with the Global Fund grant agreement.

225. OIG reviewed the internal audit reports and observed that some of the recommendations made to mitigate the risks arising from the weaknesses observed had not been implemented. The weaknesses that still existed at the time of the audit are listed below. Failure to implement audit recommendations weakens the internal control environment within which Global Fund programs are implemented.

- (a) Failure to comply with the labour laws which require that redundancy/seniority severance pay should be accrued in addition to the one-month severance salary notice which is currently accrued.

- (b) There were several reclassifications transferring costs between project codes and these lacked adequate supporting documents.

### ***Recommendation 26 (Significant)***

*The scope of the PSI's internal audit coverage should also cover Global Fund programs especially at the SR level. Management of PSI Nepal should also implement all audit recommendations in order to improve the overall control environment of the organization.*

226. PSI-N has a well-defined organizational structure for Global Fund activities and the reporting lines are properly defined. However, a review of the job descriptions showed that job descriptions were not reflective of the tasks undertaken by staff. For instance the Deputy Country Representative (DCR) is also in charge of Finance and Administration but the job Description of DCR was not updated to reflect this.

### ***Recommendation 27 (Requires attention)***

*Management should review job descriptions to ensure that they are reflective of the roles, responsibilities and authorities that each staff undertakes. With the creation of new positions in the Organization structure, job descriptions should be revised and kept up to date.*

227. PSI-N receives funding from more than one donor and employees are assigned to more than one project. To apportion personnel costs between the various donors, time sheets are maintained. Management allocates overhead costs by donor on the basis of funds disbursed in a given month. The computation of overheads should be driven by the level of effort and not disbursements because the latter does not necessarily translate into more work. The current practice of cost allocation presents the risk that Global Fund and the other programs may not be charged a reasonable portion of the total overhead costs.

### ***Recommendation 28 (Significant)***

*PSI management should apply the same policy for allocation of overhead costs as that used in budgeting for overheads. The policy of apportionment of overheads should be based on factors directly related to the overheads being paid for, such as level of effort and number of staff, and level of field activity. Percentage rates should be fixed and used to apportion costs throughout the life of the grants.*

228. PSI human resources policies require that all salary increments should be based on performance evaluations and they should not be awarded more than one month in arrears. However, in a letter dated 20 November 2006 the Finance and Administration Director (FAD) sought an exemption from carrying out performance evaluations from the Country Representative (CR) and in a letter dated 3 July 2007 he proposed for a salary increment to all staff on the basis of good performance with effect from six months in arrears. This was approved by the CR without approval from PSI Washington as required by the overseas finance manual.

## Compliance aspects

229. The grant agreements contain conditions that should be in place to safeguard the Global Fund grants. A review of PSI-N's compliance with the conditions precedent specified in the grant agreements as well as with the laws of the country identified some conditions that were not complied with. PSI is required to submit the annual reports to the Global Fund within 18 months after the date of signing the grant agreement. The annual report for the year 2006 was submitted on 7 August 2009, four months after the required date. Subsequent annual reports were submitted within the time required by the grant agreement.

230. PSI is required to comply with the host country laws and regulations. However, the following income tax regulations and labour laws were not complied with. Non compliance with host country laws and regulations would attract fines and penalties resulting in financial and reputational loss to the organization:

- (a) PSI-N has not obtained a tax exemption letter from the Inland Revenue Department.
- (b) PSI has not filed annual tax returns with the tax authorities.
- (c) Tax has not been computed and deducted in for international staff who are residents under local laws.
- (d) Mandatory severance has been charged to Global Fund; however, a separate fund as required under local laws has not been created.
- (e) There were instances where taxes were not withheld on payments made as required by local laws.
- (f) Local laws require all consultants to be VAT registered if consultancy contracts exceed NPR 100,000 (US\$ 1,351). However, PSI entered in contracts with non-VAT-registered consultants e.g. the Technical Director who received annual fees of NPR 1,024,152 (US\$ 13,840).

### ***Recommendation 29 (Significant)***

*PSI Nepal should ensure that the conditions of the grant agreement are complied with. The Global Fund should ask the LFA to confirm compliance of the PR with the Standard Terms and Conditions of the grant agreement and the relevant laws in Nepal. This will ensure that the conditions put in place to safeguard the Global Fund assets are followed.*

### **Financial management**

PSI has an established financial management system with an accounting package installed to record financial transactions and financial management policies and procedures to guide financial processes. The chart of accounts does not reflect the program budget and activity classifications. OIG also observed areas of non-compliance with financial management policies and procedures.

231. QuickBooks accounting system has been installed to record financial transactions. Financial management policies and procedures for the Organization are contained in PSI's overseas finance manual. In addition to reviewing compliance to the provisions of the manual, OIG reviewed the controls surrounding the financial management system and identified one weakness. PSI-N entered into agreements with SRs where each SR is advanced funds for program implementation and is required to submit accountability and programmatic reports for the period



for which the funds were disbursed demonstrating that the targets were achieved. However, OIG noted that all advances made to SRs are immediately expensed prior to verification of delivery and submission of accountabilities. This raises the risk that advances that are not accounted for may go undetected.

### ***Recommendation 30 (High)***

*PSI should maintain an advances register that records money advanced to SRs and keep a record of what advances have been accounted for and which ones have are outstanding. This will strengthen controls over advances management.*

232. The PSI overseas finance manual requires that petty cash is operated on an imprest system and calls for quarterly surprise cash counts to be conducted by key finance personnel. The manual further requires that the cash count is documented in a count sheet and submitted to the CR for review and approval. During the review, the OIG did not see any evidence that cash counts were conducted.

### ***Recommendation 31 (Significant)***

*Periodic cash counts should be carried out and documented to ensure adequate safeguards against loss and/or misuse of cash.*

233. PSI-N charges the Global Fund overhead costs at a rate of 12 percent (10.75 percent in Round 2 Phase I) on all non-procurement-related program costs and charges a procurement fee of 5 percent. To date overhead costs and the procurement fee amount to US\$ 335,055 and US\$ 188,424 respectively. These rates are high when compared to those charged by the other PRs. For example, Save the Children USA (SCUS) charges 5 percent on all program costs while UNDP charges 7 percent on all program costs inclusive of procurement. The OIG observed that there is currently no policy at the Global Fund to guide/regulate overhead costs. Program Finance is currently holding negotiations with PSI to agree on a common overhead fee to be charged.

### ***Recommendation 32 (High)***

*The Global Fund should accelerate establishing a policy that regulates and provides guidance on charging of overheads by PRs. The negotiation being held with PSI should take into consideration comparable overhead rates charged by other non-profit organizations in the development sector.*

## Strengthening program management

During Round 2 Phase II of the Malaria program, PSI secured a donation of 10,000 LLINs. These were shipped to and distributed in Nepal using Global Fund resources without obtaining prior approval from the CCM and Global Fund.

234. During Phase II Year 1, PSI-Nepal received a donation of 10,000 additional LLINs from the World Swim for Malaria Foundation (WSM) to complement the Global Fund free distribution in the target districts of Kavre and Mahottari. These two areas were determined by EDCD. These LLINs were shipped together with the consignment purchased using Global Fund resources. Additionally, the donated LLINs were also distributed alongside those purchased using Global Fund resources.

OIG obtained the GPS coordinates and during site visits verified that these LLINs were distributed in the districts of Kavre and Mohattari.

235. LLINs purchased using Global Fund resources were subject to tax exemption. No such arrangement was in place for the LLINs secured from World Swim for Malaria Foundation. However, PSI obtained tax exemption and sought a 1 percent duty refund from the Ministry of Finance of Nepal wrongly stating that the entire consignment of 154,000 LLINs was purchased using Global Fund resources. Although the OIG recognizes the efforts made by PSI and other organization to augment the resources for the fight against malaria this exposes the Global Fund to reputational risks.

### ***Recommendation 33 (High)***

*PSI should fully comply with the laws of the Government of Nepal, including complete disclosure of relationships between the Global Fund and other programs implemented by the PR.*

236. As per the Monitoring and Evaluation Plan approved by the Global Fund, PSI Nepal should regularly monitor and evaluate the progress of the program including the activities implemented by its SR and report accurately the program reports. However, the M&E plan proposed and submitted by PSI for Round 2 Phase I was approved by the Global Fund only after the end of the agreed grant period and the program implementation was appraised after the completion of the entire Phase I program.

237. There was no approved schedule for conducting field visits to the SR. Such field visits are conducted as and when necessary by the PSI program officers and the reports on the visits were not shared with the SR. Additionally, there was insufficient evidence that the PR undertook periodic financial reviews. The financial aspects of the SR were only reviewed at the end of the program period.

238. OIG reviewed the financial management system of one of the SRs, the National Human Welfare Council, and found it to be weak as evidenced by the following: the SR's finance and administration manual was still in draft; there were no procurement guidelines to regulate procurement practices; there were no documented controls over inventory management; tax deposits to the Inland Revenue were usually submitted after their due date; advances to staff were only settled at the end of the contract; and expenses were not adequately supported.

239. According to the contract entered into with the National Human Welfare Council, the advance payment was subject to the submission of invoices and financial reports to PSI Nepal. However, OIG noted that PSI Nepal released advances to the SR without financial reports being submitted. These releases were based on programmatic progress reports. Financial reports disclosing the disbursements received and expenses incurred for the period, cash balances and advances were not submitted at regular intervals with the program reports but on completion of the contract period.

240. OIG also noted that under Round 7, PSI did not carry out capacity assessments for the four sub-recipients, as required by the grant agreement. PSI,

in an email dated 6 February 2009, sought a waiver from Global Fund to enter into short-term contracts up till the end of June 2009 with the selected SRs and commence work before having assessed their capacities to implement the program and manage resources. PSI committed to have the capacity assessments completed by the end of June 2009. This authority was granted in an email dated 10 February 2009. However, by 19 June 2009, these assessments had not been undertaken.

### ***Recommendation 34 (High)***

*PSI should carry out SR capacity assessments. Direction on how identified weaknesses should be addressed should be made to the SRs. Follow up visits should be undertaken to ensure that recommendations have been implemented.*

### ***Recommendation 35 (High)***

*In order to effectively implement program activities through SRs, PSI should strengthen its oversight by:*

- Regular reporting of financial and program activities;*
- Periodic field visits to implementation sites;*
- Regular review of financial and program activities of the SRs measured against an approved work plan, and*
- Retaining documents to evidence that the activities were actually conducted within the prescribed time.*

## **Procurement and logistics management**

241. The PSI Policy requires that procurement of goods and services needs to be supported by cost comparisons, competitive bidding, purchase committee decisions, communication of proposed terms and conditions to the prospective suppliers etc. However, on the procurement of vehicles and equipments, the following instances of non-compliance were noted:

- (a) Motor vehicles were procured by PSI Nepal, without following a transparent competitive solicitation of quotations or developing specifications prior to purchase, and
- (b) No sealed tendering was conducted in the purchase of vehicles and generators as required by the finance manual for procurements in excess of NPR 500,000 (US\$ 6,757).

242. On review of the compliance with the provisions of the procurement policy, the following was noted:

- (a) A vendor master file of all the short-listed suppliers with brief profiles was not maintained as required by the policy;
- (b) There was no evidence of minutes of the Purchase Committee meetings conducted to make procurement decisions; and
- (c) There was no evidence of annual evaluations of the performance of the contracted suppliers by the purchase committee as required by the policy.

243. PSI's manual requires conducting a warehouse inventory count at least twice a year but preferably on a quarterly basis. The CR is required to ensure that the physical inventory count is reconciled to the inventory records and to the

accounting system and a copy of the reconciliation has to be forwarded to PSI Washington. However, there was no record of such inventory count and reconciliation with inventory records and accounting system.

***Recommendation 36 (High)***

- (a) PSI Nepal should ensure that the provisions of the procurement policy are complied with to ensure that value for money is obtained from all purchases made.*
  
- (b) Management at PSI Nepal should carry out inventory counts twice a year as required by its overseas finance manual.*

## Family Planning Association of Nepal (FPAN)

244. The Family Planning Association of Nepal (FPAN) is a national non-governmental organization operating in the field of sexual and reproductive health. It was founded in 1959 when it became an associate member of the International Planned Parenthood Federation (IPPF), and a fully fledged member in 1969. FPAN was registered with the district administration office, Kathmandu in 1965. FPAN was also registered with Inland Revenue Office in September 2004 when it obtained a tax exemption certificate.

245. The constitution of Family Planning Association of Nepal allows the Association to conduct publicity relating to sexuality and reproductive health, and also launch extensive publicity campaigns on sexually transmitted diseases and AIDS and provide preventive and curative services. It can also coordinate with different individuals, institutions, national and international governmental or non-governmental organizations and associations and manage necessary resources and materials in order to fulfill the objectives of the Association. It is under this mandate that FPAN applied to be PR for Global Fund grants.

246. FPAN is PR for Round seven grant NEP-708-G11-H, under the title "scaling up coverage and quality of HIV and AIDS prevention targeted to most at risk population and treatment care and support to people living with HIV". The grant programs cover migrant workers and their families in 13 districts, men having sex with men (MSM) and male sex workers in 15 districts and VCT services for the Nepal Army and Police. The grant programs are coordinated through a central office at the FPAN headquarters in Lalitpur and five regional offices where sub-recipient coordinators are based.

247. FPAN signed the grant agreement as PR under Round 7 on 2 November 2008 and received the initial disbursement on 2 December 2008. Phase I of the grant commenced on 16 November 2008 and will end on 15 November 2010. The Phase I budget under the grant agreement is for US\$ 2,641,963 and at the time of the audit for one trimester ending on 16 March 2009, the utilization was as follows:

Narration	Phase I	
	US\$	%
Total budget	2,641,963	
Funds received to date	729,606	27
Funds spent to date as a percentage of budget	159,052	6
Funds spent to date as a percentage of receipts	159,052	22
Balance at bank at 31 March 2009	627,274	

Table 17 -- Summary of fund utilization (Source FPAN reports submitted to Global Fund)

### Achievements and challenges

248. The Round 7 grant to Nepal was approved by the Global Fund Board in November 2007. FPAN was only selected by the CCM meeting on 22 August 2008. The LFA assessment of FPAN was only completed in October 2008. Considering that

the grant agreement should be signed within one year of Board approval, FPAN only had one month within which to finalize grant negotiation with the Global Fund prior to signature in November 2008.

249. The process for contracting and assessing SRs was stopped when one of the SRs Blue Diamond Society contested the selection process. The Blue Diamond Society mobilized activists who blocked off the offices of FPAN protesting the method of selection of SRs for activities for men having sex with men (MSM) and male sex workers. The Blue Diamond Society complained that in selecting SRs FPAN did not consider the experience Organizations' experience implementing activities among the affected communities. Blue Diamond Society maintained that as a result of the flaw in selection criteria, SRs with a history of stigma towards MSM were selected. This protest paralysed the operations of FPAN whilst efforts to negotiate a settlement on the matter took place.

250. The OIG noted that the Blue Diamond Society had not complied with all the criteria set for evaluation of SRs. The criteria included a requirement to obtain recommendation from the District AIDS Coordination Committee (DACC), a condition BDS did not fulfill for most of the districts for which the Organization sought to implement activities. Subsequently, the CCM constituted a Technical Review Panel which guided the PR through another SR evaluation process after a second call for proposals.

251. According to the project Director of the PMU, other factors that affected FPAN's ability to swiftly implement activities included delays by UNDP in supplying condoms and lubricants which were required for some activities, and delays in staff recruitment and setting up of Global Fund Project.

252. Despite challenges experienced in contracting SRs, FPAN was able to undertake several activities including:

- (a) Convening a national steering workshop to disseminate the program interventions and the approach to implementation;
- (b) Selecting and contracting 16 SRs;
- (c) Organising and holding meeting with SRs and other stakeholders to communicate work plans and budgets;
- (d) Training of counselors; and
- (e) Training of laboratory technicians.

253. FPAN has established a project management unit (PMU) to manage Global Fund activities, and recruited staff through a competitive transparent process to fill the positions. The staff recruited to manage Global Fund activities include: a Project Director, Grants Manager, Project Officer, five Cluster Coordinators and a Finance Assistant. The Cluster Coordinators are located in FPAN's field offices and they oversee the activities of SRs.

254. FPAN has set up a computerized financial management system for the Program separate from the FPAN system. The Oracle-based software has been set up to manage disbursements to SRs as advances against budget lines. When accountabilities are received from SRs, they are settled against pre-coded SR budgets in the system after review of the financial reports. This setup allows for

control of disbursements to SRs and tracking of the overall budget for FPAN including the SRs.

### Strengthening grant management

#### Institutional aspects

255. FPAN is operated by a management team, headed by a Director General who is appointed by the Central Committee. The Central Committee is an 18-member body elected on a three-year tenure by the Central Council. The Central Council, which meets annually, is a representation of six members from each of the 28 branch/district chapters. The Branch Council is composed of 14 elected members, half of whom should be women.

256. As mandated by FPAN's constitution the Central Committee oversees all management functions through regular meetings. The OIG did not see evidence of involvement of the Central Committee in Global Fund activities. Global Fund programs only featured in senior management team meetings during the resolution of the standoff with the Blue Diamond Society.

257. Although the Program Director of the program management unit told the OIG team that regular team meetings were held, there was no evidence of this. There was also no evidence seen of regular internal performance monitoring and review by program managers or reporting to executive of FPAN. Periodic reports are only prepared and consolidated for reporting to IPPF.

258. Although FPAN has a strong governance structure, the Global Fund programs are not benefiting from its oversight. This is evidenced by the fact that despite being behind schedule on performance targets and fulfillment of conditions to the grant agreement, there was no discussion of Global Fund programs in management meetings.

#### ***Recommendation 37 (Significant)***

*The PMU should hold regular formal management meetings at which actions are documented and followed up. Periodic reports showing grant performance should be made available for senior management. The Global Fund grant program should be part of the agenda at senior management and central committee meetings.*

259. The OIG noted significant weaknesses in the internal audit function at FPAN. Some of these weaknesses were brought to the attention of FPAN management after the LFA assessment and included in the grant agreement, but have still not been addressed. The following weaknesses with the internal audit department were noted:

- (a) The internal audit team is composed of only two staff covering 29 offices, who are not sufficient in number to cover all programs including the Global Fund;
- (b) There is no documented approach or methodology for internal audit in place. The internal auditor uses a standard checklist developed at the beginning of the year to undertake audits;

- (c) Internal audit does not review any of the functional areas at the FPAN headquarters, but only covers field offices;
- (d) Review of audit reports showed that there was no follow-up of audit findings;
- (e) The head of internal audit reports to the Director General of FPAN, and so the department is not independent of management, which may affect its effectiveness;
- (f) The central committee of FPAN does not have an audit committee that is responsible for reviewing the work of the internal audit department;
- (g) The internal audit department is headed by a Senior Internal Auditor who does not have any professional qualification in audit or experience in leading a well-functioning audit department in a large organization; and
- (h) The audit department does not have an audit charter, annual audit plan, or Internal Audit Manual as required good practice guidelines. Although an audit plan is prepared, it is a single page schedule of branches to visit in the year and there was not proof that it was reviewed by the Director General.

### ***Recommendation 38 (High)***

*The management of FPAN should take steps to strengthen the internal audit function of the organization. In accordance with best practice, internal audit function should be strengthened through the following ways:*

- (a) Staffing requirements should be reviewed with the view to improve their number and quality;*
- (b) The head of Internal Audit should report to an audit committee of the Central Committee to allow for the level of independence required to effectively provide assurance over the functions of FPAN;*
- (c) An internal audit charter should be developed, explaining to all stakeholders the position, role, responsibilities, authority, and mission for the department;*
- (d) An audit approach that focuses on the key risks facing FPAN should be adopted and implemented;*
- (e) An annual audit plan should be developed covering key business processes and organizational risks and the nature, frequency and timing of the audits to be undertaken; and*
- (f) Internal audit recommendations should be followed up by senior management and actions from previous audits should form part of subsequent audits.*

### **Compliance aspects**

260. The grant agreement between the Global Fund and FPAN required “delivery by PR to the Global Fund of guidelines for the selection, assessment and management of the performance of the sub-recipients”. At the time of the audit, the PR did not have guidelines for the management of SRs, although the program unit commenced preparation of the guidelines at the prompting of the OIG team.

261. The grant agreement included a special condition requiring that the PR would deliver to the Global Fund not later than 1 March 2009 a plan to strengthen



the PR's internal audit function. At the time of the audit, the following conditions as detailed in the grant agreement had not been fulfilled:

- (a) an assessment of the internal audit staffing requirements, together with a proposal to recruit additional staff, if required;
- (b) a description of the activities that will be subject to internal audit;
- (c) the procedures for conducting internal audits and following-up recommendations during such audit; and
- (d) an overview of the reporting responsibilities of internal audit staff.

262. The grant agreement required that management of FPAN would obtain exemption from Government of Nepal from applicability of taxes, duties and value-added tax on procurement of goods and services. This condition has not been fulfilled and grant funds were used to pay for government taxes, contrary to provisions of the grant agreement.

263. The grant agreement required the PR to submit to the Global Fund Secretariat guidelines, and a robust capacity assessment tool that describes the methodology and critical areas to be covered, identify gaps and provide concrete recommendations for SR capacity strengthening. The criteria for SR selection was not set upfront prior to commencing the process. The OIG noted disparity between the compiled guidelines, which were submitted to the Global Fund after the SR selection, and the practice from review of documentation.

### ***Recommendation 39 (High)***

*FPAN's management should ensure that the conditions in the grant agreement are complied with. These conditions strengthen the internal control environment within which the Global Fund programs are implemented.*

### **Financial management**

264. FPAN has provided detailed budget templates to all SRs, the format in which trimester reports should be submitted. Only a summary cash flow statement is submitted by each SR. These reports are then posted into the financial management system at the centre. The reporting by the PRs coincides with that of the Global Fund. Although the system of reporting on a trimester basis was managed for trimester one reports, in future once all SRs have started program activities and more funds are disbursed, the PR may not be able to meet deadlines for reporting to the Global Fund.

265. The Project Director for Global Fund programs receives his salary by cash cheque, contrary to the regulation that requires a transfer to the staff's bank account. Whilst the other Global Fund staff salaries are processed centrally by the FPAN payroll office that of the Project Director is paid by the Global Fund Project Office. The practice undermines the internal controls put in place by the organization and also sets a wrong example for the rest of the staff of the FPAN.

266. Although the FPAN has codified account heads and allocated the expenditures under pre-defined codes, in practice, the system permissions for assigning a unique code for new activity has been delegated to the Finance Assistant.

267. A review of the external auditor's reports for the fiscal periods to 31 December 2006 and 2007 revealed several recurring weaknesses that were not addressed. These included weaknesses in recording fixed assets; unsettled donor receivables and inter branch accounts; weaknesses in the internal audit department; and non-compliance with requirements to withhold taxes on payments for goods and services.

**Recommendation 40 (Requires attention)**

- (a) Management should actively follow up and resolve audit recommendations in order to strengthen the control environment in which Global Fund and other donor programs operate.
- (b) In accordance with FPAN regulations, all staff salaries, including the project Director's should be paid centrally by bank transfer.
- (c) FPAN should adjust the SR reporting so it does not coincide with the reporting deadline to the Global Fund.

**Strengthening program management**

268. However, at the time of the audit, the following planned activities were not completed as per work plan:

- (a) Disseminating the Global Fund to fight AIDS, TB and malaria 7th round project among stakeholders at National level;
- (b) Conducting three day capacity building training for management team, and
- (c) Establishing and running five Voluntary Counseling and Testing (VCT) centres for MSM.

269. As a consequence of the delay in implementation of activities, there was under achievement of targets for most of indicators set out in the grant agreement. A review of achievement of targets for the trimester showed that:

Indicator Description	To date		Remarks
	Target	Actual	
Number of labour migrants and their spouses reached with targeted HIV Prevention (outreach and peer education)	36,000	12,458	Agreements with 15 SRs working among labour migrants were signed on 1 February with one signed on 25 March 2009.
Number of MSM reached with targeted HIV prevention (BCC)	5,000	0	Agreements with SRs were signed on 12 February, one on 10 April and one on 15 April 2009. Due to delay on SR selection, programs had not commenced.
Number of service deliverers trained in MSM issue according to documented guidelines (health services and peer and community programs)	25	0	
Number of condom distributed to MARPs	48,000	24,606	The PR attributed the poor achievement to delays in procurement of condoms by

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Indicator Description	To date		Remarks
	Target	Actual	
			UNDP.
Number of MARPs and vulnerable people counselled and tested for HIV	7,500	1,468	PR had only set up eight VCT centres out of the targeted 24.
Number of service outlets providing counseling and testing according to the national standards	24	8	
Number of cases diagnosed and treated for STI in selected districts	3,000	314	Due to delays in setting up VCT centres. It was also noted that one SR, Nepal Army reported number of people counselled instead of number tested.

*Table 18 -- Achievement of program targets (Source FPAN performance framework)*

### ***Recommendation 41 (Significant)***

*Management of FPAN should develop and implement an acceleration plan to undertake the planned activities and meet the set cumulative targets in the subsequent periods.*

## Save the Children USA, Himalayan Country Office

### Background

270. Save the Children USA, Himalayan country office (SCUS) is a non-governmental, non-sectarian, apolitical non-profit organization committing to bringing lasting, positive changes in the lives of children in need. Save the Children USA began work in Nepal in 1981 and steadily expanded its activities to over more than 20 districts in the past 20 years. Recognized areas of expertise include child survival, HIV/AIDS prevention, non-formal education, early childhood development, micro-finance and capacity development of non-governmental organizations.

271. SCUS is a Principal Recipient for the Round 7 HIV/AIDS grant NEP-708-G10-H program titled “scaling up coverage and quality of HIV and AIDS prevention targeted to Most at Risk Population and Treatment care and support services to PLHA”. The grant programs focus on the West, Mid-West and Far West Development Regions of Nepal. The program interventions target mobile populations, IDUs and MSM as well as people who are HIV positive. Under this program, SCUS will provide outreach services among migrant labourers and IDUs and will in addition scale up counseling and testing activities in the selected districts.

272. SCUS signed the grant agreement as PR under Round 7 on 7 November 2008 and received the initial disbursement on 2 December 2008. The Phase I budget under the grant agreement is for US\$ 2,944,832 and at the time of the audit, the utilization of the funds received was as follows:

Narration	Phase I	
	US\$	%
Total budget	2,944,832	
Funds received to date	1,046,449	27
Funds spent to date as a percentage of budget	318,623	30
Funds spent to date as a percentage of receipts		85
Balance at bank at 31 March 2009	727,826	

Table 19 -- Summary of fund utilization (Source SCUS Reports submitted to Global Fund)

### Achievements and challenges

273. SCUS has achieved success in the implementation of program activities despite the challenges of the country context. SCUS’ activities are implemented through SRs. SCUS has since the signing of the agreement identified and undertaken assessments of its SRs and signed agreements with them. An orientation workshop was organized by SCUS at which monitoring and evaluation, financial reporting and expectations from the Global Fund grant were discussed.

274. SCUS has established a Global Fund unit, which has been integrated within its organizational structure. The staff within the Global Fund unit report to their

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technical heads as per the SCUS organizational structure (SC Alliance) whereas their activities are coordinated by a Global Fund Team Leader who reports to the Assistant Country Director, Program. There are altogether 23 staff recruited for Global Fund activities which include 12 full-time staff and 11 part-time staff. The full-time staff include a Team Leader, Finance Coordinator, Finance Officer, Senior Program Coordinator, M&E Coordinator, M&E Officer, three Project Officers, Secretary, Driver and an office messenger. The Project Officers are situated in Makwanpur, Butwal and Doti districts from where the activities are monitored at the field level. The Global Fund covers five migrants' program districts and seven Injecting Drug Users (IDUs) program districts.

275. In the table below the Round 7 first trimester performance is summarized comparing targets against actual results. Management of SCUS attributes the low achievement of targets in the first trimester to time spent on SR selection, assessment, set up and other support activities undertaken in the first phase; delays in the supply of condoms and VCT equipments by UNDP; delays in supply of STI medicine and HIV test kits to the SRs, and political instability as evidenced by frequent strikes.

Indicator Description	Target 1 <sup>st</sup> trimester	Actual Results
No. of labour migrants and spouses reached with HIV Prevention	24,000	21,047
No. of IDU reached with targeted HIV Prevention	500	525
No. of IDUs reached with harm reduction program	300	443
No. of service deliveries trained in IDU issue	10	0
No of condoms distributed to MARPs	32,000	20,719
No. of MARPs and vulnerable people counselled and tested for HIV	5,000	1,009
No. of service outlets providing counseling and testing	9	4
No. of cases diagnosed and treated for STI in selected districts	2,000	371
No. of people benefiting from community-based programs	300	0

Table38 -- Summary of performance of SCUS against set targets (Source SCUS Nepal PUDR)

### Strengthening grant management

#### Institutional aspects

The Global Fund signed an agreement with Save the Children USA, Himalayan country office. However, its legal status has since changed when it merged with Save the Children Norway and Save the Children Japan to form Save the Children in Nepal. The registration of Save the Children USA Himalayan office with the Social

Welfare Council and/or Government of Nepal to conduct its activities in Nepal expired on 2 February 2009.

276. The Global Fund signed an agreement on 7 November 2008 with Save the Children USA Himalayan office. At this time, SCUS Himalayan Office had a general agreement with the Social Welfare Council allowing it to work in Nepal. The general agreement which was dated 3 February 2004 expired on 2 February 2009. On 1 April 2009, SCUS merged with Save the Children Norway and Save the Children Japan to form Save the Children in Nepal (SCiN) which is now registered with the Social Welfare Council. On merging, SCUS wound up its activities in Nepal and all employee contracts terminated. Employees were then reappointed under SCiN. Currently, SCUS Himalayan office with which the Global Fund signed the Round 7 agreement is not duly registered with SWC to conduct its activities in Nepal.

### *Recommendation 42 (High)*

*The grant agreement with the Global Fund should be updated to reflect the changes that have taken place since signing of the grant agreement.*

277. SCUS has an Internal Audit Department with only one employee who covers all the programs of SCUS. The employee, a senior internal auditor, prepares an annual audit plan which is reviewed and approved by the senior management team. In order to execute the current audit plan, support will be obtained from the finance personnel at SCUS. In the OIG's assessment, there is no adequate capacity within SCUS to execute the current audit plan.

### *Recommendation 43 (Significant)*

*SCUS should strengthen its internal audit function. Considering the large dispersion and scale of its activities including Global Fund activities, it should either recruit additional staff or consider possibility of outsourcing the internal audit function for Global Fund grant programs.*

## Compliance aspects

278. A review of the budgetary control system identified expenses amounting to US\$ 8,814 incurred under various expenditure categories that were not included in the approved budget and prior approval for such expenses had not been obtained. Management of SCUS informed the OIG that the reason for this non-compliance was because SCUS was not involved in developing the budgets for the grant, and on commencement of implementation realized that some key activities had been omitted in the work plan and budget.

### *Recommendation 44 (Significant)*

*SCUS should obtain prior approval from the Global Fund for any budget reallocations above 15 percent. Prior approval should be obtained for conducting those activities which are not included in the approved budget and work plan.*

### Financial management

SCUS has an established financial management system with an accounting package installed to record financial transactions and financial management policies and procedures to guide financial processes. However, the financial information relating to the Global Fund is generated from Ms Excel.

279. SCUS has an established financial management system. The SUN accounting system has been installed to record financial transactions. Financial management policies and procedures are contained in the SCUS finance and operations manual. SCUS complies to a large extent with the policies and procedures that are stipulated in this manual.

280. The Global Fund related financial transactions were reported in MS Excel. MS Excel does not provide adequate controls over recording and reporting of the Global Fund related activities. The initial entries were made in the Sun accounting system in the local currency, but reporting to the Global Fund was based on an MS Excel spreadsheet where the transactions were translated using an appropriate exchange rate in the reporting currency (US\$). The financial data in MS Excel is not extracted from the SUN Accounting System but manually input. This exposes the system to errors of omission when inputting the data.

281. The Global Fund transactions were posted in the SUN accounting system but this system was ineffective in tracking budgets and funds for the PR and SRs since the accounting system was not customized to provide reports required by the Global Fund. The chart of accounts does not accommodate the Global Fund budget and activity classifications, account codes for fund balances and sub-recipient advance accounts. Failure to capture and record transactions by activity classifications approved in the work plan and budget renders the use of budgeting an ineffective control measure as SCUS cannot undertake a detailed variance analysis. Further, the disbursements made to the partners was expensed under the Global Fund grant code in the SUN accounting system and a memoranda record was maintained in MS Excel for the individual SRs for control purposes. The memoranda record was updated on a monthly basis, based on the financial reports received from the SRs.

#### ***Recommendation 45 (Requires attention)***

*Management should include in its chart of accounts the structure required to support, capture and post of transactions according to the Global Fund budget activity classifications. The system should then be configured and customized to allow for tracking budgets at PR and SR level; producing standard reporting formats for the Global Fund; and tracking advances to SRs.*

### Strengthening program management

282. In the first year more than 50 percent of the activities undertaken by SCUS were at SR level and 22 percent of the total planned SR budget for the first year had been disbursed in the first trimester which was used by SRs for the planned activities. Further, targets for condom distribution were not based on need. These were too low (one condom a year for each person) and needed upward

adjustment. It was also noted that the communication around program implementation with other PRs (FPAN and UNDP) was not adequate. e.g. around condom distribution, M&E

***Recommendation 46 (Requires attention)***

*To enhance performance, SCUS should, in consultation with other PRs, revise targets for condom distribution and improve communication on implementation with other PRs to share best practice / lessons learned.*



## Disease Specific Systems that support program implementation

### Monitoring and evaluation

#### Tuberculosis

Tuberculosis (TB) is endemic in Nepal and is one of the key public health problems. The responses to TB have been based on World Health Organization (WHO) guidelines and are founded on the Directly Observed Treatment (DOTs), short course DOTs; DOTs Plus and Stop TB strategies.

283. The national TB program in Nepal is well-established under the control of the National TB centre (NTC). The directly observed treatment short course (DOTS) strategy was adopted in 1996 and in 2005 the DOTS Plus program for the treatment of multi-drug resistant (MDR) TB was started. In 2006 the Stop TB control strategy of the WHO was adopted. The annual report of the national TB control program of Nepal for the financial year 2007-2008 was published in March 2009. This report provides a comprehensive overview of the TB control program.

284. Nepal has had a well-functioning TB control program for over a decade and both case detection and treatment success rates have been consistently high. DOTS-based TB services are available in all 75 districts in Nepal under the management of the District Health Officer/Public Health Officer and each of the districts has a designated full-time focal person in the form of a district TB and Leprosy Officer.

285. TB diagnosis is generally made at district hospitals and primary health care centres whilst DOTS treatment is additionally available at health post and sub-health post. The district level is responsible for supervision, monitoring and evaluation, training and logistical management within the district. By July 2008 there were 4226 health facilities which provided DOTS.

286. As sputum smear microscopy remains the key diagnostic tool for infectious TB, the NTC oversees a network of microscopy centres which all work under a well-regulated quality assurance system. By July 2008 there were 427 microscopy centres functioning. During 2007-2008 there were 33,419 diagnosed TB cases of which 53 percent were sputum positive. The notifications of sputum positive TB rose steadily from 1996 till 2001 when there was a notification rate of around 60 per 100,000 people. Since then there has been a very gradual decline. Since 1996 the treatment success outcome has consistently exceeded the global target of 85 percent and is currently around 88 percent for new sputum positive TB.

287. Revised guidelines have been developed for the updating of knowledge and skills but these have not yet been distributed to the various facilities. In the site visits to a DOTS centre in the Kailali district it emerged that no active case finding was taking place. The DOTS centre was basically doing passive case finding and did not do anything to ensure that the family of sputum positive patients were followed up and screened for TB.

### *Recommendation 47 (Significant)*

*All facilities where the NTC program is operating should have up to date guidelines covering all aspects of the TB control program.*

288. The NTC has a good M&E system for the routine TB control program. Data cascades upwards on a regular and timely basis from the facility to district, regional and national levels. The system could be improved by better attention to keeping the TB registers up to date; by giving written feedback on data quality and issues based on a standardized checklist; and by manipulating data electronically at district level where there are computers available.

289. There is a clear monitoring and evaluation system based on a series of interlocking four monthly workshops. At district level data is initially reported, captured and analysed quarterly based on program management reports from all facilities involved in the TB control program. These data are then aggregated at a district level by the district TB and leprosy officers. These officers then report their district data at regional workshops and regional TB and leprosy officers likewise report the regional data at national reporting workshops.

290. The overall M&E is of a high standard and in line with international best practice. All smear positive cases are regularly analysed with the various outcomes (cured, completed treatment, failed, died, defaulted, transferred out) measured as proportions and analysed down to facility level so as to quickly pinpoint any areas of weakness.

291. Verbal, but not written feedback to the various levels is given at these four monthly workshops. Supervision does take place at district and facility level but no written feedback takes place during these visits.

292. During the field visits to six districts in the Far Western and Eastern Regions the TB register was not always up to date. In these districts although there were several computers these were not used by the NTC to capture the data from facilities. These are manually manipulated and only at regional level are they electronically captured.

293. TB data is also routinely captured on a monthly basis by the national health and management information system (HMIS). There is good correlation between the NTC data and the HMIS data for case finding, but poor correlation in respect of treatment outcomes (which requires cohort analysis). In this case the NTC data is viewed as the official data set, thereby undermining the value of the HMIS.

### *Recommendations 48 (Significant)*

- (a) TB review meetings and supervision should be followed up with written feedback based on a standardized review checklist.*
- (b) TB registers should be routinely inspected as part of the supervision visit and kept up to date.*

(c) *Data at district level should be electronically captured and transferred to the regional level electronically as most districts now have internet facilities available.*

(d) *The NTC should work more closely with the HMIS to ensure that there is concordance between the two data sets and that both systems have the same official data available.*

294. TB patients form one of the highest-risk subgroups for HIV in Nepal. Current estimates are that 2.4 percent of TB patients are likely to be co-infected with TB. There is no formal written strategy for the management of TB/HIV co-infection and no objectives and targets for the implementation of such a strategy. This anomalous situation requires urgent remedy and attention.

### Multi-drug Resistant TB

295. The latest drug resistance survey estimated that 2.9 percent of TB patients have multi-drug resistance (MDR) and by 2008 nearly 500 hundred (494) patients had been registered for MDR TB treatment. The DOTS Plus facility visited in Kailali was following up patients and ensuring that they were compliant with their treatment. This is a good example of how a community-based MDR-TB program can be successful.

### Sub-Recipients

296. The Netherlands Leprosy Relief (NLR) has been a long-term sub-recipient of the NTC since Round 4 and has continued to be a SR under Round 7. In the site visit to the Far Western Region it was found that the recording and monitoring and evaluation system of the NLR in regard to quality assurance was of a high standard. At the end of each quarter the performance of each microscopy centre was reviewed based on a detailed scoring system. Essentially there was a comparison between the results obtained by the microscopy centre and those obtained by the NLR's reference laboratory. Each microscopy centre was then graded as being well-functioning, average or poorly functioning depending on the degree of concordance. Based on these gradings the supervision schedule for the following quarter was determined with poorly functioning microscopy centres being prioritized for supervisory visits.

#### ***Recommendations 49 (High)***

*The quality assurance system and subsequent prioritization of facilities objectively determined to be functioning below the average should be considered by the NTC program to be a model of best practice and to be copied and replicated throughout the NTC program.*

### Malaria

<p>The national malaria control strategy in Nepal is based on the principles of WHO's Global Malaria Control program for the South East Asia Region. There are four strategic priorities namely: early diagnosis and appropriate treatment; multiple</p>
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prevention strategies; epidemic preparedness; and behavior change communication (BCC).

297. The strategy of using LLINs to prevent mosquito biting needs further research into vector behavior to ensure that the strategy, based on objective evidence, is likely to be effective.

298. A comprehensive overview of the history and epidemiology of malaria in Nepal is given in the document entitled "The internal assessment of malaria and kala-azar control activities 2004, 2005 and 2006". Over the past 50 years the peak of malaria was during the 1980s when annually over 20,000 cases were diagnosed.

299. During the past decade less than 10,000 cases have been diagnosed per year and in the last three years less than 5,000 cases per year. Although malaria is found in 65 of the 75 districts of Nepal, the bulk of the cases (more than 75 percent of total cases and more than 90 percent of those due to falciparum) are found in thirteen districts, mostly in the terai and bordering with India. In 2006 there was an epidemic outbreak in Banke, which was swiftly brought under control.

300. Nepal has been divided into four strata dependent on the risk profile of the particular area. Dependent on the strata there are different interventions which include combinations of the following strategies:

- Early warning and reporting system (EWARS)
- Long-lasting insecticide-treated bed nets (LLINs)
- Indoor residual spraying (IRS)
- Testing with rapid diagnostic tests (RDTs) and treatment of people who are positive with artemisinin combination therapy (ACT)
- Community partnerships through use of information, education and communication (IEC)

301. OIG was informed that the LLINs strategy was based on the assumption that the biting habits of the mosquito was nocturnal. However, this may not necessarily be the case.

### ***Recommendations 50 (High)***

*The strategy for widespread use of LLINs needs to be based on scientific evidence. The EDCCD, with the support of its technical partners, should conduct vector studies of the biting habits of mosquitoes to ensure that the use of LLINs has the potential to be effective in reducing the spread of malaria.*

302. The Epidemiology and Disease Control Division (EDCCD), which falls under the Department of Health Services (DOHS) is responsible for the implementation of the Malaria grants. At district and facility level the responsibility for vector borne diseases falls under the public health services staff. Under Round 2, twelve districts in the Terai region, with a population of over 5 million, were identified as malaria-high-risk districts. The number of districts which currently receive support under Round 7 increased to thirteen with a population of over 6 million.

303. There was an annual report for 2007-2008 covering Global Fund malaria activities as well as a work plan for the current year. However, this annual report had not yet been published and distributed and it does not cover all the EDCD activities so it is difficult to get an up to date holistic picture of the malaria control program. A Female Community Health Volunteers (FCHWs) program has been created at village level in high-risk areas to deliver awareness programs and to deliver anti-malarial drugs (not yet fully operational).

304. Although there are policies and guidelines for the malaria control program these were not available throughout the districts and facilities that were visited on the field visits. There were no revised guidelines for RDTs and ACTs and staff at facilities were unclear as to how they should implement these strategies. There were no clear algorithms for testing and treatment of malaria available at facility level. Although supervision is taking place in some facilities this is insufficiently formalized and not based on written standardized checklists.

### *Recommendations 51 (Significant)*

*Policies and guidelines, covering all aspects of the malaria control program, need to be regularly updated and communicated and disseminated throughout currently 13 districts that will be expanded by an additional 18 districts under the RCC grant facilities that deal with malaria in Nepal so that every health worker has a clear written document indicating his/her role in the control of malaria. Specifically there should be guidelines for RDTs and ACTs accompanied by clear and easy to understand algorithm.*

- (a) Supervision needs to be formalized based on a standardized checklist with written feedback given after each supervisory visit.*
- (b) All policies related to the malaria control program need to be well and clearly documented and shared with all relevant stakeholders. In particular the bed net distribution policy needs to be based on objectively verifiable epidemiological and socio-economic data*

305. There is collaboration between EDCD and PSI, the second PR under the Malaria program, to implement activities especially related to LLINs. There was joint field monitoring of bed net distribution by senior officials of EDCD and PSI. There is apparently good communication between the PRs with fortnightly meetings scheduled. However, there were a number of key strategies that were not clear to both parties. The bed net distribution strategy of the EDCD was not well understood by PSI. For example it was not clear to PSI why high-risk areas such as municipal areas with high populations were excluded from the distribution strategy. Similarly the risk mitigation strategy for leakage of bed nets of PSI was not known by EDCD.

306. The bed net distribution strategy of the EDCD was based on focusing on high-risk areas. However, OIG found that there was no clear document to evidence which were the high-risk areas and the population of these areas. In addition the municipal areas in high-risk districts have been excluded from the bed net distribution strategy on the basis that "the people from those areas can afford the

mosquito nets and other preventive measures".<sup>1</sup> It is not clear to the OIG on what basis the EDCD has concluded that people living in municipal areas are more able to afford mosquito nets than people outside municipal areas.

### *Recommendations 52 (High)*

- (a) *There needs to be clearer written communication between EDCD and PSI on matters of policy.*
- (b) *The bed net distribution strategy of the EDCD needs to be more clearly and fully documented. This strategy needs to highlight all assumptions clearly and should be based on objectively verifiable epidemiological and socio-economic data.*

### Monitoring and Evaluation (M&E)

There is a written M&E system for the EDCD which is clear and comprehensive. Monthly M&E reports are now submitted by most districts through email. New staff appointed for M&E under the Global Fund grant were provided with an introductory training around M&E. However, they were not adequately oriented into the overall district health system. This led to poor integration of these new M&E officers and poor job satisfaction. In turn this is likely to lead to poor retention of these staff.

307. The distribution of bed nets by PSI highlighted a very well-maintained record-keeping system with clear identification of recipients. The system was comprehensively and meticulously documented. There was documented GPS of the recipients' households and also thumbprints of the recipients.

308. A number of targets set by the PRs in conjunction with the Global Fund were unrealistic. In the case of the EDCD the numbers of malaria cases specified to be diagnosed and treated are extremely overstated. The reason for this is that the overall numbers of malaria cases are declining because of a reduction in transmission rates and also because of tighter diagnostic criteria.

309. Additionally the starting date of the Round 7 implementation which was delayed because of issues related to the signing of the contract. As malaria is seasonal the number of cases forecast varies with the season and the program commenced in the low season. One of the PSI's key targets is the proportion of children sleeping under LLINs. One of the fundamental aims of the PSI strategy is to saturate households in high-risk areas with LLINs. Within these households pregnant women and children under five are the key high-risk targets for the intervention. The current target set by PSI of 70 percent of children sleeping under LLINs at the end of three years is extremely conservative given that the current baseline is already over 60 percent. This target needs to be increased significantly.

310. The evaluation of the LLINs and IEC programs of PSI through its TRaC surveys will in all likelihood provide a good indication of the success of these programs.

### *Recommendations 53 (Significant)*

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<sup>1</sup> Monthly Meeting of EDCD/the Global Fund and Partner : 2 March 2009

- (a) *Orientation of staff deployed at district level should be more comprehensive to ensure integration into the district PHC system.*
- (b) *The targets set by both EDCD and PSI for program achievements need to be adjusted to reflect reality:*
- *Downwards for the number of cases of malaria diagnosed and treated; and*
  - *Upwards to at least 85 percent for the proportion of children under five sleeping under LLINs.*

### HIV and AIDS

311. The HIV epidemic is a typical South Asian variety with a relatively low prevalence in the adult population (0.5 percent) and the focus of the epidemic in high-risk subgroups. The reported prevalence rate in IDUs has been coming down over the past six years and is currently 23 percent with a range between geographical areas. The Kathmandu Valley has the reported highest prevalence concentration in IDUs of 35 percent. The prevalence rates in FSWs, MSM and migrant workers are approximately between 1.5 percent and 2 percent. It is estimated that around 2,500 of the 10,000 people who need ARTs are actually receiving treatment.

312. The HIV epidemic in Nepal is thought to be stable and estimates of the prevalence in the adult population indicate that in 2008 around one in every two hundred people were infected (0.49 percent). It is estimated that approximately 70,000 people are currently infected including nearly 2,000 children under the age of 14. In high-risk subgroups the approximate HIV prevalence is as follows:

- (a) Intravenous drug users (IDUs) 23 percent (ranging from 35 percent in Kathmandu Valley; 17 percent Eastern Terai; 7 percent Pokhara Valley; 11 percent Western & Far Western Terai)
- (b) Female sex workers (FSWs) 1.5 percent
- (c) Men who have sex with men (MSM) 1.7 percent
- (d) Migrant workers 1.9 percent

313. In addition, surveillance studies indicate that people with TB (who significantly have not been classified as belonging to a high-risk group) have prevalence rates of around 2.4 percent of the people infected. It is estimated that approximately 10,000 are in need of anti-retroviral therapy (ART) and around 2,500 people are actually receiving ARTs.

The existing HIV and AIDS action plan is not comprehensive and does not deal with HIV/TB. There is no functional senior management technical working group to oversee the HIV/AIDS activities in the ministry. The Ministry of Health has not given the NCASC sufficient oversight and support and the leadership of the NCASC has been unstable.

314. A national HIV and AIDS action plan [2008-2011] has been developed and costed but this plan is lacking in some critical areas. For example this plan does not mention the HIV/TB interaction despite TB patients being the second-highest-

risk subgroup in Nepal. It does also not give a scientific rationale for the PMTCT intervention or the objective baseline data for the choice of the high-risk sites to be chosen for PMTCT.

315. There is no functional senior management technical working group to oversee the HIV/AIDS activities in the ministry. There is no coordination mechanism established to ensure that the response by the various line ministries on HIV/AIDS activities (e.g. education, social welfare) is harmonized and coordinated.

### Overall management of HIV

There is a lack of a clear policy related to HIV and TB. For the most part HIV programs are run as vertical projects and are not mainstreamed. There is inadequate communication among the key stakeholders about M&E and implementation strategies. There is a lack of strategic target setting with clear time-bound goals (e.g. around condom distribution and testing for PMTCT).

316. There is a lack of a clear policy related to HIV and TB; despite the fact that people with TB have the second highest prevalence rate (2.4 percent) in Nepal. There is no written HIV/TB implementation strategy with targets. However, in the field visits the OIG team came across sites (e.g. Doti district hospital) where all patients diagnosed as HIV positive are also screened for TB.

317. For the most part HIV programs are run as vertical projects and are not mainstreamed. This has serious implications for interactions with other mainstreamed programs such as TB and MCH. Supervision of the HIV programs in the public sector was found to be inadequate. There were no written supervision guidelines or the capacity within NSASC to undertake supervision. Although there are guidelines in place for most of the HIV activities these need revision and communication and distribution to district and facility level.

318. There is inadequate communication among the key stakeholders (viz UNDP, NCASC, Save the Children, United States (SCUS) and Family Planning Association of Nepal (FPAN) about M&E and implementation strategies. SCUS and FPAN are additional PRs under Round 7. This inadequate communication results in failure to share lessons and best practices. For example both SCUS and FPAN are implementing similar kinds of activities around BCC in high-risk groups and VCT, yet their M&E plans and implementation strategies are very different leading to non-standardization of M&E.

319. There is a lack of strategic target setting with clear time-bound goals. For example the target and strategy around the numbers of condoms to be distributed to individual at risk peoples (MARPs) by SCUS and FPAN was not clear and the numbers actually distributed was a fraction of the real need. Around PMTCT the rationale, basis and targets for the intervention are not very clear.

320. The roles and functions of the District AIDS Coordination Committee (DACC) and District HIV Coordinator varied from district to district and were dependent on individual personalities. There should be clear written guidelines of roles,



responsibilities and lines of accountability of both the DACC and the District HIV Coordinator.

321. Despite some of the managerial and oversight difficulties the OIG team observed a number of examples of good practice. At Doti Hospital there were ART, VCT and PMTCT programs. Although the hospital HIV programs have insufficient staff the record-keeping was meticulous and both the doctor and nurse-aide (in charge of HIV programs) had great passion for, and insight, into the programs.

322. Another example was the SCUS sub-recipient NGO in Doti which in a short space of time had set up a substantial program of BCC and associated VCT program for migrants and families, illustrating that with sufficient resources and motivation scale up can be very rapid.

### *Recommendation 54 (Significant)*

- (a) The TB/HIV program needs to be given immediate priority with a written plan of action with clear achievable targets. Ideally all patients with HIV should be tested for TB.*
- (b) The HIV programs, especially around PMTCT and TB need to be mainstreamed with the MCH and TB programs of the Ministry of Health. This will assist with the overall monitoring and supervision of the programs with feedback to sites.*
- (c) All partners should discuss their operational activities regularly so that there is standardization and that lessons learned and best practices are shared.*
- (d) There should be written annual implementation plans with realistic targets in place (e.g. condom distribution, PMTCT) and strategies for the achievement of these targets.*
- (e) There should be an annual report related to the HIV response. The Health component of this should be the responsibility of the NCASC and the other partners in the response notably UNAIDS and UNDP. There needs to be a revised holistic plan for the Nepal response to HIV. This plan needs to incorporate all strategies, including TB/HIV interactions as well as indicating the scientific basis (objective evidence) for the strategies.*
- (f) Guidelines for HIV activities need to be updated and distributed to all facilities. There needs to be a clear supervision plan based on standardized checklists with written feedback given after supervision visits.*

### **Antiretroviral Therapy (ART)**

323. The ART program is running well at the designated sites with around 2500 people currently receiving ARTs. However, because these sites are limited in number and physically widespread, geographic access is still an impediment. There

are written guidelines covering ARTs, but these need updating and communication and distribution to all districts and facilities. There is inadequate supervision with little evidence of written feedback from visits.

324. There is no regular, methodical cohort analysis, either at NSASC or at site level. This makes analysis of the overall effectiveness of the ART program difficult. At three sites visited by the OIG team the ART registers were not up to date making data analysis and submission of information difficult.

325. Drug supplies for the ART program are run as a vertical program from NSASC and do not go through the normal PSM channels. In one site (Doti) they have a CD4 machine but this was broken on arrival and despite several requests to the NSASC had not been repaired. Auto-analysers had been purchased and distributed to a number of sites but at least two sites visited by the OIG team there were no staffed trained to operate these machines.

### *Recommendations 55 (Significant)*

- (a) Consideration should be given to making treatment for ART more accessible by increasing the number of sites where patients can access medication and provide blood for testing (in a similar way to that of the TB program that has more centralized diagnosis and then decentralized treatment).*
- (b) There need to be regular supervisory visits based on standardized checklists, followed by written feedback.*
- (c) ART registers need to be regularly maintained and cohort analyses done.*
- (d) Equipment purchases need to be accompanied by a clear training plan and maintenance plan.*

### **Voluntary Counseling and Testing (VCT)**

326. There are clear national guidelines in place which are in line with international best practice, although provider initiated testing receives little mention. However, these guidelines were not available at all the facilities visited.

327. There is no clear documented VCT implementation plan with annual targets. Government and NGO VCT centres appear to differ in their approach. The government VCT centres, in the sites visited by the OIG team, base referral to VCT on the identification of very-high-risk patients (e.g. obvious weight loss; other signs and symptoms of AIDS) resulting in high positivity rates. On the other hand the NGO strategy is based on the community mobilization of MARPs with much lower HIV positivity rates. This was clearly illustrated in the Doti district where the NGO VCT clinic was well-staffed with counselors and in three months had tested more patients than had the VCT centre in the Doti Hospital (which was poorly staffed) in four years.

328. District HIV coordinators send VCT results, including those of NGOs functioning in their district to the NCASC for overall aggregation and compilation. NGOs and INGOs also send results to NSASC. There is thus the possibility of

duplication of results. Different reporting formats are used by government and NGOs. There is a lack of calculation of HIV positivity proportions throughout the system.

### *Recommendation 56 (Significant)*

- (a) *Government VCT programs need increased personnel so that many more patients can be seen in these programs and not just service the needs of extremely high-risk patients.*
- (b) *Targets for increased testing rates need to be set for each VCT centre.*
- (c) *The reporting formats for VCT results should be standardized for all sites and a written data flow policy developed.*
- (d) *Clear indicators (e.g. HIV positivity rate) need to be popularized and relevant training given to staff so that they understand the importance and meaning of the data that they compile.*

### Monitoring and Evaluation

329. The NCASC collects and aggregates data routinely for a range of activities at a number of facilities as indicated in the table below. There is little analysis and interpretation of these data and no written feedback to the districts and facilities from which the data was obtained.

	Total	Govt	NGO
VCT	195	30	165
ART	23	21	2
PMTCT	16	16	0
STI	Approx 2000	Approx 2000	Nil

*Table 21 - Aggregated national HIV results (Source: NCASC results)*

330. M&E for HIV is run as a vertical activity in parallel to the routine HMIS without any linkages to the HMIS. There are no written data flow policies for the major components of the HIV response. Monitoring and supervision visits to districts were not undertaken by NCASC during Round 2 and the drawing up of plans for these visits under Round 7 has been delayed.

### *Recommendations 57 (Significant)*

- (a) *Data from HIV programs needs to be integrated with HMIS as far as possible (e.g. PMTCT, VCT, condom distribution.)*
- (b) *There needs to be a written data flow policy to ensure timely supply of information that is not duplicated.*
- (c) *There should be regular (at least three monthly) analysis, interpretation of data and feedback to districts and facilities.*

- (d) *There should be regular supervision visits accompanied by written feedback.*

### HIV and TB

331. It is well recognized that HIV and TB infections go together, especially as HIV compromises the immune system, which then allows for greater ease of active TB disease. In Nepal it is likely that the yield from testing TB patients for HIV is likely to be in the order of 2 percent to 3 percent<sup>2</sup> making TB patients one of the highest-risk groups for HIV.

332. Despite the fact that TB patients are probably the second-highest-risk group for HIV in Nepal, and despite the fact that TB/HIV interaction is one of the key objectives of the Stop TB strategy and despite the fact that it is one of the SDAs for the Round 7 grant from The Global Fund, there is no clear formal policy around the strategy for HIV and TB interaction. Although a workshop was held in May 2009 to formalize the strategy at the time of finalising this report the strategy was not yet in place. There are no clear written objectives or targets for implementation of a HIV/TB strategy. Although mentioned fleetingly in the NTC Annual Report of 2007-2008, it does not get the attention it deserves.

333. A workshop of the National Working Group to develop implementation guidelines for TB/HIV collaboration was held on the 12 May 2009 at the Hotel Royal Sigmith in Kathmandu. The document arising from this workshop is a useful basis on which to start development of program of HIV/TB collaboration. It gives an overview of the global HIV/TB interaction and strategies. However, the document suffers from a number of weaknesses including:

- (a) The overall strategy for HIV/TB is not clear;
- (b) The document focuses on structures which are unrealistic to deal with a new and important program e.g. Coordinating Committee sits once a year;
- (c) At district level the HIV/TB committee is supposed to fall under the DACC. However, the DACC is also quite weak in many districts and does not have the authority to deal with TB programs;
- (d) There are insufficient details on implementation;
- (e) No targets are set;
- (f) There are no time frames for implementation; and
- (g) There is no individual or group which is given responsibility and accountability for any of the proposed activities.

### ***Recommendation 58 (High)***

*There should be a clear written HIV/TB strategy that is endorsed by the highest levels within the Ministry of Health. This strategy should be accompanied by a clear implementation plan with time-bound achievable targets and associated resources to achieve these. There should be clearly defined roles, responsibilities and lines of accountability for the implementation plan.*

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<sup>2</sup> Surveillance surveys from selected TB facilities estimate that 2.4 percent of TB patients are co-infected with HIV.

### Procurement and supply management

#### PSM capacity assessment

334. The LFA performed PSM capacity assessments in October 2005 for all the three components (Round 2 HIV/AIDS and Malaria and Round 4 TB). The OIG reviewed the conclusions of the PSM assessments for the Round 7 Malaria/PSI grant (dated 15.4.2008) and HIV/AIDS/UNDP (dated 3.10.2008) when appropriate.

335. Major health product procurement for all three components are performed by UN agencies:

- UNDP (as one of the PRs for HIV/AIDS Round 2 and 7) purchases drugs, diagnostic test kits laboratory equipments and condoms;
- WHO purchases for Malaria Round 2 and 7 grant ACT-s and RDT-s as well as laboratory, office and general supplies; and
- WHO purchases first- and second-line TB drugs for Round 2 and 7 TB grant.

336. Sufficient capacity for procurement exists at UNDP, the major PR for the HIV/AIDS Round 7 grant. The PMU office has 25 staff members covering Global Fund and DFID projects. However, NCASC (the former PR, now one of the SRs) needs capacity building and training in PSM activities so that it can gradually take over the PSM function from UNDP during the course of the Round 7 grant.

337. WHO is the appointed procurement agency for the Malaria and TB Round 7 grants in Nepal. WHO faces a shortage of procurement staff as no post was created for such a major procurement operation. It is therefore suggested that either the WHO staffing should be strengthened (if the two programs want to use WHO services continuously) or the PR of the Malaria and TB grants should receive the necessary training and capacity building for the timely take over the PSM function (primarily purchase of drugs and other health products). A recommendation to this effect has already been raised.

338. The rates charged by the different organizations undertaking procurement on behalf of the Ministries were different. PSI charged 5 percent, WHO 13 percent while UNDP's administration fee of 7 percent covered procurement as well. The average rate charged by most third party procurement agents across the world is in the range of 5 percent.

339. There have also been delays noted in the procurement of program inputs by UNDP and WHO. UNDP attributes the delay to failure by the government to set aside budgetary resources for payment of taxes. In the case of WHO, it is more a case of lack of capacity. UNDP should weigh the cost of delaying procurements on the overall program effectiveness against the Global Fund procuring inputs with tax and make a recommendation to the Global Fund on what the way forward should be.

#### ***Recommendation 59 (High)***

*A revision of the WHO procurement services beyond the validity of the MOU with the TB grant/NTP (30 April 2011) and with the Malaria grant/EDCD (15 July 2010)*

*is needed as the WHO Nepal Office is understaffed. The revision should also assess the cost effectiveness of the continuous WHO involvement in procurement and the financial implication of establishing an additional post as Procurement Officer in WHO Nepal Office versus selecting an international procurement agency to provide the same services on a more economic and efficient basis for both Malaria and TB grants. All this should be planned keeping in mind that capacity has to be built within the ministry and that these functions will be eventually transitioned there.*

### Forecasting Demand for Medicines and Health Products

340. Appropriate and accurate forecasting of needs for drugs, and other health product supply is important for cost effective and successful program delivery. Failure to properly forecast the needs may lead to overstocking, the expiration of drugs or frequent stock outs which in turn may interrupt treatments. Interrupted treatment may have fatal consequences, including development of MDR cases among TB patients. During the audit the OIG reviewed the forecast of ARV drugs and anti-TB (first- and second-line) medicines.

#### Forecasting antiretroviral medicines for HIV/AIDS

341. Forecast of drug consumption is based on the current number of patients being treated, taking into consideration the actual prevalence rate of 0.5 percent of the total population of 23.7 million. NCASC estimates that there are 72,000 people living with HIV/AIDS though the official data is much less. The NCASC developed standard treatment protocols to quantify the needs of ARVs. In addition to this protocol, current prescribing patterns of clinicians are taken into consideration. Furthermore the logistic consumption reports from Service Delivery Points (SDP-s) and the rate of expected new cases are also used.

342. To date 23 SDPs have been established throughout the country (ART Centres). They report their needs and stock position bimonthly to the NCASC central warehouse. NCASC initiates the procurement process every four to six months and notifies UNDP of the quantities to be purchased. Buffer stocks are kept at all levels. The buffer stock at the central warehouse is a minimum five of months and a maximum of eight months. The buffer stock kept at ART centres is a minimum of two months and a maximum of four months.

343. Due to lack of experience and reliable domestic data, the forecast for the Round 2 HIV/AIDS grant needs were based on the African ratio on the need for first- and second-line ARVs (10 percent instead of 1 percent). Because of this overestimation, the surplus of second-line drugs expired in large quantities and went to a waste of US\$ 126,000.

#### ***Recommendation 60 (High)***

*An effective control mechanism should be introduced at UNDP/NCASC to prevent wastage due to incorrect forecasting of second-line ARVs.*

#### Forecasting anti-TB medicines (first- and second-line)

344. The National Tuberculosis Program (NTP) is reported to be one of the oldest health programs in the country. The DOTS treatment was introduced in Nepal in 1996 (one of the first countries in the Asian continent). MDR TB treatment started in 2006. The new six-month DOTs treatment regimen has been in use since November 2008.

345. Forecasting the needs of the first- and second-line TB drugs is based on National Standard Treatment Guidelines developed by NTP in close collaboration with the WHO. The needs are established based on actual consumption during the previous reporting period (every four months) and current stock levels as well as estimated number of TB cases to be treated in the forthcoming period. Districts collect this information from all health facilities i.e. PHCs, health posts and sub-health posts during the same meetings that take place every four months for monitoring purposes. District-, regional- and national-level staff calculate drug requirements based on utilization and the actual buffer stocks requirements during the NTP's reporting meetings. Each level has to maintain a specified buffer stock to avoid stock outs i.e. at central level at 12 months, at regional level at six months, at district level at four months and at treatment centre level (PHC) at two months.

346. The second-line products are kept in stock at central level only due to the high cost and short shelf life of the products and due to the limited number of patients (300/year) to be treated. Therefore the forecasting of the 2nd line anti-TB drugs is established at central level in collaboration with the treatment centres.

### Procurement

347. UNDP, WHO, PSI and the Logistic Management Division (LMD) of the MOHP are responsible for the procurement of goods and supplies for the three components of the Round 7 Global Fund grants. Most of the procurement (by volume and value) of the drugs and other medical supplies are handled by UNDP, WHO and PSI. LMD's participation in procurement is limited to non-medical products, mostly office and general supplies.

348. UNDP procurement practices are in line with the Global Fund rules and regulations for procurement of goods and services. The procurement of ARV drugs and diagnostic test kits are purchased from WHO pre-qualified sources at cost effective prices. The PMU in Nepal has a sufficient number of qualified staff.

349. WHO Nepal Office is responsible for the purchase of ACT drugs and Rapid Diagnostic tests (RDT) as well as anti-TB drugs (first- and second-line) and other major medical supplies for the Round 7 Malaria and TB grants. WHO as the procurement agent for the Global Fund grants has the necessary skills and experience to perform the procurement services of goods according to the Global Fund procurement policies and rules. WHO buys ACT drugs and RDT kits as well as anti-TB drugs from WHO pre-qualified suppliers only. The present staffing of the WHO Nepal office is insufficient in order to manage procurement of drugs and other medical products for the Round 7 grants. An additional Procurement Officer

needs to be employed to reduce the workload on the medical officers engaged in the procurement work besides their normal duties.

350. PSI Nepal is one of the co-PRs for the Round 2 and Round 7 grants. PSI is responsible for the procurement and supply management of LLINs in Nepal under Global Fund. PSI started its partnership with EDCD/MOHP in December 2005. PSI Nepal is supported by the International Procurement Department in Washington DC to facilitate the international procurement of LLINs. PSI writes the procurement policy for their worldwide operations including PSI Nepal. The field operation is implemented through four appointed sub-recipients. National Human Welfare Council (NHWC) is the largest SR having a community-based network established in all 13 districts involved in LLINs distribution under the Global Fund Round 7 malaria grant. The first two consignments of LLINs under the Round 7 grant were received in Nepal from BASF in May 2009. Free distribution of LLINs had already started at the time of the audit in May/June 2009.

351. The Ministry of Health and Population LMD is responsible for the procurement of non-medical items that are not covered by the procurement of UNDP, WHO or PSI. Most of these procurements are restricted to low-value office and general supplies. LMD as a government office strictly follows the current Public Procurement Law of the Government of Nepal.

### Supply Chain Management

#### HIV/AIDS Round 2, 7 Grants

352. In Round 2 the supply chain management was done by the Management Support Services Pvt. Ltd. (MASS) with external technical assistance and financial support from USAID. During the Phase I and 2, MASS under the support of FHI/USAID acquired a warehouse dedicated to ARVs and other HIV commodities. MASS provided four staff stationed at the warehouse site in a separate office including a pharmacist responsible for supply chain management. The distribution of ARVs, test kits and STI/OI drugs are done directly from the NCASC warehouse to SDPs through a private company/courier service. MASS continued the supply chain management for Round 7 grant as well. However, the MASS contract financed by FHI/USAID expired at the end of June 2009. UNDP took the lead to contract a distributing, supply chain management agency in order to continue the work that MASS did until recently.

#### *Recommendation 61 (significant)*

*The urgent appointment of a succeeding agency (or MASS's reappointment) is vital in order to avoid any disruption in the continuous supplies of ARVs and other related commodities.*

#### Tuberculosis/NTC Round 4 and 7 Grants

353. The PR/NTC is responsible for the Round 4 and Round 7 supply chain management with the technical assistance of the WHO Nepal office. A logistic section exists as part of the PMU headed by an experienced pharmacist (as Logistic Support Officer) aided by two warehouse staff. The distribution of TB drugs and other related medical supplies are channelled through the LMD-controlled central



distribution system, i.e. goods will be sent to regional warehouses first. The regional level forwards the goods to district level from where the goods are sent to PHC, HP and SHP centres. Stock outs and expiry of drugs can be avoided with well-established buffer stocks at each level. No major incidence of high-value expired goods or stock outs were reported during the past few years.

### Malaria/EDCD Round 2 and 7 Grants.

354. EDCD and LMD are jointly responsible for the supply chain management of the anti-malaria drugs, diagnostic kits and laboratory supplies. The LLINs are exclusively purchased and distributed by PSI Nepal.

355. The standard treatment guidelines recommended the use of Chloroquin, Primaquine and Sulphadoxin+Pyrimethamine for the treatment of P. Falciparum under the Round 2 Phase I grant. These guidelines have been changed during the Phase II period and ACT drugs became the drug of choice for the treatment of P. Falciparum. Unfortunately the first procurement of ACT drugs handled by UNICEF in 2005 and subsequently by WHO in 2006 did not help the smooth transition from one treatment to the other as the ACT drugs were only available in child dose packs instead of the required adult treatment dose pack. This had a negative impact and delayed the successful introduction of the new treatment guidelines in Nepal.

356. In addition the new National Standard Treatment Guidelines still had not been printed at the time of audit and therefore were not available for distribution in the 13 high-risk malaria districts selected for the Malaria Round 2 and 7 grants. Improvement in supply chain management in this regard is essential in order to achieve all the objectives of the Malaria grant implementation. The ACT drugs and RDT kits were not always available at health centres that the OIG team visited. OIG also detected some expired ACT stock. The RDTs are in wide use for the screening of the P. Falciparum cases. In PHC and even at selected sub-health centres microscopic testing for P. Vivax after negative RDT result is routinely used.

### **Inventory Control and Stock Management**

A zonal ART centre in Banke district was visited by the OIG team. The storage of all ARVs and test kits were kept in an appropriate storage area, which was clean and orderly. The stock record for items in the ledger book and on the shelves tallied in number. Invoices and requisition forms as well as issuing documents were in order and up to date.

357. The importance of an effective inventory management system cannot be overemphasized for successful program implementation in the health sector.

358. Drug management at district level is suboptimal, characterized by poor storage, stock control and no re-ordering levels set. EDCD management mentioned that annual physical verification of assets and stocks is carried out for audit purposes. However, reports on such physical counts are not prepared. Thus, the

OIG was unable to verify whether the physical verification of fixed assets and stocks is being carried out periodically to ensure their existence

359. The OIG noted poor store record-keeping with inventory records not updated as required. There was also no evidence of regular review of the records by a senior official to ensure reliability. For example, the storekeeper in the central stores had not recorded in a stock register the receipts and issue of some of the goods procured under the Global Fund grants even though the Goods Received Notes were retained in the files. This raises the risk of loss of assets.

360. The zonal store for the Far West did not have ACTs in stock at the time of the audit. Although one of the key Global Fund indicators is reporting on stock-outs of ACT for more than one week, the stock outs in Kailali had not been reported at the time of the audit.

361. At the time of the audit, OIG noted RDT PF and ACT drugs worth US\$ 47,152 that had expired in Morang and Jhapa districts. This was due to failure by the store management to follow the First Expiry First Out (FEFO) method for issuing drugs. The expired drugs had not been disposed of at the time of the audit. This raises the risk that expired drugs get to be issued by mistake.

362. While logistic management guidelines exist, the storekeeper was not aware of these guidelines. The budget of US\$ 6,000 appropriated for implementing a logistic and supply management improvement plan by providing training to 13 district storekeepers, three staff from the Logistics Management Division (LMD) staff, two EDCD Store Keepers, and two Global Fund financed staff remained unutilized at the time of the audit. There is a risk that storekeepers and pharmacists are not appropriately skilled to manage drugs at the various health facilities

### ***Recommendation 62 (High)***

- (a) The physical verification of assets procured under the Global Fund grants should be carried out periodically by personnel independent of the day to day asset management function. A report should be prepared for the attention of management showing actual quantities found along with their physical status. The report should explain variances between physical stock and the records and should be signed by the persons involved in the verification process.*
- (b) Drugs that are susceptible to expiry should be issued first by the stores department as prescribed by the FEFO method to avoid the financial losses that occur due to the expiry of the drugs.*
- (c) The procedures for the disposal of the expired drugs should be initiated at the earliest opportunity once drugs have expired.*
- (d) Stock management at district level requires urgent review with improved storage facilities; written guidelines on all aspects of stock management; and improved supervision. The PSM guidelines should be distributed to all districts and facilities dealing with Malaria. Training should be undertaken as detailed in the work plan and budget.*

- (e) *All the commodities received by the stores department should be recorded in the stores ledgers. The stores ledgers should be kept up to date at all the times to ensure timely detection of shortage of commodities and/or commodities lost to theft.*
- (f) *A review of ACT stock-outs is required at central, regional, district and facility level to ascertain the reasons for stock-outs at all levels and remedial mechanisms instituted to ensure there are no further cases. Reporting of stock outs needs to be improved and institutionalized and brought to the attention of EDCD management swiftly.*

### HIV/AIDS Round 2 and 7

363. MASS undertook the Logistic Management activities on behalf of NCASC under Round 2 and 7 grants (until 30 June 2009). This comprised inventory control, stock management, distribution of goods and forecasting of needs. MASS established a standard operating procedures (SOP) manual for HIV/AIDS commodities with the assistance of USAID and NCASC. MASS uses a software called Inventory System that was locally developed by USAID/Deliver Project. ART sites at present have only manual reporting systems. However, efforts are being made to gradually install a computerized inventory system as well as providing the necessary training for the staff at all the 23 ART Centres. UNDP and the Agency appointed to provide logistics for NCASC will be responsible for the necessary implementation and training work.

364. The inventory system keeps track of stock at hand at central level including batch numbers and corresponding expiry dates. The System also shows the stock position of the ART centres.

365. At present the "warehouse" used in NCASC has two office rooms. One is used for ARVs, STI/OI drugs and test kits while the other serves as storage for commodities used by the HIV/AIDS grant countrywide.

366. The rooms used for warehousing are small, overcrowded, disorderly and dirty. In fact the room used to store ARVs is dangerous as cartons lying on the floor block access between the shelves. The floor is covered with wooden pallet racks to avoid flood damage to the drugs kept at low level. Physical stocktaking is not possible due to the lack of space required to move cartons, open them and count the contents. This situation is hazardous and an immediate solution has to be found for the appropriate storage of high-value lifesaving medicines. None of the storerooms had refrigerators therefore heat sensitive items are kept in refrigerators at the MASS office building.

367. During the site visit OIG participated in the Logistic Task Force meeting and the issue of acceptable warehousing was discussed at length. An intermediary solution was found and preparation had already started to move goods from the present site to the offices of the Program Director. This space will mitigate the problem but only temporarily. The final solution is to have a new warehouse built for this purpose. The plans for the new warehouse have been discussed. It is expected that the construction will be completed by next year with the financial aid of DFID.

### *Recommendation 63 (High)*

*The practice of storing heat sensitive items in refrigerators at the MASS office building should be stopped immediately. A refrigerated warehouse capacity should be established at central level.*

### TB Round 2 and 7 Grants

368. NTC maintains records of procurement quantities, values and dates. The PR also keeps track of inventory quantities and values at its central warehouse. All stock transactions are recorded manually in a ledger book. No operating software for inventory control was in use at the time of the site visit. The ledger book did not contain any reference to batch numbers or expiry dates. The warehouse is spacious with three major storerooms. The TB drugs were stored in orderly and clean conditions. The storage of non-pharmaceutical items such as reagents, laboratory equipment and computers was less orderly. A considerable quantity of useless goods waiting for disposal occupied useful space in the warehouse. The long and cumbersome governmental procedure is responsible for the slow clearance of unusable stock. The storage area did not use a refrigerator. One refrigerator in the ward area is occasionally used for one second-line TB product (PASS tablets).

369. Two of the DPHO warehouses (Banke and Kavre) as well as two PHC centres and one sub-health post with sub-DOTS function were visited. At all the sites the stocks were kept in proper storerooms or cupboards with properly documented manual inventory records. No expired drugs or acute shortage of drugs were found.

### Malaria Round 2 and 7 Grants

370. EDCD, with the logistic assistance of LMD and the technical support from WHO is responsible for the inventory management of the Malaria Round 2 and Round 7 grants. EDCD has established in its PMU a semi computerized record-keeping system. Most of the details of the records are in Nepalese without an English translation, which makes controlling difficult. However, the most recent distribution of ACTs and RDTs to the 13 districts was well documented. The central warehouse stock position on the 22 of June 2009 was:

- (a) 57,600 Coartem tablets with an expiry date of February 2011
- (b) 68,000 RDT tests with an expiry date of February 2011

371. Both quantities were considered to be sufficient until the next consignment arrived in December 2010. The OIG team checked the physical stock of the last distributed quantities, which arrived in Banke at the DPHO warehouse. The quantities and expiry dates were found to be identical. However, the batch numbers and expiry dates were still not used for record-keeping. During the OIG stay the team visited a PHC centre in Kavre and found that 29x12 tablets of Coartem expired in June 2009 (only one blister of 12 tablets was used). The RDTs were in sufficient quantity and with an acceptable expiry date.

372. The central warehouse visited at the EDCD site was outrageously below any standard. The "warehouse" consists of three commercial shop boxes each

measuring about 3x3x4 metres. Each one has an entry/exit to a narrow and dirty commercial street. The boxes were closed with metal rolling shutters. It is hard to believe that expensive medicines and sensitive RDTs are kept in such conditions without air and temperature control. The boxes were full of litter, used cartons and dirt. Coartem tablets were kept in cartons on pallet racks placed on sewage laden water. This matter requires immediate action to find an appropriate storage facility elsewhere.

### PSI Nepal R2 and R7

373. PSI was introduced as a co-PR for the previous Malaria program under Round 2 with principle responsibility for procurement and distribution of LLINs, BBC activities and training to private service providers.

374. The procurement of LLINs is done through the international procurement division of PSI based in Washington DC. Procurement of bed nets were done from WHO/WHOPES pre-qualified sources (Vestergard for Round 2 and BASF for Round 7).

375. The supply management of bed nets under the past and present grant is satisfactory. Procurements were made according to the distribution plan and seasonal needs. The quantities and the distribution locations were decided in coordination with the EDCD which is the other co-PR. A sub-recipient having network in the distribution locations were engaged for distribution and BCC activities relating the use, handling etc. Local communities and authorities were also made aware of the distribution of LLINs to ensure transparency and proper distribution. PSI keeps proper records of the LLINs distribution for follow-up and monitoring purposes.

376. Overall, PSI supply management arrangements for the past R2 and for the existing R7 was functioning adequately in accordance with the approved PSM plan. Furthermore the co-PR practices had an adequate inventory management system and carries out physical counts and reviews stock reports.

377. The OIG noted a lack of SOPs in PSI for quality assurance and control for bed nets. The provision in the purchase contract allowing for PSI to take samples of the bed nets and test their quality by an independent laboratory was not exercised. This shortcoming has to be urgently corrected.

### ***Recommendation 64 (High)***

*NCASC has to urgently solve the warehousing problem including refrigerated space at central level.*

### ***Recommendation 65 (Significant)***

*NTP should install a refrigerator in the warehousing area.*

### ***Recommendation 66 (High)***

*EDCD/LMD should find another more acceptable storage facility for warehousing ACTs and RDTs.*

*Recommendation 67(Significant)*

*PSI should urgently introduce SOPs for independent Quality Assurance and Quality Control of LLINs under the Round 7 Global Fund grant.*

### Oversight

378. The Global Fund's fiduciary arrangements for grant recipients comprise of Principal Recipients (PRs) and sub-recipients (SRs) implementing the programs. The implementers are overseen by a Country Coordinating Mechanism (CCM). A Local Fund Agent (LFA) provides assurance on programs to the Global Fund Secretariat, on the implementation of grant programs. These fiduciary arrangements place reliance on effective oversight arrangements.

#### Country Coordination Mechanism

379. The CCM is mandated to coordinate the preparation and submission of one national proposal for funding. From the review of CCM minutes since the beginning of 2007 the CCM has mainly discussed issues relating to: proposal preparation and phase II applications; Selection of PRs and SRs; and composition of CCM. In February 2008, the CCM held a retreat at which the grievance handling procedures, code of conduct, conflict of interest (COI) policy, and an oversight policy were drafted and subsequently approved on 20 May 2009.

380. In nominating PRs, the CCM is required to put in place and maintain a transparent, documented process. OIG noted that the procedure for nomination of PR is discussed and agreed at the time of proposal preparation, and the criteria for nomination of PR changed from Round to Round. The absence of a well-documented policy for the selection of PRs makes the process less transparent. There were significant delays in commencement of Round 7 grants, mainly due to: delays by the CCM in selecting PRs. As a result, although the grants were approved by the Global Fund Board in November 2007, grants were signed in November 2008.

381. The CCM is required to oversee program implementation. The CCM reviewed and discussed program implementation only up to 2006. There was also no guidance in the form of report formats with which the CCM would review the performance of PRs. The CCM does not review audit reports or annual reports of PRs. CCMs as part of their oversight role have not undertaken field trips. OIG noted that although an oversight policy was approved by the CCM in meeting 52 of May 2009, at the time of the audit it had not yet been developed into a plan or implemented. The CCM Secretariat has also requested PRs to submit annual audit reports; field visits have been scheduled and an annual oversight plan developed.

#### ***Recommendation 68 (Significant)***

- (a) The CCM should develop and communicate the process by which PRs will be solicited and selected to all stakeholders.*
  
- (b) The CCM secretariat should use the Global Fund PUDR may be adopted in order to limit the additional time and burden to report to the CCM to avoid duplication of effort. The management letters written by the Global Fund to PRs should also be shared with the CCM Secretariat and salient issues brought before the CCM to inform the oversight activities. Audit reports and annual reports should also be shared with the CCM Secretariat, and reviewed by the appropriate select committee.*

382. The CCM has the responsibility of facilitating the development of a single national technical assistance framework for Global Fund-related processes and activities. The OIG, however, noted several weaknesses in capacities that are not addressed, such as the need for deliberate capacity building of MOHP in order to take over PR responsibilities. It has been noted that the initiatives of various partners are discussed at annual CCM retreats, however the OIG was not presented with evidence of harmonization of the efforts of all donors in addressed capacity gaps.

383. The CCM is also required to facilitate linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities. OIG's review of CCM minutes presented no evidence of discussion or review of programs funded by other development partners for HIV/AIDS, Malaria and TB.

### ***Recommendation 69 (High)***

- (a) The CCM should take on the responsibility of coordinating and following up much needed technical assistance to PRs to Global Fund programs, especially the Government departments that are proposed and/or planned to be PR in future. This should be in accordance with a well-developed capacity building and transition plan.*
  
- (b) The CCM should also ensure that Global Fund programs are complimentary to the programs funded by the Government of Nepal and the other development partners. This should be demonstrated at proposal formulation as well as throughout the life of the grants.*

384. In accordance with Global Fund guidelines, all members of the CCM should be treated as equal partners in the mechanism, with full rights to participation, expression and involvement in decision-making in line with their areas of expertise. The OIG noted that CCM meetings are conducted in both Nepali and English without translation. Some members do not understand both Nepali and English and therefore are not able to participate during deliberation and decision making. The CCM took the decision not to have simultaneous translations during meeting as this would lengthen the duration of meetings. The OIG however takes the view that under the current approach, some individuals are prevented from making participating in deliberations and decision making.

### ***Recommendation 70 (Significant)***

*The CCM Secretariat should arrange the provision of translation and interpretation services for members of the CCM that are not able to read or fully understand both English and Nepali.*

385. The CCM is required to develop a communication policy/ strategy for Global Fund programs and grant implementation status. However, OIG found that there was no communication policy for the CCM. The CCM discussed the need for a communication policy at the retreat in February 2009, and designated the Executive Committee to be responsible for external relations. The CCM is yet to develop a formal policy, although the consultative process has commenced.



386. The CCM plays an important role in development and communication of SR selection guidelines. Currently there are no procedures in place on the selection of SRs. Lack of clarity in criteria for the selection of SRs results in lack transparency in the selection process. The OIG however noted that the CCM participated in the selection of SRs for Round 7 grants. This role should be left to the PRs under the guidance and oversight of the CCM.

### *Recommendation 71 (Significant)*

*The CCM should develop and a communication policy by which Global Fund programs will be communicated to all stakeholders in Nepal. The policy should also cover aspects of PR, LFA and Global Fund communication to the CCM. The Global Fund CCM team can be consulted to get insights on good practice for communication policy.*

### Local Fund Agent

The Local Fund Agent was described by most stakeholders as “effective and supportive”. LFA has been effective in providing oversight in relation to: updating Global Fund Secretariat on some country and grant specific issues; undertaking verification of data exercises; reviewing PUDRs and giving feedback to PRs on required actions; and attending CCM meetings and explaining Global Fund policy. The OIG commends the efforts of the LFA in Nepal in bringing to light some of the risks to which the grants are exposed. It was noted that many issues in this report had been raised by the LFA previously during the course of their work.

387. The LFA’s review of NCASC 13th PUDR for Round 2 grant that covered the period between 1 April and 30 July 2008 raised several weaknesses in the PR’s financial management systems. The weaknesses included:

- (a) Cases of manipulation of Government policies to expedite procurement by way of contract splitting;
- (b) Instances unsupported procurement expenditure;
- (c) Delayed settlement of working advances;
- (d) Activities that were not in the work plan carried out, and
- (e) VAT charged to the grant

After the review, management of NCASC did not get an opportunity to review findings and provide factual accuracy, missing support documents or comment to the LFA findings. These findings were then used by the Global Fund Secretariat as a basis to disqualify NCASC from being PR for the grant, in addition to asking for a refund of US\$ 214,828. The OIG reviewed the work of the LFA and found that although NCASC was found to have weaknesses in the internal control systems in addition to bureaucratic government processes that delay program implementation, there was no reason to demand repayment of grant funds. The contractual arrangement between the LFA and the Global Fund does not allow for sharing of reports with the PR prior to submission. The LFA was not in position to follow standards of professional practice that require representation by management before concluding such reviews.

388. The LFA did not review and document PR audit arrangements as required by LFA Manual. The audit arrangement required are with respect to review of:

selection of auditors for PRs; auditor terms of reference; PR audit reports; PRs' plans for the audit of sub-recipients; and audit arrangements of sub-recipients. Since audit arrangements are a key tool for Global Fund Secretariat grant oversight failure by the LFA to undertake this function affects grant oversight. The OIG noted that audit reports issued by the OAG did not meet the minimum criteria as set out in the Guidelines for audit of Principal Recipient audit arrangements, the LFA did not bring this to the attention of the Global Fund.

389. The LFA in reviewing the conditions precedent to the grant agreements did not notify the Global Fund Secretariat of failure by the MOHP PRs to meet the requirements for annual audit by an external auditor apart from the Auditor General of Nepal. The LFA only made comment on audit undertaken by the Auditor General, as providing audit coverage for Global Fund programs. As a result, there was no follow-up of the fulfillment of this condition, which led to weak audit arrangements for Global Fund programs implemented under MOHP.

390. The OIG in reviewing the work undertaken by the LFA in assessing the capacity of PRs observed that in the case of the Finance and Management Systems assessment for FPAN significant issues were overlooked. The issues relate to the external auditor's qualified opinion on the financial statements as well as the management letter that were not brought to the attention of the Global Fund. The audit report qualification in the FPAN reports for 2006 and 2007 related to:

- (a) Fixed Assets: expensed in the income and expenditure statement and then capitalized in the balance sheet, and the fixed assets reported in the financial statements do not reconcile to the record of fixed assets maintained.
- (b) Staff liability: There was a shortfall in staff liability against staff gratuity and medical allowances by NPR 8,175,302 (US\$ 110,477) and NPR 2,340,000 (US\$ 31,622) respectively.
- (c) Current assets and liabilities included unadjusted/un-reconciled amounts of NPR 17,528,751.84 (US\$ 236,875) and NPR 17,002,859.67 (US\$ 229,768) receivable and payable respectively from projects and branches accounts.
- (d) Additionally sundry debtors and receivables included NPR 1,807,380 (US\$ 24,424) old balances the recoverability of which is not ascertainable.

391. The LFA undertook the capacity assessment of PSI and Save the Children for Round 7. This was despite being the presiding auditor of both entities at the time. As part of the FMS assessment, the LFA is required to advise the Global Fund on the acceptability of the auditor or where none is appointed, comment on the arrangements to appoint the external auditor. As an auditor of the two organizations appointed by management, there is a conflict of interest for the LFA to objectively undertake an assessment of the entities on behalf of the Global Fund. The LFA informed the OIG that the matter of this conflict was brought to the attention of the Fund Portfolio Manager, who gave the LFA clearance to undertake the assessments. The OIG was not able to see documented correspondence on resolution of this matter. The Global Fund policy on LFAs is clear about LFAs not being auditors to any of the PRs.

### *Recommendation 72 (High)*

## Audit Report on Global Fund Grants to Nepal

*The LFA should not be auditor of any of the PRs. The LFA should be asked to make a choice about whether to remain LFA or auditor of the PR.*

392. Global Fund policy requires that at a minimum, one on-site data verification site visit is undertaken by the LFA for each grant per year. The OIG noted that there were no on-site data verification visits done for EDCD Round 2 grant for 2007 and PSI Round 2 grant for 2007 and 2008.

393. Global Fund policy requires that the PR completes the Financial Reporting Template within 45 days of the end of the reporting period. The Template is then submitted to the LFA alongside the Progress Update & Disbursement Request (DR/PU) for review. At the time of the review in July 2009, one of the PRs NTC had not submitted their Financial Report for 2008, and no formal communication had been by the LFA to the PR as a reminder or to the Secretariat on this violation.

394. On receipt of the final version the first disbursement request from the PR, the LFA is required to review and forward it to the Global Fund within five working days. In the case of Round 7 grant, there were notable delays in the review and submission of the PR first disbursement requests as summarized below:

#	PR	Received from PR	Submitted to Global Fund	Delay (Days)
1	Save the Children	5 Nov 2008	18 Nov 08	8
2	UNDP	6 Nov 2008	14 Nov 08	6
3	EDCD	14 Aug 2008	2 Sept 08	11
4	PSI	1 Aug 2008	15 Aug 08	10

*Table 21 -Analysis of receipt and submission of first PR disbursement requests (Source LFA records)*

395. The LFA is required to annually verify that PRs and SRs do not use grant funds for support or promotion of terrorist-related activity or money laundering was not fulfilled. The OIG did not see evidence that this activity was undertaken. The LFA informed the OIG that they did not know how to undertake this requirement.

### ***Recommendation 73 (Significant)***

*The LFA should undertake review of PRs and SRs to ensure that no grant funds are used to support or promote terrorist-related activity or money laundering.*

396. The OIG observed significant weaknesses in the drug management systems at the regional and district levels. These systems were characterized by poor storage facilities, poor stock records, expiry of drugs and stock outs. This critical state should have been picked up by the LFA during on-site visits and reported to the Global Fund Secretariat. The LFA on-site visits to treatment centres should include basic inspection of the facilities and records of pharmaceutical health products. The LFA's review of the PSM assessments should also cover field visits to ensure accurate reporting to the Global Fund.

### Audit Arrangements

397. The current audit arrangements for PRs are: Office of the Auditor General of Nepal (OAG) audits the books for MOHP; independent firms audit Save the Children and FPAN, and UNDP's Office of Audit and Investigation (OAI) is expected to undertake audits of UNDP.

398. Audits conducted by the OAG do not meet the minimum standards set by Global Fund in the *Guidelines for audit of Principal Recipient audit arrangements*, as they do not provide coverage of the requirements to ensure: adequacy of systems of internal control; compliance to the grant agreement and best value in undertaking Procurement and Supply Management activities.

399. There is a need to enhance the capacity of the OAG so that it is in a position to provide assurance for the management of Global Fund grant programs with regard to undertaking performance audits and training. The OIG did not see audit coverage of grants managed by UNDP although at the time of the audit an audit by the OAI was planned for July 2009. As a condition in the grant agreements with the Global Fund, Government department are required to have audits undertaken by independent firms. However, this requirement is not fulfilled by the PRs.

400. The government internal audit arrangements are weak and do not provide adequate oversight assurance as there is no mention (to the auditees) of the scope of the internal audit work carried out by the district Financial Comptroller & General Office (FCGO). There were no internal audit reports relating to the Global Fund grant programs issued for the entire period of the audit. The internal audit visits were not risk-based. OIG also noted that the financial statements of the Global Fund grant at EDCD audited by FCGO and OAG did not reflect the US\$ bank balance at the end of the year.

401. Although grant agreements with MOHP included a condition for separate audits in addition to those undertaken by the Auditor General, there were no terms of reference developed. The process to appoint the auditors was also not undertaken.

### ***Recommendation 74 (High)***

*The current internal audit arrangements should be reviewed with a view to strengthen oversight over program implementation. The OAG should be encouraged to outsource the audits. Independent audit of the grants should be commissioned.*

### ***Recommendation 75 (High)***

*The grant agreement requires the government PRs to develop terms of reference for the audit exercise which should be reviewed by the LFA prior to approval by the Global Fund Secretariat. The purpose of this process is to ensure the scope of the audit is sufficient to cover the risks associated with program implementation. The ministry should follow the provisions of the grant agreement to ensure effective audit arrangements are instituted.*

## Global Fund Secretariat

402. The Global Fund Secretariat oversees program management by ensuring that both the Global Fund and PRs adhere to the provisions of grant agreements. The OIG noted the following cases where non-compliance to grant agreements provisions was not followed by action from the Secretariat to enforce compliance:

- (a) There were delays in submission of PUDRs, especially with the Ministry of Health PRs; EDCD, NCSC and NTC;
- (b) The grant agreement requires submission of an annual report within six months of the end of the financial period, however the OIG observed that: NCASC had not submitted reports for more than five years; EDCD has submission delays of more than 12 months and PSI delayed submitting their 2006 report by more than four months;
- (c) There was a condition in the grant agreements with Ministry of Health, for EDCD, NTC and NCASC to have independent auditors appointed to undertake annual audits for Global Fund programs;

### *Recommendation 76 (High)*

*The country programs team should follow up the implementation of the provisions of the grant agreement and ensure that the PRs fulfill their obligations prior to disbursement of additional funds.*

403. The country had three Fund Portfolio Managers (FPM) over the past three years. With each FPM having a different approach to interaction with in-country stakeholders, mixed messages were received by the stakeholders in terms of the operation of the Global Fund.

404. After consistent poor performance of NCASC against set targets under Round 2, the Global Fund Secretariat communicated to the CCM reluctance them as PR for Round 7. The CCM with the support of some development partners set up the HIV AIDS and STI Control Board, a semi-autonomous body to be PR for HIV Global Funds. This body too was not accepted by the Secretariat. UNDP was selected as PR for the HIV Round 7 grant in haste, as the deadline for grant signature was fast approaching. The OIG noted that at the time of the audit, there was no guidance to Ministry of Health on the required actions before resumption of the PR role.

405. After the appointment of UNDP as PR for HIV Round 7, there was no guidance from the Secretariat for UNDP's transitory role. The country and specifically Ministry of Health would have benefited from guidance on what needs to be put in place before resumption of the PR role. The consequence is that UNDP, which was appointed for only Phase I of the grant has not done ensure that UNDP role as an interim solution with responsibility for building the capacity of Ministry of Health.

406. Stakeholders in-country believed that the Global Fund Secretariat was involved in PR selection. The following examples were sighted:

- (a) The LFA undertook an in-depth review of NCASC during implementation of Phase II of the Round 2 grant. This review reported major irregularities in expenditure, and resulted in a Global Fund Recommendation for CCM transfer PR role from NCASC to UNDP.

- (b) During the selection of PRs for Round 7 HIV grant, there was noted involvement of Global Fund Secretariat. The CCM was told by the FPM that Ministry of Health could not be PR and that at least one of the PRs had to be an NGO or International NGO.

407. One of the key principals of the Global Fund is to encourage country ownership and country led processes. The involvement of Secretariat in a country that is not under the additional safeguard policy is not in line with the principal of country ownership.

### Role of development partners

408. The development partners have played a key role in: supporting the development of National CCM Proposals for Global Fund financing; providing technical assistance to the MOHP and actively working to reform the functioning of the CCM.

### Annex 1: Global Fund Secretariat comments and responses

#### Global Fund Secretariat comments and responses to the Report of the Audit of the Global Fund Grants in Nepal issued by the Office of the Inspector General (OIG)

##### General

The Global Fund Secretariat concurs with the OIG recommendations and the action plan presented in the Global Fund OIG Audit Report on Nepal and has already taken measures to address them same with all the relevant stakeholders within the country. The Secretariat recognizes the OIG Report comments as positive in general and has nevertheless already presented its response and action taken in relation to each recommendation within the Report. However, the Secretariat are providing additional comments and responses to the Report as a whole.

##### Nepal's Country Context

Nepal is a country emerging out of conflict, with a challenging political situation and adverse security problems. Such a situation has implications for implementation of the Global Fund's funded programs which are spread throughout the country. Because of the complex political environment, serious governance problems exist which hamper capacity enhancement required by the implementing partners. For example, frequent changes of program managers and other key officials influenced by political processes are common. The country challenges require considerable efforts from the Secretariat, LFA, and partners to monitor implementation. Many Government policies are not implemented and need change. Policies cannot be changed without Parliament's approval. The MoH and NGOs capacity are limited and are in need of substantial capacity building.

##### Report's Action Timelines

Given Nepal's country context, some of the timelines proposed by the CCM were in the Secretariat's view unrealistic.. The Secretariat has reviewed the timelines and agreed on revised deadlines which it feels Nepal can more realistically meet. Given the political situation and uncertainty of political governance, the Secretariat consider that Nepal may have difficulty meeting therevised timelines if a new government is brought in or new senior officials are appointed.

##### Regional Team Response and Actions

In December 2009, the Regional Team Leader and Fund Portfolio Manager had a meeting with the CCM Chair and Secretary of Health. In November/December 2009, the regional team also facilitated a CCM consultancy to support strengthening of oversight. In 2010, the Regional team will follow-up with the country and the Fund Portfolio Manager will review the recommendations and timelines with the PRs and CCM during visits to Nepal in March and June 2010.. The Fund Portfolio Manager will be primarily responsible to monitor compliance

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with the OIG's recommendations. She has also instructed the LFA to undertake monthly follow-up reviews with the key stakeholders and report back to the FPM.

The Regional Team Leader will also send a letter to the CCM Chair on the importance of meeting the deadlines as stipulated in the document.



Annex 2: Recommendations and Action Plan

Global Fund OIG Audit Report on Nepal  
 Recommendations and Action Plan  
 February 2010

Contents Section	Recommendation	Response and action	Responsible official	Completion date	OIG Comment
Ministry of Health and Population - Malaria grants	<p><b>Recommendation 1 (High)</b>                      (c) The oversight role of senior management within the Ministry should be formalized. Terms of reference should be developed for the working group and these should include a review of the performance of the Global Fund grants across the different disease interventions. Minutes arising from all management meetings should be documented and retained for future reference. Creation of an active committee to oversee the performance of Global Fund programs for all three diseases would strengthen the oversight function at a senior management level.</p>	<p>a) The member secretary of CCM has responsibility to review the performance of the Global Fund Grant. MoHP has recently identified a senior Director to supplement the member secretary for smooth functioning of the Global Fund program.</p>	Secretary MoHP	July, 2010	
		<p><u>GF Secretariat Comment on Country Response:</u>                      Although there is currently no member secretary in the Nepal CCM at present, the Global Fund Secretariat welcomes the initiative will follow quick implementation of this proposal.</p> <p>The Global Fund Secretariat will encourage the Nepal CCM to strengthen oversight role of the Malaria Technical Working Group led by Director General of DoHS. The TWG was formed in Nov 2008 and has so far met once between</p>	Director, EDCCD	July, 2010	

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	<p>(d) The technical working group should also ensure that the EDCD leadership is stabilized. In the event that there is a leadership change, a proper handover should take place.</p>	<p>4 and 6 February 2009. The strategies for LLIN distribution, selection of insecticides, recommendations for upgrading treatment protocols were led by the TWG. Another meeting was held on 25 March 2009 to decide on the program for World Malaria Day. The meetings can be more effective by developing policies that define the TWG's TOR and frequency of meetings.</p> <p>b) EDCD leadership is ensured by the MoHP.</p> <p>TWG is exclusively technical group established to give concrete suggestions in the implementation of malaria program.</p>	<p>Secretary, MoHP</p> <p>Director General, DoHS</p>	<p>July, 2010</p> <p>July, 2010</p>	
Ministry of Health and Population - Malaria grants	<p><b>Recommendation 2 (High)</b> As part of its capacity development plan, the MoHP should develop and implement a comprehensive transition plan to phase out the PMU and integrate the Global Fund programs into mainstream ministry</p>	<p>The recommendation has been discussed among the CCM members. The consensus of CCM was that PMU was established as part of mandatory pre-requisite for grant approval for R2 and R7 as communicated to the MoHP by</p>	<p>Director General, DoHS</p>	<p>July, 2010</p>	

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	<p>structures and programs. This effort should be coordinated with the Global Fund Secretariat drawing upon the capacity assessment gaps indentified in the LFA reports and other sector studies undertaken.</p> <ul style="list-style-type: none"> <li>•</li> </ul>	<p>The Global Fund. However, MoHP has already requested WHO to prepare a transition plan for integration of PMU into the EDCD structure. The recommendation on time frame for transition needs to be clearly communicated with the MoHP.</p> <p><u>GF Secretariat Comment on Country Response:</u> More effort by WHO to put in place a transition plan is encourages. The Global Fund Secretariat has noted that currently there is dialogue for an in- depth review of the malaria programs.</p>			
<p>Ministry of Health and Population - Malaria grants</p>	<p><b>Recommendation 3 (High)</b> The MoHP/EDCD should ensure compliance with all the terms and conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically the PR should:</p> <p>(v) Seek exemption from the payment of taxes for all Global Fund activities and communicate this to all</p>	<p>Goods purchased for The Global Fund activities by WHO are already tax exempted. Tax is</p>	<p>Under Secretary (Finance), EDCD</p>	<p>January to June, 2009</p>	

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	<p>implementers. Efforts should be made to recover taxes paid to date from the tax authorities;</p> <p>(vi) Submit the PUDRs and annual audit reports to the Global Fund on time to ensure the timely release of funds for grant programs;</p> <p>(vii) Maintain the insurance coverage for all of the assets procured under the Global Fund grants in order to safeguard against financial loss in the event of theft or damage; and</p> <p>(viii) Appoint an independent auditor to undertake the financial audits of program revenues and expenditures.</p>	<p>borne by the government in case of Goods purchased by MoHP. At the same time, VAT has been refunded by the government to The Global Fund Program. The recommendation has been taken into consideration to devise plan to ensure all referred documents are submitted on time.</p> <p>Budget provision on R7 has been utilized to insure all the assets procured under the Global Fund grants.</p> <p><u>GF Secretariat Comment on Country Response:</u> Insurance is yet to be done.</p> <p>External and Internal audit is being conducted by the government which is already defined in the government mechanism. Office of the Auditor General is respected to conduct the audit process with highest quality however if independent auditing is still a mandate the program provision can be utilized for the recommended activity.</p>	<p>Director, Under Secretary(Finance) &amp; PMU EDCD</p> <p>Director, Under Secretary(Finance) &amp; PMU EDCD</p> <p>Office of the Auditor General and Director, EDCCD</p>	<p>On-going</p> <p>July, 2010</p> <p>Annually</p>	

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Ministry of Health and Population - Malaria grants	<b>Recommendation 4 (High)</b>				
	(e) The financial management system at the PMU should acquire computerized accounting system without further delay.	a) Computerized accounting system is in the process of developed. The delay is due to GSM role over in WHO SEARO countries (information source : WHO)	WHO and Director, EDCD	July, 2010	The OIG will schedule a follow up mission from 19 April 2010 to verify records.
	(f) The financial records maintained for different Rounds should be separated. Borrowing of grant monies from one grant should be discouraged and should only be with explicit approval of the Fund Portfolio Manager. In light of this, Round 7 funds used for Round 2 should be refunded.	<u>GF Secretariat Comment on Country Response:</u> There is still no progress to date. The Global Fund Secretariat will follow up implementation.	Director, Under Secretary(Finance) & PMU, EDCD	October, 2009	
	(g) Proper documentation should be maintained for all financial transactions and retained for future reference in accordance with the grant agreement.	b) Financial records are reported separately. Borrowed money from R7 to R2 has already been refunded. The recommendation will be followed up to ensure such activities will be discouraged in future.	Director, Under Secretary(Finance) & PMU, EDCD	Continuous	
(h) All documents referred to above as missing should be retrieved and this will form part of a follow up review of this audit by OIG.	Documents are available for all financial transactions. They will be archived for easy retrieval in future.  EDCD has identified mentioned documents. Process to compile complete archive them are on	Director, EDCD	December, 2009		

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		process and will be available.			
Ministry of Health and Population - Malaria grants	<b>Recommendation 5 (Significant)</b>				
	(d) The MoHP should put in place a system of verifying the accuracy of the financial reports submitted by DPHOs.	The system is already functional and the program will coordinate with respective DPHOs/DHOs for further accuracy of financial reports.	Director, EDCD	Continuous	
	(e) The MoHP should prepare actual against budgeted expenditure analyses and provide explanations for large and/or unusual variances.	Explanation of the variance in actual against budgeted expenditure is being provided in each PUDR.	Director, EDCD	Every trimester	
	(f) Additional advances should not be provided to districts that have not liquidated earlier amounts advanced.	Delay in SOE clearance has been identified as the major hindrance to liquidation. The program has provided circular to all districts to complete the procedure as soon as activities are completed.	Director, EDCD	July, 2010	
	(g) The MoHP should assess the capacity of DPHOs to account for Global Fund monies.	<p><u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat has taken the recommendation into consideration and will request the LFA to take a note on this issue and reflect it in the forthcoming PU/DRs. The LFA has clarified that efforts have been made to monitor the status of advances and the actual status report is obtained and updated at</p>			

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	Results of such assessments should be documented with clear recommendations on how identified weaknesses will be addressed at DPHO level.	<p>the end of each fiscal year. The system is yet to improve to provide the complete information on the status of advances on a trimester wise reporting date.</p> <p>DPHO/DHO is the center where district level budgets and grants including TGF is received. EDCCD will further consult with other donor agencies on their opinion about the recommendation. If other programs had experienced similar short coming from DPHO/DHO side, the assessment plan will be jointly developed with the close coordination with Ministry of Finance.</p>	Secretary, MoHP	September, 2010	
Ministry of Health and Population - Malaria grants	<p><b>Recommendations 6 (Significant)</b> The MOHP should pay allowances in accordance to the approved Ministry travel policy. The actual reimbursement of additional expenses made, if any, should be based upon the actual invoice/tickets/receipts supporting the travel. All training related costs should be supported by a report with attendance sheets attached.</p>	All the government staffs are getting allowance in accordance to the approved ministry travel policy. The program considers the recommendation as exception and specific in few instances. Recommendation and concern of The Global Fund has been provided to the concerned places.	Director, EDCCD	On-going	
Ministry of	<b>Recommendation 7 (Significant)</b>				

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Health and Population - Malaria grants	The photocopy machine should be repaired.	It has been repaired.  <u>GF Secretariat Comment on Country Response:</u> The machine is again out of order; it should be noted it was procured in 2004. The Global Fund Secretariat would recommend that the copier be replaced.	Director, EDCD	April, 2010	
Ministry of Health and Population - Malaria grants	<b>Recommendation 8 (Significant)</b> <i>(e)</i> The MoHP/EDCD should prepare and submit PUDRs within the stipulated time frame. This directly affects the timely release of funds for program implementation.	All efforts are in place to submit PUDR, annual report and audits reports on time.  <u>GF Secretariat Comment on Country Response:</u> The PUDR for 16July-15 Nov 09 is delayed and signed copy yet to be submitted. The audit report is also delayed. The Global Fund Secretariat will encourage the EDCD management to act proactively in meeting conditions of the grant agreement.	Director, Under Secretary(Finance) & PMU, EDCD	July, 2010	
	<i>(f)</i> EDCD should ensure that all the activities conducted are substantiated with valid and proper supporting documentation. Reports should be prepared at the end of	The documentation of every activity is available. Reporting improvement has been classified as priority by the program.	Director, Under Secretary(Finance) & PMU, EDCD	On-going	



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	<p>activities which contain among other things a work schedule, confirmed that the target group intended was selected, attendance of the participants, whether and how the activity met the objective and challenges/ lessons learned for future activities.</p> <p>(g) Regular monitoring and inspection of the activities should be performed by the EDCD.</p> <p>(h) Timeliness is a key parameter of the work plan and to the extent possible EDCD should therefore ensure that all the activities outlined in the work plan are performed within the period mentioned in the plan.</p>	<p>M &amp; E plan has been reviewed and updated. M &amp; E will be conducted in accordance with the approved plan.</p> <p>Due to political situation of the country, the program has experienced difficulty to implement activities as planned. However, the program will make all efforts to ensure time frame is stuck to.</p>	<p>Director, EDCD</p> <p>Director, Under Secretary(Finance) &amp; PMU, EDCD</p>	<p>On-going</p> <p>On-going</p>	
Ministry of Health and Population - Malaria grants	<p><b>Recommendations 9 (High)</b></p> <p>(d) The MoU with WHO should be amended to include a provision on how costs incidental to procurement should be handled. WHO should provide supporting documentation for all incidental costs before payment is effected. Also, a copy of financial statements certified by an external auditor should be requested from WHO as required in the MOU.</p>	<p>WHO country office is not handling all the financial transactions from its Kathmandu based office therefore country office is dependent on Head office and SEARO office. EDCD has already communicated with WHO to provide financial statements certified by an external auditor.</p>	<p>Director EDCD / Resident Representative WHO</p>	<p>September ,2010</p>	

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	<p>(e) The MoHP/EDCD should retain all the reports relating to Technical Assistance for future reference. Documentation of work done is critical in confirming the outputs from the areas of intervention. The records can also be used by the different stakeholders to understand how support is enhancing capacity within the Ministry.</p> <p>(f) Discussions should be held with WHO on how to reduce the current lead time taken in delivering products for program implementation.</p>	<p><u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat will follow up implementation of this recommendation to ensure that an amendment to the MoU</p> <p>MoHP/DoHS/EDCD has already sent one letter to WHO to provide all the technical documents for future reference. Report compilation and achieving is complete.</p> <p>Although the lead time of delivering some of the products for program is longer, but the program is not being effected due to sufficient buffer stock.</p>	<p>Director EDCD / Resident Representative WHO</p> <p>Director EDCD / Resident Representative WHO</p>	<p>July, 2010</p> <p>July, 2010</p>	
Ministry of Health and Population - Tuberculosis grants	<p><b>Recommendation 10 (Significant)</b> The transition plan from the PMU arrangement to the Ministry should address the disparity in remuneration packages between PMU and Ministry staff.</p>	<p>PMU was established in 2008 to support implementation of additional components of new STOP TB Strategy, adopted by NTP in 2006, as well as management of Global Fund grants. NTP is going to review</p>	<p>Director, NTC</p>	<p>July 2010</p>	

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		<p>human resource situation of the programme including PMU during early 2010.</p> <p>PMU staff are recruited on one year-contract as per rules and regulations of Consultancy Act of the Nepal Government (Consultancy Service Act defined in the Financial Act and regulation 2065 NFY). All staff contracted using Global Fund resources are according to the Government rules as per the 'Act' mentioned earlier.</p>			
<p>Ministry of Health and Population - Tuberculosis grants</p>	<p><b>Recommendation 11 (Significant)</b>            NTC should also secure VAT exemption status for SRs. NTC should also formally communicate to the districts the tax-exemption status of Global Fund grants and the relevant guidelines for compliance. VAT general ledgers should be maintained at the PMU for future recovery from GoN. Negotiations with MoF and other stakeholders, regarding the availability of a VAT budget, should be documented and expedited.</p>	<p>NTC has discussed this with CCM Secretariat and MoHP Legal Officer. The application for tax-exemption was sent to the MoF in October 2009, but we have not received a response to date. In addition to this, we are also maintaining VAT details of PR and SRs.</p> <p><u>GF Secretariat Comment on Country Response:</u>            The VAT exemption for SRs has not been obtained as yet. Going forward, an effective and time</p>	<p>Director/            Under Secretary (Accounts) /PMU Section Head</p>	<p>July 2010</p>	

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		bound follow up plan will be encouraged. The deadline is set for July 2010.			
Ministry of Health and Population - Tuberculosis grants	<b>Recommendation 12 (High)</b> Adequate documentation should be obtained for all program expenditure; all expenditure should be adequately reviewed by a responsible official before approval.	NTP is maintaining expenditure documentation as per Government of Nepal rules and regulation. In addition, NTP has developed a mechanism to ensure that GF financial monitoring rules are followed as per 'Project Implementation manual', Financial Management system is under constant review and updated accordingly. Financial review is part of the Terms of Reference of specific and Accounts Officer/ Finance Officers at different levels of the programme which report to NTC on trimesterly basis. The PMU staff review expenditure of SRs at regular SR reviews in every 4 months.	Undersecretary (Accounts)	On going	
Ministry of Health and Population - Tuberculosis grants	<b>Recommendation 13 (High)</b> a. NTC should maintain advance ledgers that record advances taken and against which accountabilities are offset once accounted for. Expenditure should be recognized upon receipt of approved accountability for advances and disbursements.	NTC has always maintained an advance ledger, according to the GoN rules and regulations.  NTC staff has received training in computerization of its	Undersecretary (Accounts)  Under Secretary (Accounts)/	January 2010  January 2010	Although the regulations require maintenance of an advances ledger, the OIG noted

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	b. NTC should expedite the process for computerization of its accounting records	<p>accounting records in December 2008 but these staff were transferred so new staff were trained. Accounts have been entered since 16 July 2009.</p> <p><u>GF Secretariat Comment on Country Response:</u> Accounts relating to GF funded programs are now entered in a computerized system (Moneyworks) and reports extracted from this system. NTC still maintains a manual system to comply with government accounting requirements.</p>	Senior Finance Officer		that this ledger was not updated as required.
Ministry of Health and Population - Tuberculosis grants	Recommendation 14 (Significant) SR reporting should not coincide with the reporting to the Global Fund in order to give the NTC enough time to compile and quality assure information from SRs and report to the Global Fund on time. The reports should be submitted with	Data reported by SRs is required for the Performance Framework in the PUDR. NTC designed officials will undertake a desk review of the SR reports before completion of the relevant PUDR.	PMU Coordinator/ SR Coordinator	On going	

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	<p>supporting documentation, which should be verified by a designated official. Desk reviews would enhance the monitoring role of the PR in addition to the regular physical monitoring visits which are also needed.</p>				
<p>Ministry of Health and Population - Tuberculosis grants</p>	<p><b>Recommendation 15 (High)</b> Funds for the procurement of TB drugs should be disbursed directly to the WHO account until such a time that the Global Fund money inflows are not affected by the foreign exchange laws.</p>	<p>At present NTP is requesting and negotiating with GF to transfer anti TB drug moneys directly to WHO. We are hopeful that before signing the Grant Agreement for NSA (some time before end of May 2010) NTP and GF will conclude the modalities of funding flow for drug procurement.</p> <p><u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat encourages the PR to keep the grant funds in its foreign currency account to avoid foreign exchange fluctuations.</p>	<p>GFATM FPM &amp; PR</p>	<p>July 2010</p>	

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Ministry of Health and Population - Tuberculosis grants	<b>Recommendation 16 (High)</b> The process for approving the VAT budget provision should be expedited to ensure timely implementation of program activities.	Since the OIG evaluation in May 2009, NTC has accelerated the process to receive VAT exemption from the MoF through MoHP.	Director/ Under Secretary (Accounts) / PMU Section Head	See Recommendation 11	
Ministry of Health and Population - Tuberculosis grants	<b>Recommendation 17 (High)</b> The practice of inter-grant borrowing should be discouraged since it disrupts program implementation in the event that funds are not readily available for program implementation.	NTC agrees.	Director/ Under Secretary (Accounts)	Completed	
Ministry of Health and Population - Tuberculosis grants	<b>Recommendations 18 (High)</b> (a) Monitoring of SRs should be strengthened based on a comprehensive monitoring and supervision plan. Supervision needs to be formalized with a written checklist and written feedback given after each visit.  (b) Staff whose salaries are charged to the Global Fund should maintain timesheets as evidence	Monitoring and Evaluation Plan and Programme Implementation Manual were completed in 2009. These include a TOR, SR review checklists and supervision plan and schedules. NTC initiated review of SR on regular basis (four monthly) since March 2009. Feedback was given to SRs after each review visit.  PR as well as all SRs maintain office attendance registers. Clearly instructions will be given to SRs to maintain timesheet for the staff who are receiving	M/E Officer/ SR Coordinator (PMU)  Senior Finance Officer/ Under Secretary (Accounts)	July 2010  July, 2010	

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	of the level of effort spent on Global Fund activities.	<p>proportional salaries from the GFTAM grants. NTC staff will check SR during the four monthly SR reviews.</p> <p><u>GF Secretariat Comment on Country Response:</u> The PR has started to maintain attendance registers for the staff receiving salaries from GFATM grants. The SRs will encouraged to speed up implementation of written instructions.</p>			
Ministry of Health and Population - Tuberculosis grants	<p><b>Recommendation 19 (High)</b> NTC should put in place strict controls over the risk of expiry of drugs, including procedures to ensure that expired drugs are not issued for distribution. The drugs register should show when drugs expire, as should the store register.</p>	<p>This is NTP policy. With full time Logistic Support Officer appointed in NTP since Feb 2009 the overall drug management situation is beginning to improve as there is more regular supervision of this component of the programme. In addition, drugs management training organized in Oct/Nov. 2009 for NTC staff, districts storekeepers and DTLOs, will further enhance skills to manage TB drugs.</p>	PMU Logistics Officer	On going	
Ministry of Health and Population - HIV/AIDS grants	<p><b>Recommendation 20 (High)</b> (e) NCASC should work with UNDP to develop a comprehensive capacity development plan which should outline the</p>	<p>(a) UNDP had hired a international consultant to develop a comprehensive capacity development plan of NCASC. Consultant had shared</p>	UNDP PMU and NCASC Director	May, 2010	



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	<p>strategy and approach to ensure that NCASC's core capacity weaknesses are identified and addressed. The plan should be time bound with the objective of NCASC taking full responsibility for the grants as quickly as possible.</p> <p>(f) The institutional arrangements between the CCM, NCASC, UNDP and the HIV Board should be revisited. All roles, responsibilities and associated authorities should be clearly defined to ensure that there is no duplication.</p> <p>(g) The vacant positions in the PMU should be filled without further delay. The process should utilize the various studies and assessments that have been undertaken in the past three years to identify actions that should be taken to</p>	<p>the draft plan to NCASC team for review on 11<sup>th</sup> December 09.</p> <p><u>GF Secretariat Comment on Country Response:</u> The Final Plan is yet to be submitted to the Global Fund</p> <p>Is being discussed</p> <p><u>GF Secretariat Comment on Country Response:</u> This issue is still under discussion at the higher level among MoHP and the external development partners (EDPs). The Global Fund Secretariat is still awaiting documented decisions clarifying the mandates and positions of the entities.</p> <p>(i) The recommended support staffs recruited from UNDP &amp; seconded to NCASC.</p> <p>(ii) Is being discussed</p>	<p>Secretary, MoHP</p> <p>UNDP</p> <p>MoHP</p>	<p>July, 2010</p> <p>July, 2010</p>	

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	strengthen capacity at NCASC.  (h) Greater attention needs to be given to HIV by the Ministry of Health, with the Ministry ensuring that NCASC has stable management. This can be achieved by reducing the transfer of directors of NCASC. A more effective structure for NCASC with proper delegation and lines of authority should be developed.	Is being discussed	Secretary, MoHP	July, 2010	
Ministry of Health and Population - HIV/AIDS grants	<b>Recommendation 21 (High)</b> NCASC should submit the requisite reports to the Global Fund in a timely manner as stipulated in the grant agreement. This will ensure timely decision making at the Global Fund and the release of further grant money for program implementation.	NCASC as a SR in this round, it will submit the Programmatic and Financial Report to PR in timely manner.	NCASC Director	Ongoing	
Ministry of Health and Population - HIV/AIDS grants	<b>Recommendation 22</b> (c) The accounting software should either be updated or a more suitable package procured to enable the provision of financial information for analyses and decision making.	NCASC has discarded the old software and installed new accounting software. Staff training has also been completed. Software will be used from Jan 2010. <u>GF Secretariat Comment on Country Response:</u>	NCASC/ DHS Finance Unit	July, 2010	

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	(d) Third party documentation should be attached to payment vouchers for all expenditure.	Computer software Navision is currently being installed, and should lead to improved financial reporting.  Invoices, receipts and other supporting documents duly attached.	NCASC/ DHS Finance	On-going	
Ministry of Health and Population - HIV/AIDS grants	<p><b>Recommendation 23 (High)</b></p> <p>(a) The DPHO as end-users/direct implementers should be actively engaged in preparing the work plan and budget to ensure that appropriate needs are identified.</p> <p>(b) Major equipment purchases should to be accompanied by a clear training and maintenance plan.</p> <p>(c) The M&amp;E unit should be strengthened to ensure that regular analysis and</p>	<p>NCSAC will organize planning workshop engaging end-users in preparing work-plan and budget.</p> <p><u>GF Secretariat Comment on Country Response:</u> There is no budget provision in the current work plan. NCASC will discuss with UNDP for providing a budget under Round 7 and plan the workshop.</p> <p>Annual maintenance contract with BD is in place. On-site training is planned.</p> <p>NCASC with the support from WHO organized 6 regional level recording and reporting (VCT,</p>	<p>NCASC Director</p> <p>UNDP</p> <p>M&amp;E focal point and SI Unit, NCASC</p>	<p>July, 2010</p> <p>On-going</p> <p>July, 2010</p>	

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	<p>interpretation of data are performed and feedback provided to districts/sites in a timely manner. Furthermore regular supervision visits should be undertaken.</p>	<p>ART, PMTCT, DACC) workshops focused on skilled based practical hands on and data quality assurance exercises performed from August- November 2009. Moreover, data verification and analysis protocol to be used by service sites is planned to be developed by February 2010 by NCASC. NCASC further developed a service sites supportive monitoring visit plan which is being implemented.</p> <p><u>GF Secretariat Comment on Country Response:</u>            NCASC has developed training manual for monitoring and evaluation of the HIV/AIDS program and provided TOT trainings on M&amp;E in February 2010. The training manuals are designed as per Strategic direction and Guidance notes of the National HIV/AIDS Strategy, 2006-2011 and National HIV/AIDS Monitoring and Evaluation Guidelines, 2006. Global Fund Secretariat will encourage NCASC to issue a protocol for the implementation of these manuals.</p>			

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Ministry of Health and Population - HIV/AIDS grants	<b>Recommendation 24 (High)</b> <i>(e)</i> Stock position reports should be prepared periodically to reflect the results of the physical verification of stock.	Bimonthly stock report with physical verification is in place.	NCASC, Logistics Unit	On-going	
	<i>(f)</i> The logistics management software should be updated to detect cases where the FEFO principle is not applied.	A TOR for consultant is being prepared to upgrade the logistic software installed at NCASC	UNDP	March, 2010	
	<i>(g)</i> There should be better coordination between NCASC and UNDP to ensure that there is a continuous supply of essential drugs.	A supply chain management officer is stationed 3 days at NCASC and 3 days at UNDP who coordinates both at NCASC and UNDP to ensure the continuous supply of essential drugs	UNDP/ NCASC	Ongoing	
	<i>(h)</i> Steps should be taken to dispose of all expired drugs. Expired drugs should be kept at a different location to reduce the risk that expired drugs are issued by mistake.	Expired drugs are separated from the main stores and kept at different place	NCASC	July, 2010	
United Nations Development Program (UNDP)	<b>Recommendation 25 (Significant)</b> UNDP should ensure that all sophisticated medical equipment purchased is accompanied by a complete installation, training and maintenance contract.	UNDP has entered into the contract with BD India for the installation training and maintenance of CD 4 machine, FACS Caliber machines and PCR effective from June 2009. As a	UNDP	On-going	

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		part of the contract DC 4 machine has been installed in 2 sites and FACS Calibur machines are installed at Pokhara and Dhangadi Hospital. Operators have also been trained. Similarly the machines has been maintained in two sites ( Doti and Chitwan)			
Population Services International (PSI)	<b>Recommendation 26 (Significant)</b> The scope of the PSI's internal audit coverage should also cover Global Fund programs especially at the SR level. Management of PSI Nepal should also implement all audit recommendations in order to improve the overall control environment of the organization.	PSI agrees to expand the scope of the annual assessment by our Overseas Financial Operation Group (called OFOG, which is our internal assessment team) to include a review of actions taken by PSI Nepal to monitor the work of SRs. PSI Nepal is also in the process of implementing all outstanding recommendations made by OFOG.  <u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat is following up PSI to ensure compliance with the terms of grant agreement with regard to appointment of auditors within 6 months of the program start date. For the Round 7 grant, the program start date was 16 Sept 08 and the audit plan has not yet	Finance Manager	Ongoing (implementation of audit recommendations) and Annually (PSI's external audit including SRs)  April, 2010	

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		been submitted and the auditors have not appointed yet been appointed.			
Population Services International (PSI)	<b>Recommendation 27 (Requires attention)</b> Management should review job descriptions to ensure that they are reflective of the roles, responsibilities and authorities that each staff undertakes. With the creation of new positions in the Organization structure, job descriptions should be revised and kept up to date.	Agree. The job descriptions have been updated accordingly.	HR Officer	All job descriptions are current and reflective of roles and responsibilities of those assigned. This practice will be continued on an on-going basis.	
Population Services International (PSI)	<b>Recommendation 28 (Significant)</b> PSI management should apply the same policy for allocation of overhead costs as that used in budgeting for overheads. The policy of apportionment of overheads should be based on factors directly related to the overheads being paid for, such as level of effort and number of staff, and level of field activity. Percentage rates should be fixed and used to apportion costs throughout the life of the grants.	Agree. PSI/Nepal is currently establishing a system that allocates common costs across projects according to the criteria suggested.  <u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat is following up progress with this recommendation. No progress and no action has been recorded to date.	Finance Manager	July, 2010	
Population Services International (PSI)	<b>Recommendation 29 (Significant)</b> PSI Nepal should ensure that the conditions of the grant agreement are complied with. The Global Fund	Agree. PSI/N will consult with external experts to address the issues underlying this recommendation and ensure	DCR, Finance Dir.	July, 2010	

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	should ask the LFA to confirm compliance of the PR with grant conditions and applicable country laws. This will ensure that the conditions put in place to safeguard the Global Fund assets are followed.	compliance in those areas going forward. <u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat is following up progress with this recommendation. No progress has been made to comply with the conditions in the grant agreement, the procurement rules and the tax laws.			
Population Services International (PSI)	<b>Recommendation 30 (Significant)</b> PSI should maintain an advance register that records money advanced to SRs and keep a record of what advances have been accounted for and which ones have are outstanding. This will strengthen controls over advances management.	Agree. PSI/Nepal's financial processes will include the maintenance of an advance schedule for un-reconciled advances and our SR database will ensure deliverables against those advances are realized.	Finance Manager (advance reconciliation and accounting) and Sub-grants Manager (deliverables tracking)	Effective by end-2009	
Population Services International (PSI)	<b>Recommendation 31 (Significant)</b> Periodic cash counts should be carried out and documented to ensure adequate safeguards against loss and/or misuse of cash.	Agree. This practice will be more rigorously implemented on at least a quarterly basis.	DCR	End-2009	
Population Services International (PSI)	<b>Recommendation 32 (High)</b> The Global Fund should accelerate establishing a policy that regulates and provides guidance on charging of overheads by PRs. The negotiation	Agree. PSI is supportive of this recommendation and we look forward to working with the Global Fund on establishing such a policy.	GFS and PSI/W	TBD	



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	being held with PSI should take into consideration comparable overhead rates charged by other non-profit organizations in the development sector.				
Population Services International (PSI)	<b>Recommendation 33 (High)</b> PSI should fully comply with the laws of the Government of Nepal, including complete disclosure of relationships between the Global Fund and other programs implemented by the PR.	Agree. <u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat is following up progress with this recommendation. PSI needs to disclose the relationships with the other programs currently being implemented. This has direct bearing with capacity assessment, cost sharing etc.		This recommendation relates to a specific circumstance which will not be repeated.  July, 2010	
Population Services International (PSI)	<b>Recommendation 34 (High)</b> PSI should carry out SR capacity assessments. Direction on how identified weaknesses should be addressed should be made to the SRs. Follow up visits should be undertaken to ensure that recommendations have been implemented.	PSI/Nepal does carry out SR capacity assessments and this is being clarified to the OIG in the attached comments. However, PSI/Nepal will ensure follow-up visits are made to assist SRs with implementing recommendations  <u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat is following up progress with this recommendation. There is no documentary evidence to support the progress in following- up.	Subgrants Manager	Periodic following assessment of SRs  July, 2010	

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<p>Population Services International (PSI)</p>	<p><b>Recommendation 35 (High)</b>                      In order to effectively implement program activities through SRs, PSI should strengthen its oversight by:</p> <ul style="list-style-type: none"> <li>Regular reporting of financial and program activities, preferably on a monthly basis;</li> <li>Periodic field visits to implementation sites;</li> <li>Regular review of financial and program activities of the SRs measured against an approved work plan, and</li> <li>Retaining documents to evidence that the activities were actually conducted within the prescribed time.</li> </ul>	<p>Agree.  <u>GF Secretariat Comment on Country Response:</u>                      Regular monthly financial reports are still not in place. The financial reports are obtained on quarterly basis only.</p> <p>Agree. In its current (and future) SR grant agreements, PSI/Nepal requires (will require) SRs to submit monthly narrative and quarterly financial reports.</p> <p>PSI/N will establish an SR field activity monitoring schedule and execute.</p> <p>Agree. PSI/N will conduct a performance review against</p>	<p>Subgrants Manager</p> <p>Subgrants Manager</p> <p>Subgrants Manager</p> <p>Subgrants Manager</p> <p>Subgrants Manager</p>	<p>Effective immediately and on-going</p> <p>During following distribution campaigns July, 2010 and LLIN</p> <p>July, 2010</p> <p>July, 2010</p> <p>July, 2010</p>	

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		<p>established SR workplans and keep files to reflect timely execution of deliverables</p> <p><u>GF Secretariat Comment on Country Response:</u></p> <p>The Global Fund Secretariat is following up progress with this recommendation. There is no formally documented evidence to support the progress towards this.</p>			
Population Services International (PSI)	<p><b>Recommendation 36 (High)</b></p> <p>(c) PSI Nepal should ensure that the provisions of the Procurement Policy are complied with to ensure that value for money is obtained from all purchases made.</p>	Agree.	Admin Manager	July 2010	
	<p>(d) Management at PSI Nepal should carry out inventory counts twice a year as required by its Overseas Financial Manual.</p>	Agree. PSI/Nepal will conduct inventory counts twice a year.	Admin Manager	July 2010	
Family Planning Association of	<p><b>Recommendation 37 (Significant)</b></p> <p>The PMU should hold regular formal</p>	PMU of FPAN is holding regular monthly meeting with Senior	Project Director and	Ongoing 11 SMT meeting	

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Nepal (FPAN)	management meetings at which actions are documented and followed up. Periodic reports showing grant performance should be made available for senior management. The Global Fund grant program should be part of the agenda at senior management and central committee meetings.	management Team ( SMT) sharing program performance and management issues as mentioned in accelerated action plan	PMU team	have been completed and recorded	
Family Planning Association of Nepal (FPAN)	<p><b>Recommendation 38 (High)</b>                      The management of FPAN should take steps to strengthen the internal audit function of the organization. In accordance with best practice, internal audit function should be strengthened through the following ways:</p> <p>(a) Staffing requirements should be reviewed with the view to improve their number and quality;</p> <p>(b) The head of Internal Audit should report to an audit committee of the Central Committee to allow for the level of independence required to effectively provide assurance over the functions of FPAN;</p>	<p>FPAN has already initiated and completed actions to strengthen Internal Audit functions of the organizations</p> <ul style="list-style-type: none"> <li>Staffing requirement was reviewed and one staff was transferred from financial section to Internal audit section</li> <li>The Central committee has already audit committee and head of internal audit will report to the audit committee of central executive committee</li> <li>An independent internal audit firm has been on the process</li> </ul>	Director General, Finance director , Internal Audit section & Project Director and PMU team	<p>In the final process of contracting independent internal audit firm and will be completed during December 2009.</p> <p><u>GF Secretariat Comment on Country Response:</u>                      The process for selection of the internal auditor is almost completed. But the contract with the internal auditor is yet to be signed.</p> <p>April, 2010</p>	

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	(c) An internal audit charter should be developed, explaining to all stakeholders the position, role, responsibilities, authority, and mission for the department;	of contract to develop Internal audit charter clearly explaining the position, role, responsibilities, authority, and mission for the department  <u>GF Secretariat Comment on Country Response:</u> A TOR for the internal auditor has been prepared for the purpose of hiring an external firm for internal audit. Also an internal audit manual is been prepared draft form. The Internal Audit Charter has not been prepared.		April, 2010	
	(d) An audit approach that focuses on the key risks facing FPAN should be adopted and implemented;	<ul style="list-style-type: none"> <li>The contracted independent internal audit firm will develop Audit approach and build the capacity of staff of internal audit function of FPAN</li> </ul>		April, 2010	
	(e) An annual audit plan should be developed covering key business processes and organizational risks and the nature, frequency and timing of the audits to be undertaken; and	<ul style="list-style-type: none"> <li>The contracted independent internal audit firm has given the TOR of developing internal audit plan detailing key process and organizational risks and the nature, frequency and timing of the audits to be</li> </ul>		April, 2010	
	(f) Internal audit recommendations				



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	(f) FPAN should adjust the SR reporting so it does not coincide with the reporting deadline to the Global Fund.	<ul style="list-style-type: none"> <li>FPAN have already adjusted the SR reporting so it does not coincide with the reporting deadline to the Global Fund and SR are following it well</li> </ul>		Completed	
Family Planning Association of Nepal (FPAN)	<b>Recommendation 41 (Significant)</b> Management of FPAN should develop and implement an acceleration plan to undertake the planned activities and meet the set cumulative targets in the subsequent periods.	Management of FPAN has already developed and implemented an acceleration plan for T2 and T3 and achieved the target for most of planned activities during the periods.	Project Director and PMU team	Accelerated action plan developed and implemented	
Save the Children USA, Himalayan Country Office	<b>Recommendation 42 (High)</b> The grant agreement with the Global Fund should be updated to reflect the changes that have taken place since signing of the grant agreement.	The grant agreement has been updated to reflect the changes, and has been approved by the CCM Chairperson and Vice-Chairperson, and by the GFATM Fund Portfolio Manager. SCUS wrote a letter to the global fund requesting a change in the contact person on October 7 <sup>th</sup> , 2009. The face sheet was updated and the signature specimen of Roger Hodgson (SC/US representative in Nepal and Bhutan) was approved by the CCM Chairperson and Vice-Chairperson. The face sheet was sent to Anindita Roy (GFATM Program Officer, South and West Asia) on November 11, 2009. Malavika Rao (GFATM Fund		Completed	

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		Portfolio Manager) responded in her November 27 <sup>th</sup> mail acknowledging the changes and accepting the new signatory for the next disbursement request, implementation letters or any other legal issue in connection with the Global Fund.			
Save the Children USA, Himalayan Country Office	<b>Recommendation 43 (Significant)</b> SCUS should strengthen its internal audit function. Considering the large dispersion and scale of its activities including Global Fund activities, it should either recruit additional staff or consider possibility of outsourcing the internal audit function for Global Fund grant programs.	The internal audit (year 2009) of the global fund is near completion by the internal auditor. SCUS agrees to consider outsourcing the internal audit function for Global Fund as per the requirement to strengthen and meet the internal audit function.	SCUS Management	If needed	
Save the Children USA, Himalayan Country Office	<b>Recommendation 44 (Significant)</b> SCUS should obtain prior approval from the Global Fund for any budget reallocations above 15%. Prior approval should be obtained for conducting those activities which are not included in the approved budget and work plan.	All the reprogramming and amendments (email dated 14 <sup>th</sup> July 2009 and November 27 <sup>th</sup> 2009) has been approved by the Fund Portfolio Manager.		Completed	
Save the Children USA, Himalayan Country Office	<b>Recommendation 45 (Requires Attention)</b> Management should include in its chart of accounts the structure	Effective January 2010, Save the Children is adjusting the accounting software to track	SCUS Finance Department	Jan. 2010	



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	required to support, capture and post of transactions according to the Global Fund budget activity classifications. The system should then be configured and customized to allow for tracking budgets at PR and SR level; producing standard reporting formats for the Global Fund; and tracking advances to SRs.	advances to SRs (individually). This also helps to track budgets at PR and SR level, producing standard reporting formats for the Global Fund and tracking advances to SRs.			
Save the Children USA, Himalayan Country Office	<b>Recommendation 46 (Requires Attention)</b> To enhance performance, SCUS should, in consultation with other PRs, revise targets for condom distribution and improve communication on implementation with other PRs to share best practice / lessons learned.	The issue (condom distribution target) is now reflected and the increased target in the revised performance framework developed jointly with the other PRs on 25 <sup>th</sup> June 2009. SCUS has since received 604,800 condoms from UNDP.	SCUS Management	Ongoing	
Monitoring and evaluation Tuberculosis	<b>Recommendation 47 (Significant)</b> All facilities where the NTC program is operating should have up to date guidelines covering all aspects of the TB control program.	NTP guidelines will be revised in December 2009. This will be printed and distributed to all health institutions throughout the country.	Statistical Officer/M/E Unit (PMU) Logistics officer	February 2010	
Monitoring and evaluation Tuberculosis	<b>Recommendations 48 (Significant)</b> (e) TB review meetings and supervision should be followed up with written feedback based on a standardized review checklist.	NTC revised the supervision checklists in July 2009 and started to use these in all five regions. This includes a mechanism to provide written feedback to treatment centers. NTC has started to provide	Statistical Officer/ M/E Unit (PMU)	April 2010	

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		feedback at the National TB Planning, Monitoring and Evaluation Meeting since April 2009, and will request the Regional meetings to do the same.	Director/ Statistics Officer / M/E Unit (PMU)		
	(f) TB registers should be routinely inspected as part of the supervision visit and kept up to date.	TB registers of treatment centers have been inspected regularly by the NTP staff during their supervision visits.	Statistics Officer/ M/E Unit (PMU)	On going	
	(g) Data at district level should be electronically captured and transferred to the regional level electronically as most districts now have internet facilities available.	Districts with computers maintain data electronically and submit to RTLOs. NSA funds will be used to purchase computer, for this purpose. So NTC will introduce electronic data management at the district level from 2010/11.	Statistics Officer/ M/E Unit (PMU) DTLOs	Late 2010	
	(h) The NTC should work more closely with the HMIS to ensure that there is concordance between the two data sets and that both systems have the same official data available.	Currently, NTC is working closely with HIMS as well as with DTLOs and Statistics cal officer at district level to make sure concordance between the two data sets.		2010/2011	
Monitoring and evaluation Tuberculosis	<b>Recommendations 49 (High)</b> The quality assurance system and subsequent prioritization of facilities objectively determined to be	Accepted.	Director / M/E Unit (PMU)	On going	

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	functioning below the average should be considered by the NTC program to be a model of best practice and to be copied and replicated throughout the NTC program.				
Monitoring and evaluation  Malaria	<b>Recommendations 50 (High)</b> The strategy for widespread use of LLINs needs to be based on scientific evidence. The EDCD, with the support of its technical partners, should conduct vector studies of the biting habits of mosquitoes to ensure that the use of LLINs has the potential to be effective in reducing the spread of malaria.	<ul style="list-style-type: none"> <li>• The LLINs distribution is based on API of the districts.</li> <li>• The vector susceptibility and bioassay tests have been conducted and also planned for future.</li> <li>• Study on the biting habits of mosquitoes has been done this year 2009, reports of the study is awaited.</li> </ul>	Director, EDCD /WHO	2008/2009/2010	
Monitoring and evaluation  Malaria	<b>Recommendations 51 (Significant)</b> Policies and guidelines, covering all aspects of the malaria control program, need to be regularly updated and communicated and disseminated throughout the 65 districts and facilities that deal with malaria in Nepal so that every health worker has a clear written document indicating his/her role in the control of malaria. Specifically there should be guidelines for RDTs and ACTs accompanied by clear and easy to understand algorithm.	<p>The National Malaria Treatment Protocol 2009, National Malaria M &amp; E Plan has recently been updated.</p> <p>The updated protocols and plans are disseminated to the districts. There is manual for rational use of RDT &amp; ACT in National language and rational use of ACT is also mentioned in National Malaria Treatment Protocol 2009.</p>	Director, EDCD	December 2009	

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	<p>(c) Supervision needs to be formalized based on a standardized checklist with written feedback given after each supervisory visit.</p> <p>(d) All policies related to the malaria control program need to be well and clearly documented and shared with all relevant stakeholders. In particular the bed net distribution policy needs to be based on objectively verifiable epidemiological and socio-economic data</p>	<p>Supervision checklist is available with the program and written feed backs on monitoring visits are being received in written.</p> <p>The policies related with National Malaria Control Program has been updated and shared with all relevant stakeholders.</p> <p>The Net distribution guideline has been updated incorporating changing epidemiology of the disease as suggested by TWGs</p>	<p>Director, EDCD</p> <p>Director, EDCD</p>	<p>On-going</p> <p>December, 2009</p>	
<p>Monitoring and evaluation</p> <p>Malaria</p>	<p><b>Recommendations 52 (High)</b></p> <p>(c) There needs to be clearer written communication between EDCD and PSI on matters of policy.</p> <p>(d) The bed net distribution strategy of the EDCD needs to be more clearly and fully documented. This strategy needs to highlight all assumptions clearly and should</p>	<p>Monthly coordination meeting is regularly in place for program updating and further planning. Minutes of all these meeting have been compiled for future correspondence.</p> <p>The LLINs distribution criteria were developed on the basis of recommendation by TWG. The document is upgraded with consultation of TWG to include the recommendation.</p>	<p>Directors of EDCD &amp; PSI with help from WHO</p> <p>Directors of EDCD &amp; PSI with help from WHO</p>	<p>Monthly on-going activity</p> <p>December, 2009</p>	

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	be based on objectively verifiable epidemiological and socio-economic data.				
Monitoring and evaluation  Malaria	<p><b>Recommendations 53 (Significant)</b></p> <p>(c) Orientation of staff deployed at district level should be more comprehensive to ensure integration into the District PHC system.</p> <p>(d) The targets set by both EDCD and PSI for program achievements need to be adjusted to reflect reality:</p>	<p>The point has been considered and suggestion has been incorporated in to the training package and job description of the M &amp; E officers at district level.</p> <p><u>GF Secretariat Comment on Country Response:</u> The Regional Team recommends that the Malaria National Strategy is put in place and the M&amp;E plan is updated according to the National Strategy Plan. In- depth review of implementation will be carried out by WHO in the second quarter of 2010. Subsequent target setting for LLINs and other strategies for control and treatment of Malaria should be based on that review.</p> <p>In R2, target resetting was recommended with WHO/TA but target resetting was not accepted by TGF due to R2 closure. Considerations are in place to adjust R7 phase II target.</p>	<p>Director EDCD</p> <p>Directors of EDCD &amp; PSI with the help of WHO</p>	<p>July, 2010</p> <p>September to October, 2010</p>	

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	<p>(e) Downwards for the number of cases of malaria diagnosed and treated; and</p> <p>(f) Upwards to at least 85% for the proportion of children under 5 sleeping under LLINs.</p>	<p>The issue will be further discussed with TWG to come-up with final recommendation.</p> <p>Distribution of one LLIN for every two person will improve the percentage of children under 5 sleeping under LLINs. High coverage in the recent round of LLIN distribution has addressed this concern.</p>	<p>Director EDCD</p> <p>Directors of EDCD &amp; PSI</p>	<p>July, 2010</p> <p>July 2010</p>	
Monitoring and evaluation HIV and AIDS	<p><b>Recommendation 54 (Significant)</b></p> <p>(g) The TB/HIV program needs to be given immediate priority with a written plan of action with clear achievable targets. Ideally all patients with HIV should be tested for TB.</p> <p>(h) The HIV programs, especially around PMTCT and TB need to be mainstreamed with the MCH and TB programs of the Ministry of Health. This will assist with the overall monitoring and supervision of the programs with feedback to sites.</p>	<p>NCASC together with National TB center will sit for target setting and develop monitoring tools to measure the performance from service sites. All patients enrolled in HIV Care will be screened for TB (TB/ HIV strategy).</p> <p>Opportunities for integrating HIV programs specially PMTCT and TB need will be explored with Family Health Division and National TB Center (organizing a workshop for developing written action plan, target setting and monitoring tools) in a phase wise manner.</p>	<p>M&amp;E focal point , NCASC HIV treatment and care sites</p> <p>M&amp;E focal points , NCASC, FHD and NTC</p>	<p>July 2010</p> <p>July 2010</p>	

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	(i) All partners should discuss their operational activities regularly so that there is standardization and that lessons learned and best practices are shared.	NCASC will lead the discussion among key stakeholders (3 PRs - HIV/AIDS, NTC and FHD) to ensure standardization of program implementation through effective sharing of best practices and lesson learnt.	NCASC Director	July 2010	
	(j) There should be written annual implementation plans with realistic targets in place (e.g. condom distribution, PMTCT) and strategies for the achievement of these targets.	National Action Plan (NAP) targets (primarily for PMTCT, condom distribution, TB screening) will be revised and updated will be circulated. This will be done by enhancing the capacity of NCASC in target setting, at large, in consultation with strategic information technical working group.	M&E focal points, NCASC	July 2010	
	(k) There should be an annual report related to the HIV response. The Health component of this should be the responsibility of the NCASC. There needs to be a revised holistic plan for the Nepal response to HIV. This plan needs to incorporate all strategies, including TB/HIV interactions as well as indicating the scientific basis (objective evidence) for the strategies.	Preparation of annual report for health sector response to HIV (by NCASC) is already in process. The revision of overall plan for HIV response is under consideration. NCASC will consult with key stakeholders in this issue in reference to the situation where NAP for 2008-2011 has prepared and shared in April 2009.	NCASC Director	June 2010	

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	(l) Guidelines for HIV activities need to be updated and distributed to all facilities. There needs to be a clear supervision plan based on standardized checklists with written feedback given after supervision visits.	All National guidelines, protocols, SOPs are reprinted and being distributed to all HIV prevention, treatment and care sites. These guidelines are also made available through NCASC website. Routine monitoring checklist are in place.	NCASC Director		
Monitoring and evaluation HIV and AIDS	<b>Recommendations 55 (Significant)</b> (e) Consideration should be given to making treatment for ART more accessible by increasing the number of sites where patients can access medication and provide blood for testing (in a similar way to that of the TB program that has more centralized diagnosis and then decentralized treatment).	NCASC has implemented the strategy of ART sub center (maintenance sites) to improve the physical access to the service.	NCASC, Director	Ongoing	
	(f) There need to be regular supervisory visits based on standardized checklists, followed by written feedback.	Routine monitoring visits to the service sites is now in place (once in every four month to each sites). A mechanism of providing written feedback has been started.	NCASC M&E Unit	Jan 2010	
	(g) ART registers need to be regularly maintained and cohort analyses done.	Onsite coaching (supportive monitoring) to ART sites is being provided for updating of ART register. Skills for cohort analysis	M&E unit	July 2010	



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	(h) Equipment purchases need to be accompanied by a clear training plan and maintenance plan.	by service site will be upgraded through M&E training planned in February - March 2010.  UNDP will ensure every purchase of equipment will be accompanied by a clear training and maintenance plan	UNDP PIU	July 2010	
Monitoring and evaluation HIV and AIDS	<b>Recommendation 56 (Significant)</b> (e) Government VCT programs need increased personnel so that many more patients can be seen in these programs and not just service the needs of extremely high risk patients.  (f) Targets for increased testing rates need to be set for each VCT centre.  (g) The reporting formats for VCT results should be standardized for all sites and a written data flow policy developed.  (h) Clear indicators (e.g. HIV positivity rate) need to be	Government VCT sites have identified two dedicated staffs for counseling (1) and lab(1) and they have been capacitate for counseling and testing of HIV. Further in comprehensive sites a counselor has been charged for the responsibility of VCT counseling along with ART counseling (23 ART sites)  VCT targets (HIV positivity rates) by sites will be revised and provided.  NCASC has developed standard HIV and AIDS case reporting formats as well as data flow mechanism. It will be circulated to all VCT sites by NCASC  NCASC has planned to revise national M&E guideline. HIV	DHS / NCASC Director  DHS / NCASC Director  NCASC Director  NCASC Director	Jan 2010  2 <sup>nd</sup> Week of February 2010  Done  Jan - Jun 2010	

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	popularized and relevant training given to staff so that they understand the importance and meaning of the data that they compile.	positivity rate will be included in the revised guideline.			
Monitoring and evaluation HIV and AIDS	<p><b>Recommendations 57 (Significant)</b></p> <p>(e) Data from HIV programs needs to be integrated with HMIS as far as possible (e.g. PMTCT, VCT, condom distribution.)</p> <p>(f) There needs to be a written data flow policy to ensure timely supply of information that is not duplicated.</p> <p>(g) There should be regular (at least three monthly) analysis, interpretation of data and</p>	<p>PMTCT, VCT and Condom distribution indicators will be integrated in HMIS in phase wise manner considering the related programs are also integrated into general health program at district level.</p> <p>Written data flow policy will be provided to all service sites by second week of February 2010. <u>GF Secretariat Comment on Country Response:</u> The Global Fund Secretariat is following up progress with this recommendation. Currently training manuals have been prepared for training on M&amp;E system as commented under Recommendation 23 (c) above. However data flow policy has not been prepared.</p> <p>Routine data analysis and verification has been planned to be executed and feedback will be</p>	<p>DHS/ NCASC Director</p> <p>NCASC Director</p> <p>NCASC Director</p>	<p>July 2010</p> <p>July 2010</p>	

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	<p>feedback to districts and facilities.</p> <p>(h) There should be regular supervision visits accompanied by written feedback.</p>	<p>provided to the service sites.</p> <p>Routine monitoring visits to the service sites is in place (once in every four month to each sites). A mechanism of providing written feedback has been started.</p>	NCASC Director	July 2010	
Monitoring and evaluation HIV and AIDS	<p><b>Recommendation 58 (High)</b> There should be a clear written HIV/TB strategy that is endorsed by the highest levels within the Ministry of Health. This strategy should be accompanied by a clear implementation plan with time-bound achievable targets and associated resources to achieve these. There should be clearly defined roles, responsibilities and lines of accountability for the implementation plan.</p>	<p>TB HIV strategy already in place. NCASC together with National TB center will sit for target setting and develop monitoring tools to measure the performance from service sites. All patients enrolled in HIV Care will be screened for TB (TB/ HIV strategy)</p> <p><u>GF Secretariat Comment on Country Response:</u> The strategy exists. However, the implementation plan with activities and deadlines needs to be prepared and followed.</p>	NCASC/ NTC Directors	July,2010	
Procurement and supply management	<p><b>Recommendation 59 (High)</b> A revision of the WHO procurement services beyond the validity of the MoU with the TB Grant/NTP (30 April 2011) and with the Malaria Grant/EDCD (15 July 2010) is needed as the WHO Nepal Office is understaffed. The revision should also assess the cost effectiveness of the</p>	<p><b>Response from Malaria Division/MOHP</b> All the supplies and commodities are procured by WHO timely in the R7 first year. There is nominal procurement in the second year so there is no problem for the procurement of</p>	Director EDCD & WHO	On-going	

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	<p>continuous WHO involvement in procurement and the financial implication of establishing an additional post as procurement officer in WHO Nepal Office versus selecting an international procurement agency to provide the same services on a more economic and efficient basis for both Malaria and TB Grants. All this should be planned keeping in mind that capacity has to be built within the Ministry and that these functions will be eventually transitioned there.</p>	<p>malaria program.</p> <p>At the same time, WHO is going to launch GSM program for the procurement and supply management from January 2010. If the logistic management is inefficient after the GSM roll over, WHO will consider alternative mechanism.</p> <p><b>Response from NTC/MOHP</b> The current MOU for procurement of anti TB drugs is valid till April 2011. NTC is reviewing the policy and procedures of TB drug procurement in consultation with WHO and other partners in light of the comments from OIG and TRP. The revised modalities will be finalized before grant signing for NSA which is expected before end of May 2010.</p>			
<p><b>Procurement and supply management</b></p>	<p><b>Recommendation 60 (High)</b> An effective control mechanism should be introduced at UNDP/NCASC to prevent wastage due to incorrect forecasting of second line ARVs.</p>	<p>Second line ARVs are not expired. A training on correct forecasting with an international trainer is planned for Feb-10</p> <p><u>GF Secretariat Comment on Country Response:</u> The training is planned for mid March 2010.</p>	<p>UNDP PIU</p>	<p>July, 2010</p>	



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	<p>(i) The procedures for the disposal of the expired drugs should be initiated at the earliest opportunity once drugs have expired.</p> <p>(j) Stock management at district level requires urgent review with improved storage facilities; written guidelines on all aspects of stock management; and improved supervision. The PSM guidelines should be distributed to all districts and facilities dealing with Malaria. Training should be undertaken as detailed in the workplan and budget.</p> <p>(k) All the commodities received by the stores department should be recorded in the stores ledgers. The stores ledgers should be kept up to date at all the times to ensure timely detection of shortage of commodities and/or commodities lost to theft.</p> <p>(l) A review of ACT stock-outs is required at central, regional, district and facility level to</p>	<p>(c) A national guideline for disposal of expired drugs is being developed by DHS.</p> <p>Already in place</p> <p>In progress</p>	<p>DHS/ Director LMD</p> <p>DHS/ Director LMD</p>	<p>July, 2010</p> <p>Completed</p> <p>July, 2010</p>	

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	ascertain the reasons for stock-outs at all levels and remedial mechanisms instituted to ensure there are no further cases. Reporting of stock outs needs to be improved and institutionalized and brought to the attention of EDCD management swiftly.	In progress	DHS/ Director LMD	July, 2010	
Procurement and supply management	<b>Recommendation 63 (High)</b> The practice of storing heat sensitive items in refrigerators at the MASS office building should be stopped immediately. A refrigerated warehouse capacity should be established at central level.	A discussion with LMD director for using the central cold storage space was held on 16 <sup>th</sup> Dec-09. Once the space is allocated by LMD, those refrigerators will be immediately shifted	NCASC, Director, Logistic Unit	31 Dec 09	
Procurement and supply management	<b>Recommendation 64 (High)</b> NCASC has to urgently solve the warehousing problem including refrigerated space at central level.	Construction of a new warehouse under funding from DFID is in process	NCASC Director	Jul 2010	
Procurement and supply management	<b>Recommendation 65 (Significant)</b> NTP should install a refrigerator in the warehousing area.	A refrigerator has been installed in NTC warehouse.	Administrative Officer	completed	
Procurement and supply management	<b>Recommendation 66 (High)</b> EDCD/LMD should find another more acceptable storage facility for warehousing ACTs and RDTs.	EDCD/LMD has hired separate storage place in premises of Sukraraj Tropical Hospital which is located in the compound of	EDCD/LMD	May, 2009	

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		Department of Health Services.			
Procurement and supply management	<p><b>Recommendation 67(Significant)</b></p> <p>PSI should urgently introduce SOPs for independent Quality Assurance and Quality Control of LLINs under the Round 7 Global Fund Grant.</p>	PSI will develop SOPs for Independent Quality Assurance and Quality Control of LLINs.	PSI/Nepal Procurement Manager	End Q1-2010	



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Oversight - Country Coordination Mechanism	<p><b>Recommendation 68 (Significant)</b></p> <p>(c) The CCM should develop and communicate the process by which PRs will be solicited and selected to all stakeholders.</p>	<p>(a) <b>Response:</b> The CCM Terms of Reference 2008 is the definitive document providing guidance on PR selection process. Further guidelines are now provided in the CCM Oversight Plan approved in April 2009. The process and criteria for selection of PRs remains the same for Round 7, 8 and Round 9.</p> <p><b>Action:</b> The checklist and selection criteria including scoring will be further discussed and revised when TOR 2008 will be harmonized with other CCM documents in a CCM Retreat.</p>	CCM Executive and Oversight Committee and CCM membership	<p><u>GF Secretariat Comment on Country Response:</u> A retreat was planned for Feb 2010. Rescheduled to March 2010.</p> <p>July, 2010</p>	
	<p>(d) The CCM secretariat should formulate the reporting templates which PRs will use to report program performance to the CCM. The structure of the Global Fund PUDR may be adopted in order to limit the additional time and burden to report to the CCM. The management letters written by the Global Fund to PRs should also be shared with the CCM</p>	<p>(b) <b>Response:</b> The PUDR template has been reviewed in July 2009 and found to be too limiting of CCM oversight.</p> <p><b>Action:</b> For the purpose of CCM oversight the PUDR has already been better adapted to focus more on outputs</p>	CCM Executive and Oversight Committee	<p>February-March 2010</p> <p>February-March 2010</p>	

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	<p>Secretariat and salient issues brought before the CCM to inform the oversight activities. Audit reports and annual reports should also be shared with the CCM Secretariat, and reviewed by the appropriate select committee.</p>	<p>and outcomes of SRs. LFA has also provided very good reporting templates which will also be adapted to make up on oversight form with multiple uses. This will also be reviewed in an upcoming CCM Retreat.</p> <p><b>Response:</b> CCM had made a request to Fund portfolio Manager FPM on sharing of management letter(s) in April 2009 but there has been no response as yet. Annual reports are requested from PRs.</p> <p><b><u>GF Secretariat Comment on Country Response:</u></b> Management letters are now shared with the CCM and the PRs since November 2009.</p> <p><b>Action:</b> CCM Executive will follow up the request already made to TGF and PRs for the management letter and reports. CCM will include TGF and PR matters in every CCM meeting agenda</p>		<p>January-March 2010</p>	

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Oversight - Country Coordination Mechanism	<p><b>Recommendation 69 (High)</b></p> <p>(a) The CCM should take on the responsibility of coordinating and following up much needed technical assistance to PRs to Global Fund Programs, especially the Government departments that are proposed and / or planned to be PR in future. This should be in accordance with a well developed capacity building and transition plan.</p>	<p><b>Response:</b> The ToR 2008 provides for three Technical Sub Committees (one for each disease). Special attention for capacity building is being given to government departments through Round 7 HIV grant (under UNDP).</p> <p><b>Action:</b> Several options for building capacity are currently being put forward by a TGF consultant and CCM will explore the possibility of formulating a single technical assistance framework.</p>	Executive & Oversight Committee and CCM membership	January-March 2010	
	<p>(b) The CCM should also ensure that Global Fund programs are complimentary to the programs funded by the Government of Nepal and the other development partners. This should be demonstrated at proposal formulation as well as throughout the life of the grants.</p>	<p><b>Response:</b> All proposals submitted to the Global Fund have and continue to be based on national strategies, action plans, financial gap analysis (of programs funded by the Government of Nepal and other development partners). In this way all such proposals are aligned and harmonized with</p>	CCM Executive Committee, HIV technical sub-committee and external national experts	February 2010	

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		<p>government policies and strategies. At the proposal development period, discussion on the existing fund and programs were carried out to set the priority of the proposal SDA and ensure the complimentary with these grant and programs.</p> <p>CCM Dialogue with Civil Society held on 11 December 2009 has further decided to review the existing programs to find the programmatic and financial gaps.</p> <p><b>Action:</b> The Gap and analysis of exiting program will be further discussed in CCM Meeting during Round 10 HIV proposal development process</p>			
Oversight - Country Coordination Mechanism	<p>Recommendation 70 (Significant)</p> <p>The CCM Secretariat should arrange the provision of translation and interpretation services for</p>	<p><b>Response:</b> CCM is using both English and Nepali in meetings. In utilizing separate Bi-lingual translation meeting was lengthened and people</p>	CCM Coordinator		

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	<p>members of the CCM that are not able to read or fully understand both English and Nepali.</p>	<p>became less interactive.</p> <p>Since June 2009, CCM secretariat has started to translate the English meeting minutes into Nepali and circulating it among CCM Members. In support with UNAIDS, CCM Secretariat is now translating all the CCM related documents into Nepali. These will be completed in January 2010.</p> <p><b>Action:</b> Translated documents after CCM agreement will be published through CCM Website.</p>		<p>February 2010</p>	
<p><b>Oversight - Country Coordination Mechanism</b></p>	<p><b>Recommendation 71 (Significant)</b>                      The CCM should develop and a communication policy by which Global Fund programs will be communicated to all stakeholders in Nepal. The policy should also cover aspects of PR, LFA and Global Fund communication to the CCM. The Global Fund CCM team can be consulted to get insights on good practice for communication policy.</p>	<p><b>Response:</b> CCM internal and external communication was discussed at the Retreat in April 2009. One of the Executive CCM members is designated for external relations especially with the press. There has been very little negative press on CCM and TGF in recent months.</p> <p><b>Action:</b> CCM will further</p>	<p>CCM Executive and Oversight Committee</p>	<p>January 2010-website launch,                      February 2010</p>	

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		revise the concepts and pass a communication policy. It will develop its Communication Plan including both internal (CCM committees and sub-committees, Secretariat) and external communication, the channel and level of communication (CCM to PR, CCM to SR, CCM to TGF, CCM to LFA, CCM to public), type of communication (regular/scheduled and ad hoc) and means of communication (website, newsletter, circulars and other documentation, including PR reporting format). It will be operationalised after passed from CCM.		- policy passed by next CCM meeting.  Feb-March 2010 policy and plan harmonized.	
Oversight -Local Fund Agent	<b>Recommendation 72 (High)</b> The Global Fund Secretariat should develop a policy to provide guidance to the LFA on actions to be taken in event of conflicts of interest. Only in exceptional cases should the LFA be the auditor of any of the PRs. The LFA should be asked to make a choice about whether to remain LFA or auditor of the PR.	The Secretariat provided training on the Col policy to all LFAs in Geneva from November 08 to February 09. The Nepal LFA team was in attendance. <b><u>GF Secretariat Comment on Country Response:</u></b> 1.LFAs are contractually	Madan Krishna Sharma, LFA Team Leader.	Ongoing. All potential Col situations will be raised with the Secretariat in advance of undertaking work.	

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		obliged to avoid any Conflict of Interests (Col) and to alert the Secretariat to any potential Col situations in a timely manner. The Global Fund Secretariat has a detailed Conflict of Interest Policy for LFAs and this will be actively followed up in future.			
Oversight -Local Fund Agent	<b>Recommendation 73 (Significant)</b> The LFA should undertake review of PRs and SRs to ensure that no grant funds are used to support or promote terrorist related activity or money laundering.	The LFA is fully aware of this requirement but needs to be commissioned to execute the work. The LFA will request in writing confirmation from the Secretariat if they want the work to be performed by the LFA in 2010.	Madan Krishna Sharma, LFA Team Leader.	February 2010	
Audit Arrangements	<b>Recommendation 74 (High)</b> The current internal audit arrangements should be reviewed with a view to strengthen oversight over program implementation. The OAG should be encouraged to outsource the audits. Independent audit of the grants should be commissioned.	<b><u>GF Secretariat Comment on Country Response:</u></b> Based on feedback from Mr. Yogendra Gauchan, Under Secretary Finance, MoHP: District Treasury Control Office will cover the GF funded programme under their regular internal audit work. In case that is not adequate, MoHP will engage outside audit firm to conduct internal financial		December 2010	

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		review of the program fund.			
Audit arrangements	<p><b>Recommendation 75 (High)</b>                      The grant agreement requires the government PRs to develop terms of reference for the audit exercise which should be reviewed by the LFA prior to approval by the Global Fund Secretariat. The purpose of this process is to ensure the scope of the audit is sufficient to cover the risks associated with program implementation. The Ministry should follow the provisions of the grant agreement to ensure effective audit arrangements are instituted.</p>	<p><b><u>GF Secretariat Comment on Country Response:</u></b>                      Based on feedback from Mr. Yogendra Gauchan, Under Secretary Finance, MoHP: Auditor General Office will be requested to conduct the performance audit every year including financial audit the satisfaction of the Global Fund.</p>		December 2010	
Oversight - Global Fund Secretariat	<p><b>Recommendation 76 (High)</b>  <i>The Country Programs team should follow up the implementation of the provisions of the grant agreement and ensure that the PRs fulfill their obligations prior to disbursement of additional funds.</i></p>	The Regional Team has noted this for compliance	FPM/ Regional Team	March 2010	