

AUDIT REPORT

Global Fund Grants to Guinea-Bissau

GF-OIG-14-014 ■ 3 October 2014





The Global Fund
To Fight AIDS, Tuberculosis and Malaria

Office of the Inspector General

Audit of Global Fund Grants to the Republic of Guinea-Bissau

GF-OIG-14-014

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1. Background

The Republic of Guinea-Bissau in Western Africa has a population of around 1.6 million people, of which around half live below the poverty line. Classified as low income by the World Bank and ranked 177 out of 187 in the 2014 United Nations Development Programme's human development index, Guinea-Bissau is beset with a number of challenges; these include political and institutional instability, low human resources capacity accentuated by low salaries in the health and public sectors, insufficient infrastructure and intermittent electricity. It is ranked 150 out of 176 on Transparency International's Corruptions Perceptions Index and was rated as an "extreme risk" country according to the High-Level Review Panel report.¹

There are currently three active Global Fund grants in Guinea-Bissau: an HIV grant managed by the National Secretariat to Fight AIDS (SNLS), a tuberculosis grant and a malaria grant, both managed by the United Nations Development Programme (UNDP).² A total of US\$ 68 million has been disbursed to Guinea-Bissau to date, of which US\$ 22 million was paid out in 2013. Based on the March 2014 Global Fund Board decision on resource allocation for 2014-2016, Guinea-Bissau may receive a total of US\$ 52.5 million for HIV, tuberculosis and malaria. This represents existing grants of US\$ 21.9 million and additional funding of US\$ 30.6 million.

As a result of the context above, as well as the coup d'état in 2012, grant activities in Guinea-Bissau have been scaled down to provide only priority activities. The Global Fund Country Team, made up of Secretariat staff from various divisions jointly responsible for creating and managing grants, has proactively taken a number of steps in the past two years to better manage the grants, including:

- implementing the Additional Safeguards Policy based on financial/procurement irregularities and the political instability in the country in August 2012;
- changing the Principal Recipient for the tuberculosis and malaria grants to UNDP;
- using UNDP and implementing pooled procurement arrangements to secure pharmaceuticals and other products, and providing technical assistance from UNDP, HERA (an independent consultant) and EMI (a European Union funded international non-governmental organization) to improve procurement practices;
- implementing a zero-cash policy, and installing a fiscal agent for the HIV grant to improve control around expenses in 2013;
- in conjunction with UNDP, conducting a monitoring and evaluation system strengthening (MESS) workshop to address systemic weaknesses; and
- re-tendering the Local Fund Agent contract for the portfolio in 2014 as a result of a number of performance issues.

¹ Report of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund to Fight AIDS, tuberculosis and malaria, published September 19, 2011.

² The audit did not cover UNDP as Principal Recipient as expenditures incurred directly were subject to its own internal and external audits. This is in line with the "single audit principle", agreed between the United Nations and the Global Fund.

2. Scope and Rating

Scope

Guinea-Bissau is the first country in the 2014 work plan to be audited using a new and tailored approach to examine the controls in place to safeguard future Global Fund investments. This is to ensure that grants have the greatest impact and that the population of Guinea-Bissau receives quality and timely treatment. The Office of the Inspector General (OIG) assessed:

- (i) the effectiveness of key financial controls at the Principal Recipient (SNLS) and key sub-recipient (ENDA);
- (ii) whether health facilities and patients are accessing quality-assured drugs and other health products in a timely manner including an assessment of the existing supply and distribution systems;
- (iii) the accuracy of performance data reported by the Principal Recipients, with a focus on data management at peripheral and regional levels; and
- (iv) the adequacy and effectiveness of the overall assurance framework in Guinea-Bissau.

The OIG visited 28 health care centers out of 142 in the country and three out of 11 warehouses, covering three regions: Sector Autónomo de Bissau (SAB), Oio and Gabù. The sample covered 20% of malaria centers, 24% for tuberculosis and 29% of the centers which treat patients with HIV.

The review covered the period from 01 January 2013 to date and was limited to the existing three grants. ³The audit did not cover UNDP as the Principal Recipient as expenditures incurred directly are subject to the organization's own internal and external audits. This is in line with the "single audit principle" by which the auditors from one institution rely on the work of auditors from another institution.

Rating⁴

Operational Risk	Rating	Reference to findings
Financial and Fiduciary	Generally Effective	n/a no significant findings
Health Services and Products	Partial Plan to Become Effective	4.3
Programmatic and Performance	Partial Plan to Become Effective	4.2
Governance, Oversight and Management	Full Plan to Become Effective	4.1, 4.4

³ GNB-708-G05-, GNB-M and GNB-913-G13-T

⁴ See Annex A for the definition

3. Executive Summary

Guinea-Bissau is a challenging environment for managing grants. It is one of the world's poorest nations and in the lowest category of UNDP's human development index. Between the coup d'état in April 2012 and the installation of a new government following the elections in July 2014, little to no international aid has entered the country. The Global Fund has been the only donor contributing to the health sector during this time.

Despite this difficult environment, the Global Fund Country team has endeavored to balance the considerable operational risks with the need to provide reliable and safe services to those in need. This has included allocating a dedicated Fund Portfolio Manager, and placing the country under the Additional Safeguards Policy to provide flexibility in modifying the existing funding mechanisms to ensure that funds are provided swiftly but responsibly to help affected populations.

Financial and Fiduciary

Following past irregularities, the OIG found that financial and fiduciary risks have been managed well by the Secretariat and are **generally effective**. The Country Team has implemented a number of mechanisms to mitigate the significant financial risks in the country including reducing the level of disbursements, putting in place a zero-cash policy, and installing a fiscal agent for the HIV grant. The OIG found that SNLS, and its main sub-recipient ENDA, have adequate financial controls in place. The Secretariat has obtained adequate assurances, if duplicative in some areas, over financial and fiduciary risks for all grants.

Health Services and Products

The OIG found no material stock-outs of essential medicines. There is, however, no testing on the quality of Global Fund-financed products after they have arrived in the country. Furthermore, stock management and storage conditions at health facilities are inadequate. This is largely due to inadequate training and supervision, as well as a lack of inventory tools.

The Country Team had previously identified many of these issues. Prior to the audit, there was a **partial plan** to address the issues, for example, engaging technical assistance for procurement and pledging to draft a Quality Assurance Plan and Standard Operating Procedures to help health centers to improve their stock management processes. In agreeing to the management actions, the Secretariat has committed to ensuring that the Principal Recipient will perform quality control activities on health products along the supply chain to better manage the risks.

Programmatic and Performance

The main driver for disbursement decisions at the Global Fund is the progress towards programmatic targets, yet the OIG audit found significant discrepancies in the data, particularly on the malaria and tuberculosis grants. Better quality data exist for HIV as quality checking is performed at the intermediary level, but this may not be sustainable in the long term.

Poor infrastructure, limited supervision and a lack of qualified staff at health centers have resulted in performance data that cannot, and should not, be relied upon. The OIG's findings are consistent with past reviews performed by the Local Fund Agent and the Global Fund Country Team. Prior to the audit, the Global Fund Country Team had a **partial plan** to address these issues, including implementing actions to both improve data collection tools and data quality through regular supervisions.

The conclusions of this audit raise questions about the suitability of performance-based funding, as practiced by the Global Fund, in countries where the performance data are not reliable (see also GF-OIG-13-002, Audit of Global Fund grants to the Central African Republic). Under performance-based funding, the expectations for reporting, management and oversight placed on fragile states by the Global Fund, have not been realistic; this, as well as a lack of robust assurance mechanisms over data, means that the Global Fund cannot be confident that its grants are meeting their objectives. To mitigate this, the Global Fund Secretariat has committed to reviewing how the performance-based approach can be tailored for countries with significant data quality challenges.

Governance, Oversight and Management

The Country Team has sought to address a number of problems around the quality and timeliness of work performed by the Local Fund Agent. The Secretariat has also committed to an agreed management action to retender the Local Fund Agent contract and to use the Global Fund's Performance Evaluation tool to better manage the agent's performance.

Whilst the overall cost of assurance in Guinea-Bissau appears reasonable considering the complex risk environment, the allocation of assurance expenditure between financial, programmatic and procurement requires realignment. Overall, the OIG findings point to the absence of a clearly articulated assurance framework across the majority of Global Fund grant portfolios. This has been acknowledged by the Global Fund Secretariat, who, prior to the audit, had already developed a **full plan to become effective** at an institutional level. A high-level Risk and Assurance Working Group has been constituted to better articulate and formalize the assurance framework around grant funds. The Working Group will establish a process for the ongoing assessment and review of assurance provision within all grants supported by the Global Fund.

4. Findings and agreed actions

4.1	The design of the assurance framework	Executive Level	Full plan to become effective
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In excess of US\$ 3 million per annum is spent on assurance activities in Guinea-Bissau; these primarily consist of financial assurances and are not therefore necessarily focused on the achievement of strategic objectives. The work of assurance providers remains largely uncoordinated; however, it should be noted that optimizing the Global Fund combined assurance framework across the entire portfolio of countries is a known Secretariat issue.

In relation to Guinea-Bissau, the OIG supports the current emphasis on financial management assurance. However, there is scope to better optimize and coordinate assurance activities and providers. Specifically:

i. Program performance:

- a. The coverage for On-Site Data Verification (OSDV) is not tailored to the size of the country or its population, and is not sufficiently representative to determine whether program objectives are being achieved. Whilst the number of visited sites (eleven) in Guinea-Bissau was greater than required under Global Fund guidance (six), the coverage is still less than 10% of the total number of sites.
- b. The last Rapid Service Quality Assessment (RSQA) was performed in June 2012. This aims to assess and improve quality of services at the country level, and to continuously build capacity in establishing and using quality improvement as an integral part of program implementation.
- c. The high-level methodology of the Progress Update Disbursement Request (PUDR) does not provide substantive assurance over program performance and is not designed to identify detailed programmatic issues.

ii. Procurement and supply chain management:

- a. Limited formal assurance is sought over procurement and supply chain management, despite mandatory requirements on matters such as quality assurance, compliance with national regulations and pharmacovigilance. Activities performed by the Secretariat mainly comprise a review of procurement plans and Principal Recipient reports of over or under-stocks.

iii. Data Quality:

- a. No data quality audit has been performed for the Guinea-Bissau portfolio.⁵ This is typically where external parties can also be asked to perform a Data Quality Audit to verify the accuracy of reported data and to assess the quality

⁵ For 2014, a total of seven data quality audits were planned across five countries in the Global Fund portfolio. Four of these five countries are High Impact countries as prioritization for this assessment is primarily for countries with high burden of disease or risks as identified by the Global Fund Country Teams.

of the systems for data recording, management and reporting to the Global Fund.

iv. Other assurance providers:

- a. The Principal Recipients, SNLS and UNDP, perform monitoring and evaluation activities. Between 5-23% of grant funds are allocated to these activities, however the Global Fund Country Team does not request or use reports from these visits.
- b. For the HIV grant, SNLS has one full-time internal auditor; however, there have been no internal audits reports issued since grant inception.
- c. For the malaria and tuberculosis grants, UNDP's Office of Audit and Investigations provides audit assurance over their grant portfolios and they determine their annual audit plan on a risk basis. No audits have been performed since the grants were signed in June 2013; however, an audit scheduled for September 2014 will cover the grants since their inception.
- d. No assurance has been provided by the country's state auditor as there has been no audit of the Ministry of Health or any other government entities that implement Global Fund grants.

Agreed Management Actions

The Management Executive Committee has constituted a "Risk and Assurance Working Group" as part of its efforts to inculcate a culture of accountability and transparency at the Fund, and to prioritize assurance in 2014. The findings from the OIG audit in Guinea-Bissau will contribute to this Working Group. Activities currently underway encompass the following:

- i. Articulation and formalization of the Global Fund framework together with ongoing active monitoring of the aggregate cost of implementing this framework to ensure that the combined assurance provided is both efficient and effective.
- ii. Highlight the "big ticket" assurance needs for a sample of 20- 30 country portfolios.
- iii. Establish who is doing what from an assurance perspective.
- iv. Establish gaps and overlap in assurance provision and put in place mechanisms to remedy the gaps and avoid duplication.
- v. Undertake a root cause analysis of the gaps to fill them going forward and develop systematic solutions.
- vi. Establish a process for ongoing assessment and appropriate review of assurance provision within all grants supported by the Global Fund.

Owner: Risk and Assurance Working Group Project Sponsor

Target Date: 31 December 2014

4.2	Performance data as the basis for grant disbursements	Executive Level	Partial plan to become effective
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The starting point and main driver for disbursement decisions is the progress towards programmatic targets, although funding decisions also take into account reviews of management, financial and other contextual factors. The OIG audit found significant performance data discrepancies, which is consistent with past reviews performed by the Local Fund Agent and the Global Fund Country Team. In the OIG's view, this raises the question of the suitability of using the current standard performance-based funding approach in Guinea-Bissau and other countries with data quality challenges.

Based on a sample of 28 sites, the OIG found large differences between patient files and reported data. Due to this over and under-reporting, it is not possible to effectively rely on the reported data. For example:

- One of the indicators for malaria, “the number of confirmed malaria patients who receive treatment following national protocols” was under-reported by 34% (a difference of 3,458 cases) in the Gabù region.
- Another malaria indicator, “number and percentage of bed nets distributed to pregnant women and children under one year old at antenatal care visits”, was over-reported by 20% (corresponding to a difference of 1,367 cases), again in the Gabù region.

On the other hand, the HIV indicators in our sample showed a difference of less than 5%. HIV data are quality checked by SNLS at the intermediary level. This results in better data quality but raises a concern that this system may be inefficient and not sustainable in the long term.

It should be noted that the Global Fund Country Team has attempted to address these issues, including actions to improve the availability, standardization and archiving of data collection tools at all levels and to improve routine data quality through regular supervisions. However, program performance data in Guinea-Bissau remains unreliable.

Agreed Management Actions

The Grant Management Division, with the Strategy, Investment and Impact Division will ensure that the revised approved Operational Policy Note on Annual Funding Decisions and Disbursements will include a performance-based funding approach that can be tailored for countries with significant data quality challenges. Once approved by the Executive Grant Management Committee, the Operational Policy Note will be applied in Guinea-Bissau. In the meantime, efforts to improve data quality in the country will continue.

Owners:

Head, Grant Management Division

Head, Strategy Investment & Impact Division

Target Date: 31 March 2015

4.3	Pharmaceutical and health product management	Country Team Level	Partial plan to become effective
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Stock management controls and storage conditions at health centers were found to be unsatisfactory. It should be noted, however, that a lack of electricity exists in most regions, and that improvements to storage infrastructure are not funded by the Ministry of Health. Despite this, pharmaceuticals are being delivered on time, there were no stock-outs of essential medicines and there were only minimal cases of stock-outs for non-essential HIV medicines.

OIG testing on a sample of 28 centers and three warehouses (two regional pharmaceutical stores and the central pharmaceutical store) identified:

- Medicines do not undergo post-shipment testing or random testing along the supply chain. This is mainly because the Principal Recipients have not initiated or prioritized quality control activities.
- 64% of the health clinics visited maintained stock cards, but only 18% understood how to manage them properly.
- Where in place, 93% of stock cards did not match the underlying products, 82% were not correctly completed and 36% of stock cards were not available for core medicines.
- There is a lack of control over storage temperature as demonstrated by the absence of thermometers (in 100% of the sites visited) and temperature recordings of over 25°C (in 71% of the sites visited). Furthermore, expired drugs in all facilities were not separated from usable drugs and there was no formal procedure to destroy them.

Many of the issues identified were known to a certain extent by the Global Fund Country Team and they have initiated a number of actions to improve weaknesses in drug management. Measures initiated include implementing institutional support to the CECOME, the central medical stores, and engaging UNDP to provide and strengthen technical and procurement capacity at a program level. Following the Secretariat's guidance, a Quality Assurance Plan and Standard Operating Procedures are also being drafted which will help health centers to improve their stock management processes.

Agreed management actions

The Country Team will ensure that all Principal Recipients, in compliance with the approved Quality Assurance Plan, perform quality control on health products along the supply chain. This will include not only post-shipment quality control testing, but also compliance with revised and improved standard operating procedures, good storage practices, pharmacovigilance activities, rational use and medicine wastage. The plan will include capacity transfer to ensure that the processes being implemented are sustained. The Quality Assurance Plans will be reviewed and approved by the Health procurement Management Hub and the Regional Manager.

Owner: Head, Grant Management Division

Target Date: 31 March 2015

4.4	Local Fund Agent effectiveness	Country Team Level	Full plan to become effective
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Prior to the audit, the Global Fund Country Team had highlighted a number of concerns around the performance and management of the Local Fund Agent, including the quality and timing of deliverables submitted. The OIG audit confirmed the following:

- The Local Fund Agent performed a “spot check” review in April 2014 and, although, a number of areas for improvement were identified, only data related to the HIV grants were tested. Although this was agreed with the Country Team, it means that the conclusions reached were limited and did not cover the malaria and TB grants.
- The most recent OSDV for Guinea-Bissau was not performed in a timely manner. Even considering that the country was not accessible for large parts of the year, the verification of data covering January-December 2012 was not performed until October 2013, meaning that prompt corrective action could not be taken.

Agreed Management Actions

The Country Team has evaluated the current Local Fund Agent performance, key team members were replaced, and in order to further ensure that assurances are of good quality, the Country Team is also currently retendering the Local Fund Agent services. The Country Team will assess the quality of the selected agent through the Global Fund Local Fund Agent Performance Evaluation Tool.

Owner: Head, Grant Management Division

Target Date: 31 October 2015

5. Table of Agreed Actions

No.	Category	Action	Due date	Owner
1	The design of the assurance framework	The Management Executive Committee has constituted a “Risk and Assurance Working Group” as part of its efforts to inculcate a culture of accountability and transparency at the Fund, and to prioritize assurance in 2014. The findings from the OIG audit in Guinea-Bissau will contribute to this Working Group.	31 December 2014	Risk and Assurance Working Group Project Sponsor
2	Performance data as the basis for grant disbursements	The Grant Management Division, with the Strategy, Investment and Impact Division will ensure that the revised approved Operational Policy Note on Annual Funding Decisions and Disbursements will include a performance-based funding approach that can be tailored for countries with significant data quality challenges. Once approved by the Executive Grant Management Committee, the Operational Policy Note will be applied in Guinea-Bissau. In the meantime, efforts to improve data quality in the country will continue.	31 March 2015	Head, Grant Management Division Head, Strategy Investment & Impact Division
3	Pharmaceutical and health product management	The Country Team will ensure that all Principal Recipients, in compliance with the approved Quality Assurance Plan, perform quality control on health products along the supply chain. This will include not only post-shipment quality control testing, but also compliance with revised	31 March 2015	Head, Grant Management Division

No.	Category	Action	Due date	Owner
		and improved standard operating procedures, good storage practices, pharmacovigilance activities, rational use and medicine wastage. The plan will include capacity transfer to ensure that the processes being implemented are sustained. The Quality Assurance Plans will be reviewed and approved by the Health procurement Management Hub and the Regional Manager.		
4	Local Fund Agent effectiveness	The Country Team has evaluated the current Local Fund Agent performance, key team members were replaced, and in order to further ensure that assurances are of good quality, the Country Team is also currently retendering the Local Fund Agent services. The Country Team will assess the quality of the selected agent through the Global Fund Local Fund Agent Performance Evaluation Tool.	31 October 2015	Head, Grant Management Division

Annex A: General Audit Rating Classification

Highly Effective	No significant issues noted. Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.
Generally Effective	Some significant issues noted but not material to the overall achievement of the strategic objective within the audited environment. Generally, internal controls, governance and risk management processes were adequate, appropriate, and effective. However, there is room to improve.
Full Plan to Become Effective	Multiple significant and/or (a) material issue(s) noted. However, a full SMART (<i>Specific, Measurable, Achievable, Realistic and Time-bound</i>) plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should ensure adequate, appropriate, and effective internal controls, governance and risk management processes.
Partial Plan to Become Effective	Multiple significant and/or (a) material issue(s) noted. However, a partial SMART plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should improve internal controls, governance and risk management processes.
Ineffective	Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes were not adequate, appropriate, or effective. They do not provide assurance that objectives will be met. No plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee.

Annex B: Methodology

The Office of the Inspector General (OIG) conducts its audits in conformance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place across the Global Fund as well as of grant recipients, and is used to provide specific assessments of the different areas of the organization's' activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.