Audit of Global Fund Grants to the Islamic Republic of Pakistan

GF-15-014
21 September 2015
Geneva, Switzerland

The Global Fund
Office of the Inspector General

Table of Contents

Table of Contents 2
I. Background 3
II. Scope and Rating 5
01 Scope 5
02 Rating 6
III. Executive Summary 7
IV. Findings and Agreed Management Actions 9
V. Table of Agreed Actions 22
Annex A: General Audit Rating Classification 24
Annex B: Methodology 25

I. Background

The Islamic Republic of Pakistan is a federal republic with a population of about 182 million people making it the 6th most populous country in the world. Pakistan is classified as a lower middle income country by the World Bank with Gross National Income per capita of USD 1,360 in 2013.[1] It is ranked 146 out of 187 countries in the 2013 United Nations Development Programme Human Development Index.[2] Pakistan has endured a cycle of alternating democratic and military rule since independence and democratic civilian rule was restored in 2008 after almost a decade of military leadership. An elected civilian government in 2013 peacefully transferred power to another for the first time in the country's history.

Global corruption watchdog Transparency International's 2014 Corruption Perception Index ranked Pakistan 126th out of 174 countries. The country has five main provinces: Balochistan, Gilgit-Baltistan, Khyber Pakhtunkhwa, Punjab and Sindh. It also has three regions, Islamabad Capital Territory, Azad Jammu Kashmir and Gilgit-Baltistan and a group of Federally Administered Tribal Areas (FATA).[3]

The 18th Amendment to the country's constitution in April 2010 provided complete administrative and financial autonomy to the provinces giving them autonomy in resource generation and expenditure management. This 18th Amendment also provided for the devolution of more than seventeen social sector subjects, including health and education, from the federal government to provincial governments.[4] This resulted in the National Ministry of Health being abolished in June 2011. The government realized the need for having a federal institution to provide national-level policy guidelines, oversee health regulation, carry out national disease surveillance and use health information for decision making, and coordinate with international partners. This resulted in the revival of four National Programs (i.e. National AIDS Control Program, National TB Control Program, Directorate of Malaria Control and the Expanded Program on Immunization) in July 2011 which were placed under the Ministry of Inter-Provincial Coordination. In May 2013, the Ministry of National Health Services Regulation and Coordination was established and these National Programs were then transferred to this newly established Ministry.

Pakistan's disease burden is significant, and the country is classified as one of the Global Fund's "high impact" countries. These countries account for 70 percent of the worldwide burden of HIV/AIDS, tuberculosis and malaria:

- Pakistan has the 5th highest tuberculosis (TB) burden in the world, and accounts for 60% of the TB burden of the Eastern Mediterranean Region of the World Health Organization (WHO). The TB prevalence rate is 342 cases in 100,000 and the TB incidence rate is 275 cases per 100,000 people. The WHO estimated that the TB mortality rate was 27 deaths per 100,000 people in 2013.[5] The TB mortality rate in Pakistan has declined by 60% in comparison to 1990 when it was 69 per 100,000 people. However, despite this decline, the TB burden remains high in Pakistan;

- Pakistan is classified as a moderate malaria endemic country.[6] However, there is wide diversity within and between the provinces and districts. Plasmodium Vivax and Plasmodium Falciparum are prevalent in Pakistan, with the former being the major parasite species responsible for more than 80% reported confirmed cases in the country. The country accounts for 22% of the total malaria disease burden in the Eastern Mediterranean Region.[7] The Malaria Indicator Survey conducted in the country's 38 highly endemic districts shows that the highest prevalence rates are in the FATA region (13.9%), followed by Balochistan (6.2%), and Khyber Pakhtunkhwa

[1] http://data.worldbank.org/country/pakistan
[2] UNDP 2014 Human Development Report; http://hdr.undp.org/en/countries/profiles/PAK
[3] National Institute of Population Studies, Government of Pakistan, 2012
[4] http://infopak.gov.pk/Government_Sturcture.aspx
[5] WHO Global TB Report 2014
[6] Pakistan 2014 Malaria Grant Concept Note
[7] WHO World Malaria Report, 2013

(3.8%). Estimated annual numbers of malaria cases are 1.6 million, while approximately 24.8 million people residing in the 38 highly malaria endemic districts are at risk.; and

- The Joint United Nations Program on HIV/AIDS (UNAIDS) estimated that 94,000 people were living with HIV in Pakistan in 2014.[8] Like many other Asian countries, Pakistan is following a similar HIV epidemic trend, having moved from 'low prevalence, high risk' to 'concentrated' epidemic in the early to mid-2000s among key populations. The trend of concentrated HIV epidemic among key populations in Pakistan continues to be driven by people who inject drugs (PWID), with HIV prevalence at 27.2% in 2011. After PWID, prevalence was highest among Hijra, or transgendered sex workers at 5.2%, and then 1.6% among male sex workers. Among the key populations identified in the country, female sex workers exhibit the lowest HIV prevalence of 0.6%.[9]

Since 2004, the Global Fund has signed total grants of USD 309.1 million (TB: USD 214.8 million; malaria: USD 56.9 million; and HIV/AIDS: USD 37.5 million) with the country. By March 2015, a total of USD 241.4 had been disbursed for the three diseases. The country has been allocated USD 255 million under the New Funding Model (NFM) covering the period from 2015 to 2017. About 2.5% of the allocated amount is to support Health Systems Strengthening (HSS).[10]

The Global Fund investments in Pakistan have contributed to good results across all three diseases, with over 5,200 people on antiretroviral therapy (ART) for AIDS, 3.8 million nets (ITNs & LLINs) distributed to protect children and families from malaria, and over 756,000 people tested and treated for tuberculosis.

[8] www.unaids.org/en/regionscountries/countries/pakistan/
[9] Global AIDS Response Progress Report 2014
[10] USD 174 million allocated to TB, USD 52 million allocated to Malaria and USD 28.5 million allocated to HIV/AIDS

II. Scope and Rating

01 Scope

The Office of the Inspector General (OIG) assessed the sustainability, effectiveness and efficiency of the implementation arrangements of the Global Fund grants to the Islamic Republic of Pakistan. Specifically, the audit aimed to:

a. assess the sustainability of Global Fund-supported programs with a focus on the impact of the devolution and government commitment to the three diseases;
b. assess the efficiency of the supply chain management and financial management systems; and
c. assess the design and effectiveness of internal controls in safeguarding Global Fund resources including program management, financial management, procurement and supply chain management, and sub-recipient management.

The audit focused on the existing active grants and combined a desk review with a four-week in-country visit, covering federal and provincial levels. The audit included site visits to projects/programs of Principal Recipients (PRs)/Sub Recipients (SRs) and implementing entities including selected health facilities, treatment centers, warehouses, and stores, as appropriate. In addition to looking at the current implementation arrangements, it also took into consideration potential future arrangements for the effective implementation of the Global Fund grants in Pakistan in light of the devolution.

The audit took place in Islamabad and two (Punjab and Sindh) out of the five provinces due to security challenges. The OIG visited 33 health and storage facilities and covered about 88% (HIV/AIDS – 85%; TB – 93%; and malaria – 75%) of the Global Fund investments in the country. The following entities were audited by the OIG:

Organization	Disease/Role	Location
National TB Control Program (NTP)	PR under TB	Islamabad
Mercy Corps (MC)	PR under TB	Islamabad
Greenstar Social Marketing (GSM)	PR under TB and SR under MC (TB)	Islamabad, Karachi , Lahore
National AIDS Control Program (NACP)	PR under HIV/AIDS	Islamabad
Nai Zindagi (NZ)	PR under HIV/AIDS	Islamabad
Directorate of Malaria Control (DOMC)	PR under malaria	Islamabad
Save the Children (SC)	PR under malaria	Islamabad
Punjab Province TB and AIDS Control Program (ACP)	SR under NTP, NACP, NZ	Lahore
Sindh Province TB, ACP	SR under NTP and NACP	Karachi
Association for Social Development (ASD)	SR under NTP, MC, DOMC, SC	Islamabad, Lahore
Indus Hospital	SR under NTP	Karachi
Pakistan Society	SR under NZ	Karachi
Al-Nijat	SR under NZ	Karachi

The audit was conducted in accordance with the OIG's risk-based audit plan for 2015, which was approved by the Audit and Ethics Committee (AEC). Apart from the Quality of Service and QUART internal reviews performed by the OIG in 2013, Pakistan had not been audited by the OIG.[11] The OIG audit of grants to Pakistan planned for late 2012 was cancelled due to security concerns.

[11] Qualitative Risk Assessment, Action Planning and Tracking (QUART) is a tool used at the Global Fund to provide a comprehensive and structured framework for assessing risk in grants.

02 Rating[12]

Below are the OIG's overall ratings of the implementation of the Global Fund's grants to Pakistan:

Operational Risk	**Rating**	**Reference to findings**
Effectiveness and efficiency of the implementation arrangements	Partial plan to become effective	IV 1.1 and 1.2
Financial management	Partial plan to become effective	IV 2.1
Procurement and supply chain management	Partial plan to become effective	IV 3.1, 3.2 and 3.3
Program management	Generally effective	IV 4.1

[12] See Annex A for the rating definitions.

III. Executive Summary

The Islamic Republic of Pakistan, a high impact country, is a challenging environment for the programs supported by the Global Fund. Challenges in Pakistan include recent changes in the constitution, a vast geographical area with limited infrastructure and limited human resources for health, and security challenges in the FATA, Khyber Pakhtunkhwa and north-east Balochistan regions. The Global Fund-supported programs in Pakistan have made progress despite these challenges with over 5,200 people on antiretroviral therapy (ART), 3.8 million nets distributed to protect children and families from malaria, and over 756,000 people tested and treated for tuberculosis.

The OIG audit of the Global Fund's management of its grant portfolio in Pakistan concluded that the **internal controls over the programmatic activities are generally effective** but, despite recent progress, the **effectiveness and efficiency of the implementation arrangements, the financial management as well as the procurement and supply chain managemen**t are not effective and only a **partial plan to become effective** exists.

1. Effectiveness and efficiency of implementation arrangements

The health system in Pakistan has been decentralized giving more autonomy to the provincial governments. The Global Fund-supported programs in Pakistan are implemented at the national level through national programs for the three diseases and three non-governmental organizations, even though health care delivery is the sole responsibility of the provincial health authorities. Even if this has not necessary caused a material risk today, these implementation arrangements may affect the accountability, sustainability, oversight, and impact of the supported programs in the long run.

The Global Fund supported programs in Pakistan have parallel and vertical systems, which have resulted in inefficiencies in the supply chain and support functions. Despite having common functions, there is little or no coordination among the three disease programs in terms of supply chain management including storage, distribution and logistics management information systems (LMIS). There is also little collaboration and coordination between the TB and HIV programs on case detection, diagnosis and treatment at all levels.

The Global Fund Secretariat has acknowledged the challenges of implementing grants in countries with a devolved health sector and is working on methods for working effectively in these countries and in countries with a federal structure. The Global Fund Country Team recognized that the current structure in Pakistan duplicates many of the support functions of the programs and initiated discussions about the need for synergies in supply chain management, monitoring and evaluation, policy development, human resource development and governance activities.

2. Financial management

The OIG found that inadequate financial management controls, weak oversight by the internal audit function and delays in recruiting key positions have resulted in USD 0.7 million of unsupported expenditures. A further USD 1.7 million of unsupported transactions was identified in the form of unreconciled cash advances. In addition to the inadequate financial controls, there is a lack of financial discipline at the implementer level regarding payroll reconciliations, allocation of overheads and inaccurate accounting systems.

Recently, the Global Fund Secretariat initiated a number of actions to mitigate the significant financial risks to grants in the country, including appointing a dedicated finance specialist for the Pakistan portfolio. There are also measures to better resource the internal auditors of the implementers. The Secretariat agreed to develop a **financial control plan** for the portfolio to strengthen the internal financial controls and financial discipline of Principal Recipients.

3. Procurement and Supply Chain Management

The OIG noted instances of non-compliance with procurement policies, which may result in the program not getting value for money for USD 3 million of transactions. In these instances, the organizations were not always competitively selected, the contracts signed had no clear implementation plans and the implementation of the activities under the contracts was not monitored.

Stock management and storage conditions at the storage facilities visited by the OIG had varying levels of standards for good storage practices. Controls over the distribution of commodities were also inadequate. These weak stock management and storage conditions may affect the quality of health products due to the unfavorable conditions in which commodities are stored and transported. This can notably impact program effectiveness, leading to drug resistance and loss of confidence in the commodities.

The logistics management information systems used by the TB and malaria programs are missing various data fields such as losses/adjustments due to theft, breakages, batch numbers and expiry dates of commodities, which are essential for the effective monitoring of commodities. In the absence of reliable consumption data, the Global Fund-supported programs in Pakistan mainly use morbidity data for quantification and forecasting of commodities from the facility level, resulting in expiries and stock out of commodities.

The Global Fund Secretariat has developed Terms of Reference for a consultant to review the supply chain management system of the Global Fund-supported programs, which is aimed at looking at the possibility of integrating the fragmented systems and addressing other supply chain management issues. The results of this review are expected to be used in developing an integrated Health System Strengthening concept note for the Global Fund-supported programs in the country.

IV. Findings and Agreed Management Actions

1. Effectiveness and efficiency of the implementation arrangements

1.1	The impact of Pakistan's devolution on the effectiveness of the implementation arrangements of the Global Fund Programs

The health system in Pakistan has been decentralized giving more autonomy to the provincial governments. However, the Global Fund-supported programs are implemented through federal programs at the national level. This may affect the accountability, sustainability, oversight and impact of the Global Fund-supported programs in the long term.

The 18th Amendment to Pakistan's Constitution in 2010 introduced provincial autonomy and devolution of legislative and executive authority in many sectors including health. The Federal Ministry of Health was subsequently abolished and health became a provincial matter, leaving the provinces more autonomy to decide on their health system priorities, policies and funds allocation. The Federal Ministry of National Health Services Regulations and Coordination (NHSR&C) was established in 2013 as the body responsible for national regulation and coordination but with little role in delivering health services.

The Global Fund-supported programs in Pakistan are implemented at the national level through national programs on the three diseases (HIV/AIDS, TB and malaria) and three non-governmental organizations, even though heath care delivery is the sole responsibility of the provincial health authorities.[13] Even if this does not cause a material risk today, these implementation arrangements may affect the accountability, sustainability, oversight, and the impact of the Global Fund-supported programs in the long run.

Accountability: The authority of the national programs over the provincial governments is driven only by the sub recipient agreements signed under the Global Fund grants. The provinces have complete administrative and financial autonomy in resource generation and expenditure management. The provincial department of health reports to the Chief Minister who then reports to the Prime Minister at the Federal level, leaving the NHSR&C and national programs with limited authority over provincial structures and affecting the accountability of the local governments vis a vis national PRs.

Sustainability: The implementation of the grants through federal programs has impacted the capacity of the provinces, leaving them with inadequate structures to effectively manage Global Fund grants. This arrangement in the long run affects the capacity of the provinces to perform their health mandate, limiting the development of the provincial government structures and systems to ensure sustainability and local ownership.

Oversight: The Global Fund-supported programs are managed by the Principal Recipients from a central level through a wide range of sub-recipients in a vast geographical area with limited infrastructure and security challenges in the FATA, Khyber Pakhtunkhwa and north-east Balochistan regions. As a result, there is inadequate oversight of the sub-recipients and health facilities by the Principal Recipients. Moreover, local programmatic leadership and oversight functions (i.e. finance, monitoring and evaluation) are inadequate resulting in the issues identified in sections 2 and 3 of

[13] The NGOs are Mercy Corps, Nai Zindagi and Save the Children.

this report. Oversight functions closer to the service delivery areas are essential for effective monitoring and proper implementation of programmatic activities.

Impact: Implementing health programs at the national level in a country with a vast territory, and different disease burdens among the regions may lead to circumstances in which the areas of funding prioritized by the National Programs may not align to the priorities of the provinces and/or districts, affecting the impact of the interventions in the provinces. For example, there are provinces such as Balochistan where the malaria burden is high and well spread and therefore requires a different intervention than for Sindh province where malaria is concentrated in specific areas.

The Country Team identified the impact of the devolution on the implementation of Global Fund-supported programs and initiated discussions with the national authorities on the subject. This led to the decision of the Country Coordinating Mechanism (CCM) to transform the provincial health departments into sub-recipients to run the programs at the provincial level, and to develop their implementation capacity.

The Secretariat has also noted this challenge in other similar complex environments with devolved governments and is working on methods to work effectively in these countries with devolved health sectors and federal structures.

Agreed Management Action 1

The Secretariat will discuss with the Country Coordinating Mechanism and federal and provincial government authorities, and develop a **Strategic Plan** to align grant implementation with the health architecture in Pakistan after devolution. The plan should, as a minimum, contain the following:

- Analysis of the current situation;
- Discussion of options to work towards Provincial Governments/Health Departments being Principal Recipients of the Global Fund, with milestones and timelines;
- Options to consolidate the remaining functions at federal level (coordination, regulation, resource mobilization, monitoring);
- Options for a combined storage and distribution system at the national, provincial and district level for the three disease programs, for a more efficient storage and distribution of health commodities (in synergy with AMA 5);
- Options to integrate/merge functions (M&E, procurement, financial management) or merging the entire Global Fund supported Federal setup into a single entity.

Owner:
Head, Grant Management Division

Target date: 31 March 2016

1.2	Weak coordination among the three Global Fund-supported programs

Vertical and parallel systems of the three Global Fund-supported programs have resulted in inefficiencies in the supply chain and support functions. These vertical structures have also affected effective coordination between the TB and HIV/AIDS programs.

Although the Global Fund-supported programs have made significant progress in Pakistan, coordination within the three disease programs needs to be improved for the efficient use of resources. For example:

- **Supply chain management:** Despite having common functions, there is little or no coordination among the three disease programs on the supply chain management functions including storage, distribution and logistics management information systems (LMIS).

  The OIG noted that the three disease programs have separate storage facilities for their commodities at the national, provincial and district levels. They also have separate distribution arrangements at all levels for the distribution of their commodities leading to inefficient use of resources. The HIV/AIDS, malaria and TB programs manage 23, 35, and 148 separate storage facilities, respectively. The cost of maintaining the supply chain management including storage, distribution, clearing incurred by the Directorate of Malaria Control (malaria), National TB Control Program (TB) and National AIDS Control Program (HIV/AIDS) from 2011 are USD 3.5 million, USD 2.7 million and USD 0.2 million respectively.

  Each of the three programs has developed or is in the process of developing its own LMIS without considering an integrated system for the three diseases. The National TB Control Program has an electronic LMIS and a Warehouse Management System (WMS) which were funded by the Global Fund. However, these two applications (LMIS and WMS) have not been integrated for effective monitoring and reporting of TB commodities. The HIV and malaria programs mainly record logistics data manually. However, the HIV program has started developing its own electronic LMIS and it is currently being tested. Having separate LMIS for each disease is not an efficient use of grant resources.

- **Support functions:** Each of the government Principal Recipients has its own structure for program implementation and oversight even though most of the support and administrative functions are common for the three diseases. A total of 145 people are working on support and administrative functions at the national level for the three government Principal Recipients. Overall administration costs, including Human Resource costs and overheads for implementing the Global Fund program of the three government Principal Recipients from 2013, amounted to USD 13.4 million, which is about 47% of the total expenditure of the three Principal Recipients after deducting the procurement of health products and medicines, which are procured directly by the Global Fund's Pooled Procurement Mechanism.[14] Integration of the support functions at the national level would result in a more efficient use of resources available for service delivery under the three diseases' programs to maximize the impact of the interventions.

- **Program coordination:** The OIG noted that there is little collaboration and coordination among the TB and HIV programs on case detection, diagnosis and treatment at all levels. There is no process in place at the Antiretroviral Therapy (ART) centers to track the TB treatment status of the HIV positive cases. No clear processes were identified in referring HIV identified clients at Directly Observed Treatment (DOT) centers to the HIV care and treatment centers. This has

[14] Pooled Procurement Mechanism is used by the Global Fund to ensure a cost-effective and efficient procurement process for its grants

contributed to low achievement of key targets in the screening of HIV positive cases for TB (68%).[15] This may result in HIV positive patients not knowing their TB status, thus limiting the capacity of the program to offer protective interventions to reduce transmission to their families and communities.

We also noted that there is no process in-place at ART centers for providing prophylactic treatment to eligible HIV positive patients with CD4 count above 350. This may result in increased chances of HIV patients acquiring TB infection.

The Global Fund Country Team, GAVI Alliance and the Ministry of National Health Services Regulations and Coordination (NHSR&C) recognized that the current architecture duplicates many of the support functions of the programs and initiated discussions about the need for synergies in monitoring and evaluation, supply chain management, policy development, human resource development and governance activities. Terms of Reference (TOR) have been developed by the Global Fund Country Team for a consultant to review the supply chain management system of the Global Fund-supported programs which is aimed at looking at the possibility of integrating the fragmented systems. The results of this review are expected to be used in developing an integrated HSS concept note to access future funding. GAVI Alliance is also working on a HSS grant for the country. In an environment of resource constraints, the OIG encourages the programs to review how these activities can be integrated more efficiently.

Agreed Management Action

Please refer to the Agreed Management Action under Finding 1.1.

[15] NACP December 2014 PUDR

2. Design and Effectiveness of Internal Controls on Financial Management

2.1	Inadequate internal controls over expenditures and advances. Lack of financial discipline at the implementer's level.

Inadequate financial management controls, weak oversight by the internal audit function and delays in recruiting key positions have resulted in USD 2.4 million in unsupported transactions, including USD 1.7 million of unreconciled cash advances.

As a result of the poor oversight over grant expenditures and ineffective budget monitoring, the OIG identified expenditures amounting to about USD 0.7 million that were not justified with third party supporting documents.

The lack of a tracking mechanism to monitor and control advances resulted in cash advances to staff and consultants amounting to USD 1.7 million outstanding as of 31 December 2014 at the National TB Control Program. About USD 0.2 million of these advances were more than 6 months old. The balance, a total of USD 1.5 million advance to vendors/suppliers, are more than 6 months old but no reconciliation has been performed to either recover these funds or compel the vendors to provide the services. National TB Control Program could not provide the OIG with the status of advances at the time of the audit in April 2015. For these reasons, the OIG identifies these transactions as unsupported and non-compliant at the time of the audit, but additional works by the PRs and/or the Secretariat is required to validate whether goods and services have been provided or if supporting documents can be provided by staff and vendors.

In addition to the above mentioned inadequate financial controls, the OIG noted a lack of financial discipline at the implementer's level regarding payroll reconciliations, allocation of overheads, payment of tax from grant funds and inaccurate accounting systems. Specifically:

- Payroll reconciliations are not prepared by 31% of implementers audited. There was an instance where 10 government employees working with the National TB Control Program were paid salaries (not top-ups) of about USD 0.4 million from the Global Fund grant even though they were receiving salaries from the government as well.
- Three implementers (NACP, DOMC and Pakistan Society) have not developed a policy for allocating their overheads and common costs to different projects. The implementers that have such a policy (Save the Children, Mercy Corps and Greenstar) were not able to provide documents to justify the cost allocation as per their policy.
- Implementers' accounting systems do not support the generation of payment vouchers or the vouchers are not pre numbered which may allow dummy payments to be recorded. Moreover, provincial implementers keep their accounting records in Microsoft Excel which may lead to manipulation and errors.

Weak controls are due to poor oversight by the internal auditors, delays in the recruitment of key staff, and out of date finance manuals. For example, the Internal Audit units of the implementers are generally not well equipped to perform their functions effectively and their reporting lines do not ensure independent audits/reviews. The Internal Audit functions are mostly focused on substantiating transactions before they are recorded with limited risk assessment, and yearly audit engagements. There have also been significant delays in the recruitment of key positions especially at the national programs resulting in limited supervision and lack of staff to ensure segregation of duties. Moreover, issues identified during previous reviews and monitoring visits of sub-recipients are not followed up effectively.

The Country Team has initiated a number of actions to mitigate the significant financial risks in the country including a dedicated Global Fund finance specialist for the portfolio. There are also measures to resource and build the capacity of the internal auditors of the implementers.

Agreed Management Action 2

The Secretariat will develop a **Financial Control Plan** for the portfolio, with milestones and timelines. The plan should, as a minimum, include the following:

- Measures to strengthen internal financial controls and financial discipline of Principal Recipients;
- Analysis of the unsupported expenditures and long outstanding advances; and
- Suggestions for a way forward to deal with the non-compliances identified.

Owner:
Head, Grant Management Division

Target date: 31 March 2016

3. Design and Effectiveness of Internal Controls on Procurement and Supply Chain Management

3.1	Non-compliance with procurement policies

Non-compliance with the policies on procurement may result in the program not getting value for money for transactions amounting to about USD 3 million.

The OIG noted instances where the procurement policies of the implementers were not followed which may result in the Principal Recipients not getting value for money for the procurements. For example:

The National TB Control Program (NTP) signed contracts with four organizations amounting to **USD 1.7 million** to undertake different activities under the TB program. The OIG noted that:

- the organizations were not competitively selected;
- the contracts signed with these entities do not include an implementation plan;
- withholding tax was not deducted from payments made to the consultants;
- significant amounts (USD 1.3 million) were disbursed to these organizations even though they had not started the work and no bank guarantee was obtained for these disbursements; and
- there was no evidence that the Principal Recipient (NTP) monitored the implementation of the activities under the contracts.

Greenstar Social Marketing Pakistan, a Principal Recipient under the TB Round 8 grant contracted affiliate organizations to implement activities under the Round 8 TB grant with a total budget of about USD 1 million.[16] The Principal Recipient had paid about **USD 0.7** million to these organizations. The OIG noted that these organizations were not competitively selected, detailed budgets for the contracts were not provided, the total amount of the contract for the second phase was paid in advance without being linked to deliverables, and invoices provided by the vendor were not in line with the requirements of the contract.

The Directorate of Malaria Control (DOMC) made payments amounting to **USD 0.5** million to an organization without obtaining progress reports and documented validation of the services provided by the entity as required by the contract.

The Country Team identified procurement as a risk in the Qualitative Risk Assessment, Action Planning and Tracking (QUART) tool and instituted measures to address this risk, including procurement review by the Local Fund Agent.[17] However, the risk has not been mitigated effectively. The OIG observed that the implementers do not have strong procurement committees and adequate mechanisms to monitor the execution of contracts resulting in the issues above. Moreover, tendering processes of significant procurements are not adequately monitored.

[16] Population Services International (PSI) and John Snow Inc. (JSI)
[17] QUART is a tool used at the Global Fund to provide a comprehensive and structured framework for assessing risk in grants.

Agreed Management Action 3

The Secretariat will review the non-compliant procurements and provide the OIG with an **analysis** of value-for-money obtained. Based on the findings of this report and the Secretariat's analysis, the Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.

Owner:
Head, Grant Management Division

Target date: 31 December 2015

3.2	Inadequate Logistics/Drug Management Information System (L/DMIS)

Quantification and forecasting for the three disease programs are mainly done using morbidity data. Inadequate LMIS systems and the use of morbidity data contributed to expiries and stock out of commodities.[18]

A good LMIS system, having all the necessary information, is key for an effective quantification and forecasting of commodities. The OIG audit noted that the current electronic logistics management information system (E-LMIS) used by the TB program and the LMIS used by the malaria program are missing various data fields such as losses/adjustments due to theft, breakages, batch numbers and expiry dates of commodities which are essential for effective monitoring of commodities.[19]

The HIV and malaria programs are mainly recording logistics data manually, and the TB E-LMIS developed in 2013 has not been used effectively due to lack of computers and internet connectivity at some of the facilities. As a result, the Global Fund-supported programs in Pakistan are mainly using morbidity data for quantification and forecasting in the absence of reliable consumption data from the facility level. It is challenging for the implementers to track the expiry of commodities and monitor stock outs effectively. Using morbidity data for quantification may result in overstocking of commodities/drugs which may result in expiry or understocking of drugs which may result in treatment disruptions.

There were instances where shortages and expiries were observed in the supply chain leading to treatment disruptions. For example, there was stock out for Lamivudine Syrup (at PACP-Sindh store), Kaletra (at Indus hospital- ARV center store), Nevirapine syrup and Zidovudine tablet (at Civil Hospital Karachi Pediatric ART center store) in certain periods in 2013 and 2014. Stock outs were recorded for the months of August, September and October 2013 (i.e. peak malaria transmission months) according to the Malaria Indicator Survey 2013 for the malaria commodities/drugs including Injection Artesunate and Rapid diagnostic tests (RDTs) which recorded high stock outs of 9.2% and 6.8% respectively.[20]

Agreed Management Action 4

The Secretariat will develop a detailed proposal, with timelines and milestones, aiming at enabling programs to use consumption-based health product quantification for better decision making. The proposal will also address the issue of missing data fields in the LMIS forms.

Owner:
Head, Grant Management Division

Target date: 31 March 2016

[18] Morbidity data is data based on the frequency with which a disease appears in a population.
[19] The malaria program does not use E-LMIS. There are series of forms that are being completed at different levels of the malaria supply chain.
[20] Malaria Indicator Survey 2013 pg. 82

3.3	Inadequate Distribution, Storage and Inventory Control

Poor storage conditions and weak controls over distribution of health commodities may affect the potency, efficacy and effectiveness of drugs, notably affecting program impact, and leading to drug resistance and loss of confidence in the program.

The OIG visited 25 out of the 87 storage facilities in Islamabad, Punjab and Sindh province. Stock management and storage conditions at the storage facilities visited had varying level of standards for good storage practices (GSP). The OIG audit noted that:

- Temperatures at four of the warehouses visited were not properly monitored. In certain instances, the temperature monitoring sheet showed temperature reaching close to 30 degrees Celsius during the summer months even though the commodities should be stored in a temperature not exceeding 25 degree Celsius.
- There was no separation or labelling of quarantine area from other areas at five storage facilities visited, no clear area was designated for expiry products for other three stores and hazardous materials are not separated from other commodities in another two stores visited.
- Two facilities had bin cards with no expiry date and batch number. No stock/bin cards were used in certain instances (for example, the district warehouse in Islamabad).
- There was no separation of Global Fund commodities from other locally procured commodities at the Punjab Provincial warehouse.
- There were differences in receipt and consumption data of stock generated by the Management Information System (MIS) and stock reports of 27 Continuum of Prevention and Care (CoPC+) sites.

The OIG noted that the controls around the distribution of commodities are inadequate. There is no standardized procedure for distributing health commodities including drugs at the sub district level (i.e. district to health facilities) and therefore certain specific products (e.g. hazardous materials) are distributed in unsafe conditions. There is no clause or requirement in the technical specifications in the different Principal Recipients' agreements with the Third Party Logistics (i.e. goods forwarding agents/cargo agents) about the need for vehicles with temperature control (i.e. room temperature or meeting the products' labelling requirements) for inland transport of commodities. Temperature is not controlled or monitored by the Principal Recipients in the transportation of health commodities. There is no mechanism at the central or provincial level to monitor the performance of the Third Party Logistics. Only NACP provided evidence of monitoring Third Party Logistics performance on annual basis.

These weak stock management and storage conditions may affect the quality of health products due to the unfavorable conditions in which these commodities are stored and transported, notably affecting program effectiveness and leading to drug resistance and loss of confidence in the commodities.

Most of the personnel at the sub district level were not able to effectively implement the Standard Operating Procedures because they are written in English which most of the people at the sub-district level are not able to read or speak. Moreover, there were limited training for store keepers on good storage practices and limited supervisory visits to these storage facilities.

Agreed Management Action 5

The Secretariat will undertake an **assessment** of the warehousing infrastructure for the three diseases, with the aim to identify and explore potential for cross-disease utilization. The assessment will include:

- The status of each major warehouse owned or permanently rented in the context of GF program implementation in Pakistan, with regards to its compliance with applicable storage policies;
- An outline of an action plan to train storekeepers;
- An outline of an action plan to develop SOPs for drug storage across diseases (in English, Urdu and any other local language where appropriate); and
- An SOP for renewal of Third Party Logistics (TPL) agreements based on performance.

Owner:
Head, Grant Management Division

Target date: 30 June 2016

4. Program Management

4.1	Non-compliance with protocols and guidelines

Non-adherence to WHO and Global Fund guidelines may result in loss of confidence in the program and waste financial resources.

The OIG audit noted non-compliance with the Confidentiality, HIV Testing and Counselling (HTC), Opioid Substitution Therapy (OST) and Quality Assurance protocols/guidelines.

Confidentiality is important for HIV patients, as it is for all other patients. According to WHO guidelines, all medical records, whether or not they involve HIV-related information, should be treated according to appropriate standards of confidentiality.[21] The OIG audit noted that services provided to HIV positive potential patients or patients including counseling, routine checkups, follow-up and data storage at 5 out of the 6 ART centers visited were done in one room, compromising the confidentiality of the People Living with HIV/AIDS and their families. This practice may discourage HIV positive potential patients or patients from accessing services at the ART centers.

There is a conflict between the Pakistan National HTC guidelines and the WHO HTC guidelines. According to Pakistan National HTC guidelines, HIV positive potential patients can be confirmed by performing one Rapid Diagnostic Test (RDT) and three Elisa techniques while according to WHO HTC guidelines, HIV positive suspects can be confirmed by performing three different RDT tests. This difference in the guidelines has created issues between public sector ART centers and private sector Community and Home-Based Care (CHBC) sites when they refer their identified patients for treatment. ART centers in Pakistan are following the National HTC guidelines while private sector Principal Recipient and its Sub Recipients (who manage the CHBC sites) are using the WHO recommended guidelines for confirmation. HIV positive patients referred to the ART centers by the CHBC sites are tested again and the confirmatory reports of the patients take about five to seven working days. This practice duplicates the efforts of the CHBC sites and is not an efficient use of resources. Moreover, it has created financial constraints for CHBC sites in providing transportation and accommodation for the HIV positive patients who travel from far off areas for HIV treatment.

Opioid Substitution Therapy (OST) is an internationally agreed standard management procedure to overcome the side effects faced by injecting drug users during the detoxification process.[22] OST can prevent the spread of HIV by people who inject drugs, modify behaviors among these people that increase the risk of transmitting HIV and other infections, and enhance the effectiveness of treatment for HIV infection and tuberculosis among IDUs. However, OST is not permitted as an intervention in Pakistan as a national policy. This has contributed to the HIV program seeing many relapses in detoxified IDUs. Moreover, this is a reportable indicator under the Global Fund program but activities amounting to USD 2.4 million could not be implemented affecting the performance of the HIV program.

There was no testing of samples of TB and HIV/AIDS commodities at a WHO Prequalified laboratory as per the Global Fund Quality Assurance policy. The malaria program (DOMC) selected samples and tested them at a WHO Prequalified laboratory in Singapore in 2013 but no testing of samples

---

[21] http://www.who.int/3by5/publications/briefs/hiv_testing_counselling/en/; http://www.who.int/hiv/topics/idu/care/E90840.pdf

[22] Opioid substitution therapy supplies illicit drug users with a replacement drug, a prescribed medicine such as methadone or buprenorphine, which is usually administered orally in a supervised clinical setting. These medicines have similar or identical properties to heroin and morphine on the brain and alleviate withdrawal symptoms and block the craving for illicit opiates.

was performed in 2014. In addition, the QA plans of all the three disease programs are yet to be finalized and pharmacovigilance is not sufficiently described in these QA plans. For example, there is no information on the type and number of activities planned, sample of Adverse Drug Reaction/Event form, human resources required and samples of sites for piloting the program.

The consequences of poor quality drugs may lead to treatment failure, adverse effects, prolonged illness, drug resistance, loss of confidence in the program, waste of limited financial resources, and death.

Agreed Management Action 6

The Secretariat will provide - with the support of other Development Partners and Government programs – a status update on outdated disease control policies and guidelines. The status report will also provide timelines and milestones for updating them, as agreed with Government PRs and Development Partners.

Owner:
Head, Grant Management Division

Target date: 31 December 2015

V. Table of Agreed Actions

No.	Category	Agreed Management Action	Target Date
1.	Effectiveness and efficiency of the implementation arrangements	The Secretariat will discuss with the Country Coordinating Mechanism and federal and provincial government authorities, and develop a **Strategic Plan** to align grant implementation with the health architecture in Pakistan after devolution. The plan should, as a minimum, contain the following: • Analysis of the current situation; • Discussion of options to work towards Provincial Governments/Health Departments being Principal Recipients of the Global Fund, with milestones and timelines; • Options to consolidate the remaining functions at federal level (coordination, regulation, resource mobilization, monitoring); • Options for a combined storage and distribution system at the national, provincial and district level for the three disease programs, for a more efficient storage and distribution of health commodities (in synergy with AMA 5); • Options to integrate/merge functions (M&E, procurement, financial management) or merging the entire Global Fund supported Federal setup into a single entity.	31 March 2016
2.	Financial Management	The Secretariat will develop a **Financial Control Plan** for the portfolio, with milestones and timelines. The plan should, as a minimum, include the following: • Measures to strengthen internal financial controls and financial discipline of Principal Recipients; • Analysis of the unsupported expenditures and long outstanding advances; and • Suggestions for a way forward to deal with the non-compliances identified.	31 March 2016
3.	Procurement and Supply chain Management	The Secretariat will review the non-compliant procurements and provide the OIG with an **analysis** of value-for-money obtained. Based on the findings of this report and the Secretariat's analysis, the Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.	31 December 2015
4.	Procurement and Supply chain Management	The Secretariat will develop a detailed proposal, with timelines and milestones, aiming at enabling programs to use consumption-based health product quantification for better decision making. The proposal will also address the issue of missing data fields in the LMIS forms.	31 March 2016

No.	Category	Agreed Management Action	Target Date
5.	Procurement and Supply chain Management	The Secretariat will undertake an **assessment** of the warehousing infrastructure for the three diseases, with the aim to identify and explore potential for cross-disease utilization. The assessment will include: • The status of each major warehouse owned or permanently rented in the context of GF program implementation in Pakistan, with regards to its compliance with applicable storage policies; • An outline of an action plan to train storekeepers; • An outline of an action plan to develop SOPs for drug storage across diseases (in English, Urdu and any other local language where appropriate); and • An SOP for renewal of Third Party Logistics (TPL) agreements based on performance.	30 June 2016
6.	Program Management	The Secretariat will provide - with the support of other Development Partners and Government programs – a status update on outdated disease control policies and guidelines. The status report will also provide timelines and milestones for updating them, as agreed with Government PRs and Development Partners.	31 December 2015

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 (*Specific, Measurable, Achievable, Realistic* and *Time-bound)* 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) performs its audits in accordance 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.