



## Audit Report

# Global Fund Grants to the Republic of Zimbabwe

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Geneva, Switzerland

# Table of Contents

I.	Background.....	3
II.	Scope and Rating .....	5
01	Scope .....	5
02	Rating .....	5
III.	Executive Summary .....	6
IV.	Findings and Agreed Management Actions.....	8
01	Achievement of impact has been affected by limitations in quality of service .....	8
02	Challenges in the country’s supply chain management system affect effective distribution and accountability for medicines and commodities .....	11
03	Adequate controls over financial risks with some gaps in the effective utilization and accountability of grant funds.....	13
V.	Table of Agreed Actions.....	16
	Annex A General Audit Rating Classification .....	17
	Annex B: Methodology.....	18

# I. Background

## Country context

Zimbabwe is a low income country with a population of 15.25 million (2014)<sup>1</sup> and gross domestic product of US\$14.2 billion (2014). The country has an economic growth rate of approximately 1.4% per annum, with 72.3% of the population living below the poverty line.<sup>2</sup> Growth in Zimbabwe has slowed sharply since 2012 as the impact of “dollarization”<sup>3</sup> has affected the economy. The economy’s vulnerability to climate change is already being felt with El Nino’s impact on the agriculture, water and power sectors. This, and the fall in commodity prices, has resulted in a reduction in tax receipts as well as further deepening the country’s economic difficulties. The country was ranked 155 out of the 188 countries in the United Nations Development Program (UNDP) human development index report for 2015.<sup>4</sup> Transparency International’s 2015 Corruption Perceptions Index ranked the country at 150 out of a total of 167.

The Ministry of Health and Child Care (MOHCC) remains in the country’s top five priority ministries in terms of financial allocation from the government.<sup>5</sup> However, fiscal allocations to the health sector have decreased in recent years with the government citing tight budgetary constraints. For instance, government per capita expenditure on health service delivery declined from 9.9% in 2013 to 8.2% in 2014.<sup>6</sup> In 2015, 7% of the national budget was allocated to the MOHCC. The limited funding provided by the government is spent mostly (90%) on salaries, leaving limited resources available to support other interventions not funded by Global Fund and development partners.<sup>6</sup> This has negatively affected the provision of health care in the country especially human resources for health where the government has frozen employment in the public sector. There is also migration of health personnel to other countries in search of better opportunities. Health worker density is low at 1.23 health worker per 1,000 population compared to the 2.5 ratio required to deliver health services.

Despite the challenges, Zimbabwe has devised innovative ways to raise domestic financing for HIV. An AIDS levy<sup>7</sup>, established in 1999, raises an estimated US\$35 million annually and is recognized as good practice within the region. However, deepening economic difficulties in the country could affect the income that can be generated from this levy since it relies on tax receipts.

As a result, the country continues to be heavily reliant on development partners to fund public health interventions with the Global Fund and USAID as the top two donors. The country also has a Health Development Fund financed by major donors such as the UK’s Department for International Development, the European Union, Irish Aid and Sweden. This Fund has continuously supported a health workers’ retention scheme with success.

## The three diseases in Zimbabwe

### HIV

Zimbabwe accounts for 4.5% of the global HIV burden. The country has a generalized heterosexually-driven HIV epidemic with an estimated adult prevalence rate of 16.7%.<sup>8</sup> It is estimated that 1,400,000 adults and 150,000 children are living with HIV. Nevertheless, the country has made significant progress in the control and treatment of HIV/AIDS:

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<sup>1</sup> World Bank Country Profile, <http://data.worldbank.org/country/zimbabwe>

<sup>2</sup> The World Fact Book, <https://www.cia.gov/library/publications/the-world-factbook/geos/zi.html>

<sup>3</sup> Dollarization means the use of a foreign currency as legal tender instead of the domestic currency. In Zimbabwe’s case, this was a change from the Zimbabwe dollar to the US dollar. This helped the country address hyperinflation, restore financial stability, and reestablish monetary credibility.

<sup>4</sup> 2015 UNDP Human Development Report 2015,

<sup>5</sup> World Health Organization, African Health Observatory

<sup>6</sup> Zimbabwe - Health public expenditure review, May 2015

<sup>7</sup> AIDS levy is a tax levied on employees’ income.

<sup>8</sup> UNAIDS Country Profile, <http://www.unaids.org/en/regionscountries/countries/zimbabwe>

- Overall, anti-retroviral therapy (ART) coverage increased from 36% in 2009 to 82% (42% in children and 95% in adults) by the end of 2012. As of June 2015, there were 842,372 adults and children receiving ART.
- There has been a sustained decline in HIV/AIDS mortality from 115,117 deaths in 2011 to 54,994 deaths in 2014.
- The number of HIV positive pregnant women who receive ART to reduce the risk of mother-to-child transmission increased from 22% in 2012 to 82% in 2013.

### Malaria

Malaria remains a major health problem in Zimbabwe with almost half of the population at risk with 480,109 reported cases in 2014 as indicated in a malaria case management audit performed by the MOHCC. Its epidemiology varies greatly in the different regions of the country, ranging from year-round transmission in the lowland areas to endemic-prone areas in the highlands with seasonal transmission. Significant progress has been made in the fight against malaria with:

- a decline in prevalence and incidence, leading to several districts shifting from control to pre-elimination activities;
- over 90% of uncomplicated malaria cases being confirmed before treatment;<sup>9</sup>
- high rates of bed net ownership (99% by the end of 2015) although challenges around usage remain (around 49% per a 2012 Malaria Indicator Survey); and
- Indoor Residual Spray coverage in targeted populations increasing from 87% in 2012 to 92% in 2015.

### Tuberculosis

Zimbabwe accounts for 1.2% of the global tuberculosis (TB) burden and has the seventh highest burden in Africa. Zimbabwe conducted a national TB prevalence survey in 2014/2015. Preliminary estimates for all forms of TB prevalence for 2014 was 292 per 100,000 population, significantly below previous estimates of 409 cases per 100,000. The TB treatment success rate is estimated at 80%<sup>10</sup> and 970 multi-drug resistant TB cases are estimated to occur annually.<sup>11</sup>

### **Global Fund support in Zimbabwe**

In total, the Global Fund has signed 19 grants amounting to US\$1.1 billion, out of which US\$930 million has been disbursed to date. The active grants as at the time of the audit (March 2016) were:

<b>Component</b>	<b>Principal Recipient</b>	<b>Signed Amount US\$ millions</b>	<b>Disbursed amount US\$ millions</b>
HIV/AIDS	United Nations Development Program	469	346
Malaria	Ministry Of Health and Child Care	59	24
Tuberculosis	Ministry Of Health and Child Care	39	12
<b>Total</b>		<b>567</b>	<b>382</b>

Grants are managed under the Additional Safeguards Policy with UNDP as the Principal Recipient for the HIV grant. The Additional Safeguard Policy is invoked as a risk mitigation measure to enable the Global Fund to institute appropriate measures where Global Fund assets could be placed in jeopardy. The MOHCC was engaged as a Principal Recipient for the malaria and TB grants in January 2015 with additional safeguards in the form of a fund administrator (UNDP), who was appointed to mitigate the risk of the sequestration of funds.<sup>12</sup>

Health products and medicines under the HIV/AIDS, TB and malaria grants are mostly (over 90%) procured through the UNDP systems, the Global Drug Facility and the Secretariat's Pooled Procurement Mechanism, respectively.

<sup>9</sup> Ministry of Health and Child Care Malaria Case Management Audit, 2015

<sup>10</sup> WHO TB Report 2014 Zimbabwe

<sup>11</sup> Drug-Resistant Tuberculosis in High-Risk Groups, Zimbabwe, Volume 20, Number 1—January 2014

<sup>12</sup> In 2008, the government decided that all foreign currency accounts should be 'lodged' with the Reserve Bank of Zimbabwe which affected implementation since grant funds were not readily available when required.

## II. Scope and Rating

### Scope

This audit was undertaken according to the Office of Inspector General (OIG)'s risk-based audit plan for 2016. The OIG, through this audit, seeks to provide independent assurance to the Board on the adequacy and effectiveness of:

- (i) the current grant implementation arrangements;
- (ii) the quality of services provided within funded programs;
- (iii) the supply chain in delivering and accounting for quality assured medicines and health products in a timely manner; and
- (iv) internal controls to ensure an economic, efficient and effective use of grant funds.

The audit covered:

- the three grants implemented by UNDP and MOHCC and their sub-recipients and sub sub-recipients from January 2014 to December 2015. However, findings from the OIG's visit to the implementation sites include observations noted as of the time of the visit in March 2016; and
- visits to six sub recipients and sub-sub recipients, field visits to 30 hospitals and health facilities, national and one provincial warehouse of the National Pharmaceutical Company of Zimbabwe (NatPharm), and district health offices.

### Scope limitation

The United Nations General Assembly has adopted a series of resolutions and rules which create a framework known as the "Single Audit Principle". Under this framework, the United Nations and its subsidiaries do not consent to third parties accessing their books and records. All audits and investigations are conducted by the UN's own oversight bodies. The Global Fund Board and its committees have considered this assurance over funds managed by UNDP and other UN subsidiary bodies and rely on the assurance provided by these UN oversight bodies. Accordingly the OIG did not audit UNDP expenditures.

### Rating<sup>13</sup>

<b>Audit objectives</b>	<b>Rating</b>	<b>Reference to findings</b>
Adequacy and effectiveness of current grant implementation arrangements	Effective	IV.3
Quality services are provided within funded programs	Needs significant improvement	IV.1
Supply chain system delivers and accounts for quality assured medicines and health products in a timely manner	Partially Effective	IV.2
Internal controls result in economic, efficient and effective use of grant funds	Effective	IV.3

<sup>13</sup> See Annex A for the rating definitions

### III. Executive Summary

Global Fund grants in Zimbabwe are implemented in an economically constrained environment, characterized by a decline in the government's per capita expenditure on health service delivery over the past two years. Most of the government's resources support health worker salaries, leaving limited funds available for other key interventions.<sup>14</sup> The government's freeze on employment in the public sector and the migration of health workers to other countries have negatively impacted both the number of workers available and service delivery in the health sector.

This audit of grants in Zimbabwe seeks to provide independent assurance to the Board on the adequacy and effectiveness of the following areas:

#### Quality of services provided under funded programs:

Despite substantial economic challenges, the country has successfully scaled up interventions across the three diseases in the past two years with support from the Global Fund and other development partners. This is demonstrated by a 30% increase in the number of people on anti-retrovirals in 2014 and 2015, almost universal diagnosis of malaria cases before treatment and an increase in the tuberculosis treatment success from 79% in 2014 to 83% in 2015 based on MOHCC's data.

However, the OIG found that this scale up has not always been accompanied with corresponding increases in the quality of services, especially for HIV and malaria:

- Contrary to national guidelines, 13% of the 30 facilities visited by the OIG (accounting for 32% of HIV positive cases in facilities visited) did not consistently perform confirmatory tests on HIV positive patients to mitigate against false diagnoses.<sup>15</sup> The tests required prior to and after initiation of treatment have also not been consistently carried out in the 30 facilities visited.
- The National Malaria Control Program's data indicates that 40% of 179 malaria outbreaks were detected on time but not effectively responded to in a timely manner. These outbreaks accounted for 20% of malaria related deaths and grant funds have been subsequently identified to support the implementation of an emergency response plan.

These issues are generally not unique to grants in Zimbabwe as quality of service has been identified by the Secretariat as a significant cross-portfolio issue in the corporate risk register presented to the Board in November 2015; however, specific root causes of the challenges in quality of service in Zimbabwe include:

- *Country context:* The economic conditions in the country have adversely affected available counterpart funding to support health-related activities not funded by the Global Fund and development partners. The availability of health workers at facilities is jeopardized by the government's inability to pay health workers salaries, its freeze on employment in the public sector and health worker migration to other countries. The Global Fund, together with partners, support retention schemes to incentivise and retain workers at health facilities.
- *Diagnostic capacity:* While funding is available under the grants to support the country's diagnostic capacity, the OIG noted that delays in procuring critical diagnosis machines and suboptimal deployment of available machines continues to affect service quality.

After taking into consideration the steps taken to address quality of services issues, the OIG concludes that this area **needs significant improvement**.

#### The ability of the supply chain to deliver and account for quality assured medicines and health products in a timely manner:

The majority of grant funds are spent on the procurement, storage and distribution of health commodities (approximately 68% across the three diseases). Since the last OIG audit in 2012, the country's supply chain management system has improved with measures instituted to rationalize the

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<sup>14</sup> Zimbabwe Health public expenditure review

<http://documents.worldbank.org/curated/en/2015/07/24801648/zimbabwe-health-public-expenditure-review>

<sup>15</sup> All patients who test positive from the first algorithm should undergo a second confirmatory test.

multiple distribution mechanisms, improve assurance arrangements, build NatPharm's capacity and improve management of expired medicines.

However, challenges remain in the country's supply chain management system, which affects its ability to effectively distribute and account for medicines and commodities as follows:

- The irregular supply of anti-malaria medicines<sup>16</sup> to facilities without an effective redistribution mechanism resulted in both under/overstocking and expiries at facility level.
- Inaccurate and/or incomplete record keeping, has affected accountability of medicines and commodities. At the central level, 50% of supplies distributed under the "informed push" system<sup>17</sup> could not be traced and the OIG identified stock differences amounting to US\$2.0 million at facility level due to inadequate record keeping.
- Storage constraints at the provincial level, limited capacity of facility staff to request for medicines, as well as a large outstanding government debt of US\$23 million to NatPharm, affects the successful implementation of the new distribution system.

Therefore, the existing mechanisms to ensure that quality assured products are delivered and accounted for in a timely manner are rated as **partially effective**.

#### Internal controls in ensuring the economic, efficient and effective use of grant funds

In 2008, the Global Fund Secretariat invoked the Additional Safeguard Policy and appointed UNDP as Principal Recipient for all the grants. In 2015, the Ministry of Health was engaged as Principal Recipient for the malaria and TB grants and UNDP remained as fund administrator to support financial management at the ministry. At the time of the audit, UNDP had reported savings of US\$27 million from the procurement of anti-retrovirals arising from reduced unit costs, volume discounts and reduced procurement agent fees.<sup>18</sup> However, some gaps remain in implementers' financial controls which impacts effective utilization and accountability of grant funds. The OIG identified non-compliant costs amounting to US\$0.4 million, as well as gaps in the management of advances, resulting in 40% of advances remaining outstanding for over 120 days.<sup>19</sup> The Secretariat had already identified some of the issues noted by the OIG; however, corrective actions had not been fully implemented at the time of the audit. The mechanisms to ensure the economic, efficient and effective use of grant funds are rated as **effective**.

#### The current grant implementation arrangements

The Country Coordinating Mechanism provides the required oversight to funded programs and helps to course correct where challenges are faced. For instance, at the time of the audit, the Country Coordinating Mechanism had approved an accelerated implementation plan to address the low absorption of funds by the Ministry of Health when it became Principal Recipient.<sup>20</sup> While Principal Recipients provide oversight over their sub-recipients, this can be further strengthened to ensure that risks that impede implementation are identified and mitigated in a timely manner. UNDP's effectiveness as a Principal Recipient has been affected by inadequate collaboration between UNDP and its main sub-recipient, the Ministry of Health. While several coordination structures, including the Coordination Unit for grant management at the Ministry, have been established since the last OIG audit in 2013, challenges remain in obtaining timely approvals from the Ministry of Health to support the implementation of activities particularly in the area of diagnostics.

The existing implementation arrangements are able to bring to light some of the challenges faced in the grants. While the country context makes it difficult to resolve the issues in a timely way, plans have been initiated by the Secretariat with support from other partners to address most of them. The implementation arrangements are therefore rated as **effective**.

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<sup>16</sup> Artemisinin-based combination therapies (ACTs)

<sup>17</sup> A rolling warehouse that distributes malaria products and TB medicines to facilities. Assigned staff assess quantities required by facility and resupply stocks while at the facility.

<sup>18</sup> This figure has not been audited by the OIG.

<sup>19</sup> The Ministry of Health has subsequent to the audit revised its financial manual to improve management of advances.

<sup>20</sup> By the end of 2015, the PR had spent 34% of the budgeted funds for the year.

## IV. Findings and Agreed Actions

IV.1	<b>Achievement of impact has been affected by limitations in quality of service.</b>	<b>Country Team Level</b>
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The Global Fund, with its partners in Zimbabwe, has supported the country's scale up across the three diseases: in particular, over 3.8 million people have been counselled and tested for HIV and over 90% of suspected uncomplicated malaria cases are treated after a confirmatory diagnosis. However, the gains in scale up have not always been accompanied by similar achievements in the quality of service delivery, as reflected below:

**Noncompliance with HIV counselling and testing guidelines:** While over 3,865,000 people have been counselled and tested for HIV over the past two years, the OIG noted that diagnosis of HIV is not always in compliance with the relevant national policies and guidelines:

- 13% of the 30 facilities visited did not consistently perform confirmatory tests on clients diagnosed as HIV positive.<sup>21</sup> Those facilities account for 32% of HIV positive cases recorded in the 30 facilities visited. This raises the risk of clients having false HIV results. This can lead to, on the one hand, HIV positive patients not getting treatment or, on the other hand, putting HIV negative patients on treatment. This is because 56% of the required primary counsellors who are responsible for HIV counselling testing services in health facilities have not been filled.
- Infants exposed to HIV were not always diagnosed in line with the national guidelines. Consequently, some potentially HIV infected infants were not diagnosed and promptly put on treatment. The Ministry of Health's data indicate that 30% of exposed infants in 2015 were diagnosed after the recommended eight-week time frame and 10% of the exposed infants were not diagnosed at all due to delays in the collection, transportation and testing of blood samples as well as poor quality blood samples. For instance, the blood samples of over 2,700<sup>22</sup> exposed infants could not be processed in 2015 due to the rejection of poor quality blood samples.

**Lapses in monitoring of patients on treatment:** Contrary to the country's guidelines for anti-retroviral therapy, the required tests prior to (baseline)<sup>23</sup> and subsequent to initiation (routine monitoring)<sup>24</sup> of patients on treatment have not been consistently performed. This has implications for treatment start dates, effectiveness of treatment regimens and detection of side effects. The OIG noted that:

- Only 43.9% against a target of 100% of cluster of differentiation (CD4) tests for 2015 have been undertaken. CD4 tests were not performed for 82% of patients in the 30 facilities visited by the OIG. The country's coverage of viral load monitoring stands at 5.6% against a target of 21%. This is mainly due to limited availability of required machines.<sup>25</sup>
- From the 30 facilities visited, the OIG noted that the recommended baseline diagnosis before initiation of patients on anti-retroviral treatment was not always performed. 70%, 47% and 40% of patients were not screened for Cryptococcal meningitis, Liver Function and Full Blood Count respectively before initiation on treatment.

**Gaps in retention of patients on treatment:** The OIG noted that 15% of patients in the 30 facilities visited were lost to follow up after 12 months of being put on treatment. This is in line with the findings from an anti-retroviral treatment outcomes evaluation initiated by the Secretariat which indicated that 14% of patients put on treatment were not retained after 12 months. At the time of the

<sup>21</sup> All patients who test positive from the first algorithm should undergo confirmatory test

<sup>22</sup> 10% of blood samples submitted for testing at the national reference laboratory in 2015.

<sup>23</sup> Full Blood Count, Liver Function Test and screening for Cryptococcal meningitis

<sup>24</sup> Cluster of Differentiation (CD) 4 and Viral Load (VL) test.

<sup>25</sup> National AIDS Control Program's data

audit (March 2016), the country, with support from the Global Fund and partners, had initiated an HIV treatment outcome study which, among other things, will determine the retention rates of patients and any actions required to address it.<sup>26</sup>

**Gaps in response to malaria outbreaks:** Zimbabwe recorded 179 malaria outbreaks in 2014/2015. While measures have been put in place for the timely detection and response to outbreaks,<sup>27</sup> the National Malaria Control Program's data indicates that 40% were not effectively responded to, due to limited resources to implement the country's emergency response plan. The outbreaks resulted in 293,605 reported cases of malaria and 244 deaths in 2014 and 2015. The Global Fund allocated funds in February 2016 to support the implementation of the emergency response plan.

**Limited active case finding for TB and drug resistant TB:** The OIG noted that the country did not implement active case finding activities under the TB program until a pilot was undertaken in the last quarter of 2015. Active case finding had not been scaled up at the time of the audit due to inadequate funding. Similarly, 30% of HIV patients in the facilities visited by the OIG were not screened for TB prior to initiation on anti-retroviral treatment. Furthermore, 30% of the facilities visited did not screen children for TB. While the existing regulations and guidelines recommend that all health workers in prisons are screened annually and inmates screened upon admission for TB, health workers in prisons were not screened at all in 2015, and less than 10% of the inmates were screened in 2014 and 2015.

Quality of service has been identified by the Secretariat as a significant issue in the corporate risk register presented to the Board in November 2015. The causes of the challenges in quality of service in Zimbabwe include the following:

- i. **Gaps in diagnostic capacity:** The effectiveness of the country's diagnostic services have been impacted by the limited availability of machines or non-functional machines:
  - Required diagnostic equipment for viral load testing has not been procured since 2014 due to delays in approval of machine specifications by the Department of Laboratory Services of MOHCC and challenges in finding World Health Organization prequalified machines that meet the country's specifications.
  - Equipment for screening TB in children was not available in over 50% of facilities visited by the OIG due to limited government funding. The Global Fund has earmarked resources to address this.
  - The national programs are unable to scale up quality assurance under the HIV and malaria programs. This is due to limited funding by government and delays in approving machine specifications by the Department of Laboratory Services of the MOHCC.
  - The national program's asset register indicates that 38% (136/360) of Cluster of Differentiation (CD4) machines were not functional at the time of the audit. Similarly, the OIG noted that 27% of CD4 machines available in the 30 facilities visited in March 2016 were not functional. The viral load testing equipment at the National Microbiology Reference Laboratory was also not operational for up to six months between 2014 and 2015 due to frequent breakdowns. At the time of the audit, 53% of the X-ray machines were not functioning either because they were obsolete or in need of repair.
  - Some of the limited available machines were not deployed in accordance with the country's guidelines for optimizing usage, which affected their utilization. For instance, 31 out of 136 CD4 machines performed tests below 60% of their annual capacity. For TB, the Hain equipment, used for drug resistant TB, was only being used at a rate of 15% in 2015. The Global Fund was working with in-country partners to strengthen the transportation system for samples in order to increase its utilization.

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<sup>26</sup> This study was concluded subsequent to the audit and it proposed a number of measures to address loss to follow up including defaulter tracking systems, strengthening of human resources at facility level and community mobilization.

<sup>27</sup> The National Malaria Control Program has developed emergency response plans and rapid response teams in all the 47 priority districts to manage outbreaks.

- ii. **Gaps in the quantity and quality of the healthcare workforce** caused by the government's freeze on employment of health workers and their migration to other countries. The OIG noted:
- a. **Posts not filled:** The OIG noted that only 36% of the facilities visited had at least 85% of the approved human resources recruited. Only 900 posts (56%) out of a required total of 1,605 primary counsellors who are responsible for HIV counselling testing services in health facilities have been filled.
  - a. **Health workers not trained:** 1,210 (16%) out of 7,710 health workers have been trained in the updated rapid HIV testing curriculum and 54% of community health workers have been trained in community based case management of malaria.
  - b. **Technical supervision not performed:** In the 30 facilities visited, 40% and 66% had not received technical supervision on HIV testing and malaria case management respectively in the past month.<sup>28</sup>
  - c. **Community health workers not paid:** At the time of the audit, community health workers that assist with contact tracing and finding patients lost to follow up had not been paid their allowances for six months, which affected their effectiveness. The country has initiated a process to develop electronic database of the community health workers which should speed up the payment process when finalized.
- iii. **Inadequate counterpart funding:** The government's per capita expenditure on health service delivery declined from 9.9% in 2013 to 8.2% in 2014.<sup>6</sup>
- Funding to the malaria program was reduced by more than 58% in 2015. Consequently:
    - where severe malaria medicines had been provided by the Global Fund, related essential supportive care commodities and equipment including intravenous fluids and blood transfusion kits were not available;
    - the required financial resources from government to implement emergency response plans for malaria outbreaks in the 47 priority districts are limited. The Global Fund allocated resources in February 2016 to support the implementation of the plan.
  - The equipment for TB screening in children was not available in over 50% of facilities visited by the OIG due to limited government funding. The Global Fund has earmarked resources to address this.
  - The national programs are unable to scale up quality assurance under the HIV and malaria programs due to limited funding of this intervention by the government.

**Agreed management action 1:**

The Secretariat will ensure that the Ministry of Health, in collaboration with partners, develops an action plan to strengthen quality of services across Global Fund funded programs in Zimbabwe. Specifically, this plan will include measures to improve:

- Diagnosis and laboratory services under the three programs;
- Compliance with national policies and guidelines including HIV diagnosis, monitoring of patients on ARVs, diagnosis and management of malaria outbreaks and active case finding for TB and drug-resistant TB; and
- Human resources capacity within the health sector.

**Owner:** Head of Grant Management

**Target Date:** 31 December 2016

<sup>28</sup> National quality assurance and supervision guidelines recommend that districts provide technical supervision at least once per month to health facilities.

<b>IV.2</b>	<b>Challenges in the country's supply chain management system affect the effective distribution and accountability for medicines and commodities.</b>	<b>Country Team Level</b>
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The Global Fund's Pooled Procurement Mechanism, UNDP and the Global Drug Facility purchase around 90% of the medicines and health products under the grants, whilst the National Pharmaceutical Company of Zimbabwe (NatPharm) is responsible for the storage and distribution of medicines and health products. The Medicines Control Authority of Zimbabwe (MCAZ) has a WHO prequalified chemistry laboratory and is responsible for quality assurance of medicines. The Ministry of Health and Child Care leads the quantification process for medicines and commodities with support from partners and in country stakeholders. The country has also initiated steps to rationalize the supply chain and to address issues identified in previous OIG audits such as management of expired medicines.

However, limitations remain in the country's supply chain system, which affect the government's ability to effectively distribute and account for available medicines and health products.

***Ineffective distribution of anti-malaria medicines:*** From the OIG's review of the distribution mechanism for malaria medicines, the auditors noted a lack of an effective and rational stock management mechanism at facility level. While 71% of facilities visited by the OIG had an average of 10 to 20 months of stock of anti-malaria medicines,<sup>29</sup> nearby facilities had zero stock. In one particular province, nine facilities had stock-outs of anti-malaria medicines for more than 30 days while other facilities in the same province had more than 10 months of stock. While some facilities returned medicines to the district level for redistribution, the lack of a systematic redistribution mechanism at the district and facility levels resulted in stock-outs and expiries of anti-malarial medicines. The OIG noted expiries of medicines funded by the Global Fund in 73% of the facilities visited. While the OIG could not quantify the monetary value of expired medicines due to limited available information at the peripheral level, there was no evidence that the portfolio had significant expiries.

***Gaps in management of medicine regimen changes:*** The country regularly updates treatment regimen in line with WHO guidelines. This has resulted in at least 94% of adult clients on the preferred one daily tablet. Guidelines for management of transition of patients to a single anti-retroviral medicine regimen are issued to facilities. However, inadequate buffer stock and inconsistent implementation of the guidelines meant that:

- Existing patients had to switch between the old and new regimens, and new patients being enrolled onto treatment were delayed.
- Anti-retroviral medicines worth US\$1.8 million had expired.

***Inadequate disposal of expired medicines:*** While progress has been made in the disposal of expired medicines since the last OIG audit in 2013, there are still delays in disposing of expired medicines by the MOHCC and the Ministry of Finance. While the Global Fund has approved funding for the procurement of incinerators, in country approvals for disposal of medicines has remained a challenge. For instance, expired medicines identified at the central level in 2014 were disposed in February 2016 due to delays in the approval process.

***Inaccurate and incomplete record keeping affecting accountability for medicines:*** The OIG noted that inaccurate and incomplete data throughout the supply chain hampers the quantification and the ability to account for health products distributed to facilities as follows:

- Limited reconciliation of information between the inventory management system and District Health Information Systems: The OIG noted that information from the district health information system could not be reconciled with the information from the inventory management system due to differences in the number and names of facilities recorded in the

<sup>29</sup> Artemisinin-based combination therapies (ACTs)

two systems. For instance, 400 facilities that reported having issued anti-retroviral medicines to patients based on the district health information system could not be traced to the inventory management system as having received anti-retroviral medicines from NatPharm.

- **Insufficient documentation of distributed commodities:** NatPharm's inventory management system only recorded totals of medicines distributed and consequently does not detail the facilities that received 50% of supplies from the central level under the "informed push"<sup>30</sup> system.
- **Differences between physical stock and book records** amounting to US\$1.97 million were noted at the facility level as follows:
  - The OIG noted differences between the quantities of medicines and test kits issued by NatPharm but not recorded as received in 18 out of the 30 facilities visited. This amounted to US\$0.93 million.
  - After consideration of stocks remaining in inventory, the OIG noted differences in the stocks received at facility level and quantities issued to patients. This amounted to US\$ 1.04 million in 29 out of the 30 facilities visited. The OIG acknowledges that the variances are due inadequate record keeping at the facilities level. The audit noted that record keeping at the peripheral facilities was better than at high volume sites in urban areas. The Secretariat initiated a review in 2015 which identified similar inaccuracies, however, the issues were yet to be resolved as at the time of the audit.

The root causes of the challenges noted in the supply chain are as follows:

- **Multiple distribution systems creating fragmentation:** The country has six different distribution systems which create fragmentation. At the time of the audit, the country was replacing the system with a single system known as the Zimbabwe Assisted Pull System. The new system has been piloted in one province and a roll out plan has been developed to ensure full implementation by the end of 2016. However, the OIG noted that storage challenges at the provincial level, and the limited capacity of NatPharm and facility staff need to be addressed to ensure the successful implementation of the new system.
- **Gaps in information systems and tools:** The OIG noted varied degrees of inaccurate and incomplete information at the peripheral level due to limited use of required tools such as stock cards. The existing logistics and inventory management systems are not integrated and only a limited reconciliation is performed between both systems. The Global Fund earmarked US\$2.4 million in 2015 to support the procurement and installation of an electronic management information system to improve accountability throughout the supply chain.
- **Inadequate funding affecting NatPharm's ability to store and distribute medicines:** The government, through the MOHCC, has not been able to pay the storage and distribution costs related to medicines stored and distributed on behalf of the government due to financial constraints. This, according to Natpharm's internal records, resulted in a total debt of US\$23 million at the time of the audit. A costed capacity building plan has been developed by the Global Fund and UNDP to address capacity issues at Natpharm. However, without addressing the organization's financial constraints, Natpharm remains constrained in storing and distributing medicines and health commodities.

#### **Agreed management action 2:**

Recognizing that the overall improvements of commodities' flow through the supply chain are critical for improved service delivery, an operational plan will be developed and agreed upon between the Secretariat, the government and partners to support the ongoing rationalization of the distribution systems in the supply chain and implementation of the electronic management information system.

**Owner:** Head of Grant Management

**Target Date:** 31 December 2016

<sup>30</sup> A rolling warehouse that distributes malaria products and TB medicines to facilities. Assigned staff assess quantities required by facility and resupply stocks while at the facility.

<b>IV.3</b>	<b>Adequate controls over financial risks with some gaps in the effective utilization and accountability of grant funds</b>	<b>Country Team Level</b>
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The Global Fund Secretariat has engaged a Fund Administrator in order to mitigate the risk of sequestration of grant funds and to strengthen financial controls for the grants managed by the Ministry of Health and Child Care. A UNDP's Office of Audit and Investigations report issued in February 2016 assessed the UNDP Zimbabwe Country Office as 'partially satisfactory'. The audit found issues related to poor storage conditions at national and regional warehouses and health facilities, but did not highlight significant financial management issues.

At the time of the audit, UNDP had reported savings of US\$27 million from the procurement of anti-retrovirals arising from reduced unit costs, volume discounts and reduced procurement agent fees.<sup>31</sup> The Country Coordinating Mechanism had also approved an accelerated implementation plan to address the low absorption of funds by the Ministry of Health when it became Principal Recipient.<sup>32</sup> In general, the audit found the internal controls over the financial management of grant funds to be effective. The remaining gaps identified below represent further areas of improvement that should also be addressed to continue strengthening the financial management of the portfolio.

While the Secretariat has strengthened oversight of the use of financial resources through the engagement of the Fund Administrator and increased spot checks, the OIG identified gaps in the implementers' financial controls, which impacted the effective utilization and accountability of grant funds. Most of the issues identified by the OIG had previously been reported through Secretariat-initiated reviews but corrective actions were yet to be fully implemented.

***Ineligible and unsupported costs:*** Consistent with a separate review commissioned by the Global Fund Secretariat, the OIG identified the following payments which were unsupported and/or ineligible (i.e. not in compliance with implementers' standard operating procedures and approved grant budgets):

- Travel related costs: US\$258,936 were related to incorrect payment of per diems by implementers, including rates paid to participants that were in excess of approved rates, participants receiving per diems without evidence that they had attended related trainings, and double payment of allowances to the same participants.<sup>33</sup>
- Inadequate supporting documentation for mass media activities: US\$103,497 was paid in advance for mass media communications without signed contracts. The OIG did not see evidence that the adverts were aired in full by various media outlets since the implementer had not agreed an airing schedule with the service providers and lacked a mechanism for tracking whether the services had been provided.
- Payment of retention allowances to wrong people under the health workers retention scheme amounting to US\$29,184. This was due to delays in updating the database of health care workers eligible for retention allowance. As at the time of the audit, the Health Services Board had initiated steps to recover payments wrongly made under the retention scheme.

***Questionable value for money:*** The Medicines Control Authority of Zimbabwe (MCAZ) charged the Principal Recipient US\$100,000 in fees for inspections of 200 facilities over two years. While the MCAZ as a regulator has the mandate to inspect health facilities, the OIG found that the scope of these inspections duplicates the Ministry of Health's own supportive supervision visits. The OIG also noted that the resultant reports had not been analyzed by the Authority, the Ministry of Health and

<sup>31</sup> This figure has not been audited by the OIG.

<sup>32</sup> By the end of 2015, the PR had spent 34% of the budgeted funds for the year.

<sup>33</sup> Some implementers have followed up and recovered some of the double payments subsequent to the audit field work.

UNDP (the Principal Recipient ) to inform programmatic decisions as at the time of the audit (March 2016). This raises questions on the necessity and relevance of these inspections.

**Gaps in the management of advances:** At the time of the audit, the OIG noted:

- **Significant outstanding advances** at the Ministry of Health: Staff and implementer advances amounting to US\$2.4 million had not been accounted for, with 40% outstanding for more than 120 days which affects the ability of the Fund Administrator to make subsequent disbursement to the MOHCC. <sup>34</sup> The Ministry of Health does not have defined timelines within which advances should be retired and subsequent advances are given before previous advances are retired. In consequence, there is a lack of urgency to retire previous advances, particularly as 79% of total advances relate to government institutions. <sup>35</sup>
- **Large cash withdrawals:** As was noted by UNDP, staff continue to withdraw large amounts of cash (between US\$30,000 and US\$100,000) for payment of per diems and long distance travel without any form of security protection despite the availability of electronic payment options through mobile phones. This risk manifested itself in 2011 when one staff member from an implementer was robbed of US\$35,000 after withdrawing the money from the bank.

**Payment of value added tax:** Although the Ministry of Health and Child Care has initiated steps, it has not yet obtained an exemption from the payment of value added tax with grant funds. As a result, with the exception of UNDP, all implementers were paying value added tax from grant funds. <sup>36</sup> However mechanisms to track total taxes paid to aid refund in the event that the exemption was granted were inadequate. The VAT paid by the implementers for 2014 and 2015 is estimated at US\$ 144,601.

Although the OIG commends the work done to date to mitigate the financial risks, more work is required to address the underlying causes as follows:

**Inadequate review of supporting documentation:** The OIG noted that supporting documentation were not adequately reviewed by the Ministry of Health and Child Care to identify missing information and inconsistencies for timely resolution. For instance, pay sheets for travel costs were not compared with attendance sheets to ensure consistency in the number of people paid. Similarly, per diem policies wrongly interpreted by staff were not identified during reviews for timely resolution.

**Limitation in oversight of sub-recipients:** UNDP performed regular reviews of activities implemented by their sub-recipients. While such reviews identified some weaknesses and followed up on recommendations with sub-recipients, some issues were not identified in the case of two sub-recipients although the related documents had been reviewed by UNDP. For instance, one-sub recipient paid per diem rates above the approved rates due to the lack of a detailed budget. The other sub-recipient made advance payments for activities without the mechanism to verify that the services had been provided as well as double payment of allowances to the same participants which were not identified and reported by UNDP.

**Lapses in fund administrator role:** The Secretariat engaged the Fund Administrator to manage disbursement, support the strengthening of internal controls over the grants managed by the Ministry of Health and Child Care as well as building the capacity of the implementers. The risk of sequestration has been effectively mitigated, a capacity building plan developed and other reviews performed by the Fund administrator in line with the terms of reference. However, the OIG noted that the Fund Administrator did not perform the required monthly spot checks as agreed in the terms

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<sup>34</sup> The Fund Administrator does not disburse funds to the principal recipient until 80% of last disbursements and 100% of all previous disbursements have been accounted for.

<sup>35</sup> The Ministry has subsequently revised their financial manual with specific requirements on management of advances.

<sup>36</sup> The process was subsequently concluded on 20 May 2016 with publication of the statutory instrument exempting Global Fund from value added taxes effective from 1 January 2015.

of reference. While the financial reviews undertaken by the Fund Administrator identified some major issues, other weaknesses in the implementer's controls were not identified.

**Agreed management action 3:**

The Secretariat will review implementation arrangements, oversight and assurance measures with a view to strengthening oversight over financial aspects of the programs to respond to the emerging financial risks in the portfolio.

**Owner:** Head of Grant Management

**Target Date:** 31 December 2016

**Agreed management action 4:**

The Country Team will review the findings relating to loss of assets and funds not accounted for and make proposals to the Recoveries Committee on a way forward.

**Owner:** Head of Grant Management

**Target Date:** 30 November 2016

## V. Table of Agreed Actions

No.	Category	Agreed Action	Target date and owner
1.	Achievement of impact has been affected by limitations in quality of service.	<p>The Secretariat will ensure that the Ministry of Health, in collaboration with partners, develops an action plan to strengthen quality of services across Global Fund funded programs in Zimbabwe. Specifically, this plan will include measures to improve:</p> <ul style="list-style-type: none"> <li>• Diagnosis and laboratory services under the three programs;</li> <li>• Compliance with national policies and guidelines including HIV diagnosis, monitoring of patients on ARVs, diagnosis and management of malaria outbreaks and active case finding for TB and drug-resistant TB; and</li> <li>• Human resources capacity within the health sector.</li> </ul>	Head of Grant Management 31 December 2016
2.	Challenges in the country's supply chain management system affect the effective distribution and accountability for medicines and commodities.	Recognizing that the overall improvements of commodities' flow through the supply chain are critical for improved service delivery, an operational plan will be developed and agreed upon between the Secretariat, the government and partners to support the ongoing rationalization of the distribution systems in the supply chain and implementation of the electronic management information system.	Head of Grant Management 31 December 2016
3.	Adequate controls over financial risks with some gaps in the effective utilization and accountability of grant funds	The Secretariat will review implementation arrangements, oversight and assurance measures with a view to strengthening oversight over financial aspects of the programs to respond to the emerging financial risks in the portfolio.	Head of Grant Management 31 December 2016
4.	Adequate controls over financial risks with some gaps in the effective utilization and accountability of grant funds	The Country Team will review the findings relating to loss of assets and funds not accounted for and make proposals to the Recoveries Committee on a way forward.	Head of Grant Management 30 November 2016

## Annex A: General Audit Rating Classification

<b>Effective</b>	<b>No issues or few minor issues noted.</b> Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.
<b>Partially Effective</b>	<b>Moderate issues noted.</b> Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.
<b>Needs significant improvement</b>	<b>One or few significant issues noted.</b> Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.
<b>Ineffective</b>	<b>Multiple significant and/or (a) material issue(s) noted.</b> Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised.

## 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.