OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

EXECUTIVE SUMMARY

Country Audit of Global Fund Grants to the Democratic Socialist Republic of Sri Lanka

Audit Report GF-OIG-10-006
31 October 2011

Executive Summary

Introduction

1. In 2010, the OIG undertook an audit of all the Global Fund grants to the Democratic Socialist Republic of Sri Lanka. The purpose of the audit was to assess the Global Fund's grants had been used wisely to save lives in Sri Lanka and where necessary make recommendations to strengthen the management of the grants. The audit covered the transactions related to the 12 grants from Round 1 to 8 involving three PRs. These amounted to US$ 68 million of which only US$ 22 million had been disbursed.

2. This summary briefly highlights the findings and conclusions arising from the audit and the detailed findings are contained in the rest of the report.

3. The national strategies for the three Global Fund supported diseases reflect both the low prevalence (incidence) and the strife to either maintain this situation (HIV) or to further reduce incidence (TB) or to even opt for elimination (malaria). However, in situations where cases are few and far between – as is the case for both HIV and malaria and only slightly less so for tuberculosis – case detection takes disproportionate effort. Indeed losing proficiency and thereby missing or delaying the correct diagnosis is a major risk. 'Smart approaches' are thus needed to maintain both interest and competence at the level of the services and awareness amongst the population. GF support has been successful where it has instigated 'smart' (win-win) combinations in the above sense – as in quality assurance of lab diagnostics and in DOTS. It has been less successful where national programs failed to utilize opportunities – as in verifiable involvement of the private sector.

4. Indeed the Global Fund's requirement for lower-middle income countries to exclusively focus on poor and vulnerable populations does not sit well with ambitions of disease control and elimination in (very) low prevalence situations. For malaria, for example, the interventions need to be based on epidemiological arguments, regardless of considerations of poverty (or wealth). Another GF requirement for support to such countries, of cost sharing with domestic resources, is both sound and feasible, but could be better specified in terms of GF offering demonstrable added value ('making a difference'), for the purpose at hand. The case of malaria elimination could then be made for what it is: a costly effort in the current time, which, if successful, saves lives and costs in future.

5. Although historically successful the TB control program risks loss of momentum as there is, unlike in the malaria control program, no coherent drive to effectively decrease TB incidence. This would have been possible by more consciously addressing of the national TB program's objective of interrupting transmission, notably by including this in existing awareness raising programs. The achievement of widely accessible DOTS

treatment, however, is an outstanding example of civil society responsiveness which deserves more publicity.

6. In all three disease programs there have been opportunities to make meaningful connections between the health system at large and the program concerned; they have largely gone unrecognized. 'Meaningful' would in all cases have meant a *mutual* connection ('win-win') between the health system and the program. For the one proposal that had a HSS component attached to it (R9 HIV) this potential for 'win win' was absent. In fact, the HSS component of R9 HIV is for a project that is in all respects disassociated from the HIV programs which begs the question of (attributable) value for money.

7. There were generic issues that cut across at least two PRs or all three PRs. The key weaknesses noted in the financial management systems included (i) commingling of grant funds without an accounting system that could segregate the bank balances by donor (ii) using accounting software that lacked key checks and balances to ensure data integrity; (iii) incurring expenditure that was not in the approved budget and work plans; (iv) ineffective expenditure monitoring; (v) failure to follow up outstanding accountabilities for operational advances on a timely basis; and (vi) recording of expenses under incorrect budget lines. There were also instances noted of PR non-compliance with the grant agreement conditions put in place to safeguard program resources.

8. The key weaknesses noted in procurement and supply chain management were (i) the lack of adequate documentation to support procurements; (ii) failure to complete the Price Quality Reporting (PQR) mechanism; and (iii) failure to maintain a procurement register.

Ministry of Healthcare and Nutrition

9. The Ministry of Healthcare and Nutrition (MOH&N) is the PR responsible for all Global Fund grants to the public sector for the three diseases. The Ministry's financial statements received a qualified audit opinion based on (i) differences between fund balances as per the program records and the records held by the Government treasury records; (ii) failure to maintain a proper accounting system; and (iii) long outstanding program advances. At the time of the audit, an ageing of advances revealed that approximately 51% i.e. some US$ 141,385 had been outstanding for more than six months.

10. There were various unreconciled differences noted between various records that bring into question the accuracy of PUDRs/financial reports submitted to the Global Fund. The differences that should be analyzed and explained were between:

(i) the program audited financial statements from 2003-8 and the PU/DRs submitted to the Global Fund amounting to US$ 344,981;
(ii) the program financial records and the latest PU/DR submitted to the Global Fund amounting to US$ 70,286; and
(iii) the PU/DR and the cash balance schedule as per the treasury department amounting to US$ 639, 231.

11. There were several inter-grant transfers noted for which there was no evidence of prior approval by the Global Fund. These amounted to LKR 70,596,544 (US$ 616,240) and

the OIG did not see evidence that these amounts were refunded to the appropriate grants.

12. There were budget reallocations noted without Secretariat approval. For example there was an overspend of some US$ 368,472 on vehicles, a transfer of US$ 26,187 to finance expenditure that was not program related etc. There were instances noted where the OIG questioned whether value for money had been obtained i.e. (i) the selection of conical nets over rectangular nets when conical nets were almost 50% higher than rectangular nets; (ii) the purchase of 50 microscopes in 2006 which were only distributed at the time of the audit in 2010; and (iii) the purchase of 40 motorcycles, 12 of which were not used for program related activities.

13. This PR also procured nets that were not WHOPES approved LLINs. This was contrary to Global Fund policies that require all nets procured from grant funds to be WHOPES approved LLINs. The local supplier promised to produce nets using the same material as the Olyset® nets. The Sri Lanka Standards Institution (SLSI) tested the nets and concluded that that the mesh size and dimensions did not comply with the standards for Olyset®.

14. The ineligible costs i.e. expenditure that was not in line with the budget and work plan approved by the Global Fund amounted to US$ 1,220,745. The unsupported expenditure (i.e. expenditure whose supporting documents were not adequate to provide evidence that the activity took place and that the expenditure was in line with program activities) amounted to US$ 186,681. These amounts should be refunded. The amounts that need to be reconciled amount to US$ 1,331,765 and these reconciliations should be verified by the LFA.

Lanka Jatika Sarvodaya Shramadana Sangamaya (Sarvodaya)

15. There was an unreconciled difference between the financial records and the PU/DR submitted to the Global Fund amounting to US$ 10,920. This difference should be analyzed and resolved.

16. A single bank account was maintained for the Round 1 Malaria and Round 1 Tuberculosis grants. In consequence, funds amounting to US$ 167,671 (LKR 16,562,477) that should have been spent on malaria had been used instead for TB grant. There was no evidence that these funds were refunded. There were also other inter grant transfers noted for which no evidence of approval was provided. The OIG identified unapproved inter-grant transfers amounting to LKR US$ 91,935 (LKR 10,429,000) to the MOH&N and US$ 45,518 (LKR 5,214,500) to the Anti-Malaria Campaign, a program not covered by the Global Fund. Arrangements should be made to refund these amounts to the relevant programs.

17. Sarvodaya also procured 8,325 bed nets from a local manufacturer in 2004 at US$ 14.42. The net prices from the local manufacturer were not WHOPES approved, and were exorbitantly priced when compared with LLIN market prices. VAT was also paid on this transaction.

18. Ineligible costs amounted to US$ 358,798 and unsupported expenditure amounted to US$ 795,349. These amounts should be refunded. The amounts that need to be reconciled amount to US$ 22,039 and these reconciliations should be verified by the LFA.

Tropical Environmental Disease and Health Associates Pvt. Ltd (TEDHA)

19. TEDHA has been a PR since September 2009 for the Round 8 Malaria grant. A project vehicle was purchased for US$ 115,878 against a budget of US$ 50,000. The overspending was met by purchasing four reconditioned vehicles at half the budgeted price of new vehicles. The new vehicle was used exclusively by the Program Director and not necessarily for program activities. The OIG also noted that the contract was awarded to the third lowest financial bidder and so was purchased at 43% higher than the lowest evaluated bid. The vehicles were not registered in the names of the PR but its associate organization.

20. The OIG's review of banking procedures revealed that (i) bank reconciliations for some bank accounts were not prepared; (ii) in cases where reconciliations were prepared, there were delays noted in preparing the reconciliation; and (iii) the February 2010 bank reconciliations for the HSBC and HNB bank accounts contained unresolved reconciling items amounting to US$ 6,347 and US$ 8,968 respectively.

21. The OIG noted some ineligible expenses relating to the payment of interest for a loan taken by TEDHA to start up the NGO amounting to US$ 3,538; payment for the project director's residence amounting to US$ 3,036; and payments to consultants (including TEDHA's directors) that exceeded actual time worked amounting to US$ 10,917.

22. The ineligible costs amounted to US$ 85,583. These amounts should be refunded. The amounts that need to be reconciled amount to US$ 15,315 and these reconciliations should be verified by the LFA.

Grant Oversight

<u>The CCM</u>

23. The CCM representation was in line with the Global Fund policies. However, non-governmental representatives were not adequately engaged in the meetings. The PRs and SRs also sat on the CCM and the conflict of interest policy was inadequate to mitigate resultant risks. Inadequate CCM funding as in other counties, was an issue in Sri Lanka. In consequence, program funds had been used to cover CCM related costs.

<u>LFA</u>

24. PricewaterhouseCoopers (PwC) has served as the LFA for Sri Lanka since the inception of the Global Fund grants. PwC has made some effort to improve its performance as LFA, including increasing the number of staff involved in overseeing the

Global Fund programs. However, the involvement of PSM experts happened only twice in the seven years the grants were operational yet procurement comprises 70% of the Sri Lankan grants. The OIG identifies various areas where the LFA work can be strengthened in order to provide the Secretariat with better assurance about grants e.g. following a risk based approach.

Development Partners

25. The development partners have played a significant role in supporting Global Fund program implementation, including efforts to strengthen the CCM's roles and responsibility. A number of partners displayed considerable goodwill and commitment towards the programs in an effort to ensure that the program goals were achieved, and some partners even provided technical support.

Global Fund Secretariat

26. The Global Fund's Secretariat has provided oversight to grant implementation with the Fund Portfolio Manager as its focal point. The oversight has included reviewing and approving grant related documentation, regular visits to the country and providing regular feed back to the country.

27. The Global Fund Secretariat in its role in managing grants, provided regular approval on particular cases which required a Global Fund decision. However there were other approvals provided that resulted in the programs contravening conditions stipulated in the grant agreement. There was no evidence in such cases that measures were put in place to mitigate any resultant risks. For example The Secretariat permitted the charging of taxes on goods procured with grant funding, the payment of costs of one grant's expenses from another grant's resources, charging of interest from a loan taken out to start up TEDHA to the program etc.

28. The OIG also noted that there had been no systematic process in place to monitor various recommendations from LFA reviews. Follow-up of actions appeared to be on an ad hoc basis. The OIG noted that a number of issues remained unresolved at the time of the audit.

Conclusion

29. Based on the outcome of the audit, the OIG concludes that the internal control environment requires significant improvement due to multiple instances of failures to adequately conform to applicable policies, operating standards, sound commercial practices, compliance with grant agreement and weak financial controls. Given the findings at the time of the audit, the OIG is not in a position to give reasonable assurance that grant funds disbursed to Sri Lanka had always been used appropriately and that value of money was assured in Global Fund investments.

Actions by the Global Fund after the Field Audit[1]

30. The Global Fund undertook the following actions to address risk identified in the audit:

(a) Together with the CCM, the PRs, and in collaboration with national stakeholders and development partners, the South and West Asia Regional Team, has identified and started implementation of mitigating measures to address identified challenges and risks related to program and financial oversight as well as procurement and supply chain management;

(b) Human resources capacity has been strengthened with the recruitment of staff with expertise in budget control, monitoring and evaluation and procurement; and

(c) All PRs have opened grant-specific bank accounts, accounting software have been installed by all PRs, and staff have received related training in order to strengthen financial compliance. The Regional Team also included conditions precedent to disbursement for all new grants signed for the grants to have grant-specific annual audits.

31. In consequence, some audit recommendations in this report may have been overtaken by the remedial action taken.

Audit recommendations and the way forward

32. Based on comments and action plans prepared by the Country to address the audit recommendations, the OIG is pleased to acknowledge the effort and commitment of the Country to address the audit recommendations. Some of the actions have already been completed and many more are ongoing. Furthermore, according to the Country, some of the recommendations related to recoveries have already been implemented. This rapid rate of implementation of audit recommendations furthers program implementation and is commendable. The OIG looks forward to validating the Secretariat's assessment of the progress of implementation of the recommendations and reporting on this to the Board of the Global Fund.

[1] Source: Memo from Director of Country Programs "Secretariat Response to the draft OIG Report TGF-OIG-10-xxx on the Democratic Socialist Republic of Sri Lanka"