



## OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

### **EXECUTIVE SUMMARY**

#### **Country Audit of Global Fund Grants to the Kingdom of Swaziland**

Audit Report GF-OIG-10-013  
31 October 2011

### EXECUTIVE SUMMARY<sup>1</sup>

#### Introduction

1. As part of its 2010 work plan, the Office of the Inspector General (OIG) carried out an audit of Global Fund grants to the Kingdom of Swaziland from 2 August to 3 September 2010. The audit covered grants totalling USD142 million, of which USD102 million had been disbursed<sup>2</sup>, from 1 September 2003 (the inception date of the first grant) to 30 June 2010. The Principal Recipient (PR) for all grants was the National Emergency Response Council on HIV/AIDS (NERCHA).

2. While Swaziland has made impressive strides in its response to HIV/AIDS, Tuberculosis and Malaria, and the PR's capacity to manage Global Fund grants has grown from 2003 to 2010, there are still key areas where the PR needs to strengthen its capacity to properly implement the Global Fund grant programs. The OIG noted the need to strengthen its controls in the areas of: (i) financial and program asset management, (ii) procurement, (iii) the monitoring of sub-recipients, (iv) certain aspects of service delivery, and (v) compliance with the terms of the grant agreements.

#### The Public Health Response

3. Swaziland has the highest HIV prevalence and TB incidence in the world, and has a heavy burden of malaria. With the assistance of the Global Fund, Swaziland has achieved impressive results in scaling-up HIV services including ART coverage, ensuring blood safety, reducing the risk of mother-to-child-transmission (MTCT) of HIV, and equipping health facilities. Global Fund grants have facilitated access to primary school education for orphans and vulnerable children (OVC).

4. Malaria cases have declined by over 60% and the national strategy aims at elimination. Swaziland's TB incidence, however, has increased fivefold since 1990. TB treatment success rates have been increasing but are still below the WHO recommended rate of 85%. An estimated 200 cases of Multi-Drug Resistant (MDR) TB occur annually, 10% of which may be extreme drug resistant (XDR). TB/HIV collaborative activities are not implemented as recommended by the WHO.

5. A major limitation on the capacity of the health system to deliver quality services is the shortage of health staff in Swaziland. The HSS grant was designed to address this problem; however, this grant has been beset by ownership and leadership issues which have led to significant delays in implementation.

6. There is a need to improve data quality across the programs by strengthening M&E capacity, standardizing data collection tools and taking action to avoid the irregular/inconsistent data entry observed during the OIG audit.

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<sup>1</sup> This summary highlights the findings arising from the audit. The detailed findings and recommendations are contained in the rest of the report which should be read in order to ensure full comprehension of the results of the audit.

<sup>2</sup> Global Fund website as at 1 July 2010

### **Financial Management**

7. There is a need to strengthen budgetary controls by the PR and sub-recipients (SRs) in order to avoid the unbudgeted expenditures and budget overruns observed. There is also a need to strengthen controls over advances and to stop comingling of grant funds. There is a further need to better control program assets, in particular vehicles.

### **Procurement and Supplies Management**

8. There is a need to strengthen procurement policies and procedures and to put in place appropriate controls to ensure that procurement in future is open, competitive and transparent. More accurate quantification and monitoring of stock levels will avoid stock outs and expiry. In turn, strengthened forecasting, and improved reliability of consumption data, would improve consistency in quantification. There is a need to strengthen quality control requirements for pharmaceuticals, and to ensure that the Central Medical Stores (CMS) has an adequately equipped laboratory for product testing.

9. A 2009 forensic investigation of the CMS by Ernst & Young found no misappropriation or loss of Global Fund grant funds or drugs, but reported inadequacies in record keeping and in controls over financial transactions, as well as conflict of interest. These control shortcomings had not been acted on substantively at the time of the OIG audit.

10. There is a particular need for improved management of construction projects. The OIG observed that 1,340 buildings (Neighbourhood Care Points) were constructed with non-certified construction plans and bills of quantity; we also noted errors in the size of the buildings and overcharging on the quantity of material used in construction. A forensic audit commissioned by the PR found lack of monitoring of the construction materials; payments made to contractors despite partial delivery and non-delivery of goods and services; and evidence of misappropriation of 450 bags of cement.

### **Oversight**

11. While the CCM had an oversight committee, there is a need for a technical working group responsible for reviewing and reporting on grant implementation and performance. There is a need to ensure that potential conflict of interest is avoided in the CCM, given that half of its members are grant recipients. The PR selection process needs to be strengthened.

12. PricewaterhouseCoopers has been the LFA since the inception of the grants to Swaziland, thus providing continuity over time. However, there is a need for the LFA to conduct an assessment of country and PR risk and to include verification work in high risk areas in the scope of the LFA's PUDR reviews. The OIG identified several issues that were not captured in the LFA's PUDR reviews even though they were within the LFA's scope of work.

13. There is a need to ensure that the Global Fund Secretariat consistently ascertains PR compliance with grant requirements before making disbursements, and that the Secretariat maintains good records, particularly for older grants.

### Conclusion

14. Based on the outcome of this audit, the OIG is not able to give reasonable assurance that grant funds disbursed to Swaziland are always used appropriately, and that value for money is assured in Global Fund investments. This report includes a table that identifies an amount of USD 5.8 million of funds that should be recovered to the grants due to budget overruns and unbudgeted expenses, adequate and complete supporting documents not being provided, ineligible expenses and reporting variances, assets not identified during the audit exercise, weak SR monitoring and errors in procurement and supplies management.

### Events Subsequent To the Audit

15. Following the preliminary audit findings, the Global Fund Secretariat and NERCHA corrected a number of shortcomings. We were informed of the following:

- A new national Neighbourhood Care Point strategy is being finalized by NERCHA. Disbursements to NCPs is subject to an approved cost management and oversight plan, including sustainability measures;
- NERCHA has set up a Grants Management Unit, including an audit manager;
- The Regional Team now requires a three-month advance approval for material deviations from the budget or work plan;
- An independent firm will undertake physical verification of products in the CMS warehouse;
- NERCHA will continue using VPP until its procurement capacity is enhanced;
- NERCHA's archiving/filing has been completed by a service provider;
- The LFA verifies the selection process prior to contracting by the PR;
- UNAIDS, MSH, the Clinton Foundation and WFP have provided technical support to enhance NERCHA's capacity; and
- A midterm evaluation and in-country assessment of the LFA has been done.