



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

## **Audit of Global Fund Grants to the Republic of Malawi**

**GF-OIG-10-009**

**3 August 2012**

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## **Executive Summary**

### **Introduction**

1. The Office of the Inspector General carried out an audit of Global Fund grants to Malawi from 01 July to 10 September 2010. The audit covered all seven grants totaling USD 460 million, of which USD 343 million had been disbursed, from October 2003 (the date of the first disbursement) to 30 June 2010. Global Fund grants are managed through two pooled funding mechanisms, the Health SWAp and the HIV and AIDS pool. The latter provides funds to the National HIV and AIDS program, while the former provides funds for the entire Health Sector. The Principal Recipients in Malawi were the Ministry of Health and the National AIDS Commission.

2. Malawi has secured positive outcomes and achievements with the Global Fund grants. However, the Office of the Inspector General has identified significant weaknesses in grant administration, procurement and supplies management and financial management, which require early attention if the Global Fund's investments to secure health outcomes are to be optimized.

3. This report presents 19 "High Priority" recommendations and 18 categorized as "Significant Priority"<sup>1</sup> which need to be implemented to address material risks to the effectiveness and value of the Global Fund's support.

### **The Public Health Response**

4. The Ministry of Health provides all drugs and services free of charge at all levels of the health system. It has a focus on evidence-based policy and practice, with performance monitored on a six-monthly basis. The Ministry has had notable successes.

5. As of August 2010, a total of 1.7m HIV tests had been performed, above the universal access target; 211,246 patients were on treatment (55% of need); and 70% of health facilities offered PMTCT. Malaria has remained a major public health problem in Malawi, although the country recorded an increase from 35% to 57% of households that reported possession of an insecticide-treated net. There was an increase from 23% to 40% of children under five who slept under a treated net.

6. Malawi had achieved strong results in the reduction of mortality and morbidity associated with tuberculosis. The country recorded an improvement in the TB cure rate from 63% in 1997 to 86% in 2010. The death rate associated with TB reduced from 21% in 1997 to 8% in 2010 and almost 100% of HIV positive clients have been screened for TB, with 86% of TB patients tested for HIV.

7. Notwithstanding these successes, areas for improvement remain in monitoring and evaluation and the assurance of service quality.

### **Financial Management**

8. At the time of the audit, there was extensive scope for improvement in the financial control environment at PR and SR level. There was a need to strengthen the external audit arrangements of the SWAp, budget monitoring and controls over the generation of PUDRs, and maintenance of financial records. The OIG noted transactions worth approx. USD 4

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<sup>1</sup> Recommendations are categorized as "High Priority" and "Significant Priority". Definitions are at paragraph 26

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million in Malawi that were ineligible and/or not adequately supported. In the absence of adequate supporting documents these amounts should be refunded.

### **Procurement and Supplies Management**

9. Given constraints in local procurement capacity, particularly at the Central Medical Stores, the MoH has relied on UNICEF and VPP for the procurement of health products funded by the Global Fund. Looking forward, Malawi needs to strengthen the Procurement and Supply Chain Management Capacity to execute procurements and support accountability of health products procured under the grants.

10. The Country Coordinating Mechanism and Principal Recipients should address a number of shortcomings in procurement and supplies management, including strengthening staff skills, ensuring complete and reliable information for forecasting, improving monitoring and quality assurance, and strengthening the capacity of the Central Medical Stores. Addressing this would result in fewer emergency procurements and delays in the finalization of procurement processes, better record keeping, and improved tendering.

### **Sub-Recipient Management**

11. There was scope for improvement in the controls over the selection, management and monitoring of Sub-Recipients, focusing specifically on pre-award capacity assessments. There is a need to analyze the causes and circumstances of financial mismanagement in detail to learn lessons, improve controls and prevent recurrence.

### **Oversight**

12. The Malawi Country Coordinating Mechanism held regular and well-attended meetings at which key issues affecting programs were discussed, and has taken steps to collaborate with other CCMs at a regional level. However, the OIG identified a number of areas that should be addressed by the CCM, including the need for an updated operations manual, improved analytical capabilities in the CCM Secretariat, a need to share lessons learned from proposals, a strengthened process for selecting PRs, and improved monitoring of programs.

13. The CCM should work with the Government of Malawi and development partners to review the multiplicity of oversight structures to reduce duplication and harmonize.

### **Conclusion**

14. Despite the many positive outcomes and achievements secured with Global Fund grants, at the time of the audit considerable risk existed in financial, procurement, and Sub-Recipient management. The OIG is not able to provide the Global Fund Board with reasonable assurance that oversight arrangements ensured that grant funds disbursed have been used for the purpose intended and that value for money had been secured. This report includes a table that identifies an amount of USD 3,994,764 (Annex III) that should be recovered to the grants due to transactions not being properly accounted for or relating to expenditure on activities not in the approved work plan.

### **Events Subsequent to the Audit**

15. Following the preliminary audit findings, the Global Fund Secretariat, the CCM and the PRs developed action plans to address key shortcomings. We were informed that:

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- The Global Fund has opted to use an alternative supply chain management system to ensure that the products reach end users;
- The Ministry of Health has developed plans to strengthen CMS structures through an independent Supply Chain Agent;
- The Central Medical Stores has been constituted into an independent Trust and the Government of Malawi has appointed a Board of Trustees;
- The implementation of most of the OIG recommendations is on-going; and
- The Global Fund opted out of the pooled funding mechanism in August, 2011 in order to become a discrete donor.

16. The OIG has not reviewed the application of these key changes and additional safeguards introduced.

17. In addition to the steps taken above, the CCM submitted to the OIG additional information on transactions not properly accounted for or relating to expenditure on activities not in the approved work plan. The OIG fielded a team to Malawi in May 2012 in order to review these documents. This final version of the report takes into account the findings of the additional review. In addition, and in line with a request from the Malawi CCM received on 20 June 2012, the OIG will undertake a further comprehensive review of the documentation submitted by NAC in the coming months. The OIG is pleased to note that the Malawi CCM has committed to refunding USD 3,313,713 over the next two years. Pending the outcome of the above review, this amount may increase.

## Message from the General Manager



10 YEARS  
OF IMPACT

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31 July, 2012

### MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the audit of Global Fund grants in Malawi.

The audit was conducted from July to September 2010 and covered all seven grants awarded to Malawi, totalling US\$ 460 million at that time - of which US\$ 343 million had been disbursed between October 2003 (the date of the first disbursement) and June 2010.

The country has made commendable progress in strengthening systems and delivering health programs, according to the audit report. As of August 2010, HIV testing had been performing above the targets that Malawi set towards achieving universal access. The country recorded an increase from 35% to 57% of households that reported possession of an insecticide-treated net to prevent malaria. Tuberculosis cure rates increased from 63% in 1997 to 86% in 2010, while in the same period the TB death rate decreased from 21% to 8% of patients diagnosed with the disease.

The audit found weaknesses in grant administration, financial management, procurement and supplies management, monitoring and evaluation, and in the assurance of service quality. In order to address these shortcomings, the audit report makes 37 recommendations, most of which are already in the process of being implemented.

In addition, the audit identified US\$ 3,994,764 in transactions that are ineligible and/or not adequately supported. The Office of the Inspector General recommended that the money should be refunded. The Malawi's Country Coordinating Mechanism promptly obliged, and has already presented a plan to refund US\$ 3,313,713 to the Global Fund over the next two years. Additional documents have been provided to support the remaining ineligible expenditures, which will be also reimbursed, if the analysis of the documents concludes that they cannot be justified.

Following the preliminary findings, the Global Fund Secretariat, the Country Coordinating Mechanism and the grants' principal recipients developed action plans to address key problems.

Audit reports by the Office of the Inspector General are an essential form of quality control for the Global Fund. The Office of the Inspector General plays an indispensable role in helping us all achieve our mission of effectively investing the world's money to save lives.

Yours sincerely



**Message from the Country Coordinating Mechanism**

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19<sup>th</sup> June, 2012

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The Global Fund to Fight AIDS, Tuberculosis and Malaria  
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**SWITZERLAND**

**Attention: Mr. John Parsons**

Dear Sir,

**FINAL DRAFT AUDIT REPORT ON THE  
GLOBAL FUND GRANTS TO MALAWI**

I trust that you received my letter of 7<sup>th</sup> June, 2012 in which I requested for an extension\*of the date for submission of our response to your letter of 4<sup>th</sup> June, 2012 and the Final Draft Audit Report on Global Fund Grants to Malawi from 12<sup>th</sup> to 20<sup>th</sup> June, 2012.

On behalf of the Malawi Global Fund Coordinating Committee (MGFCC) and the Government of Malawi (GoM), I would like to thank you and your team for the report and its valuable recommendations. These will assist in the management of risk in financial, procurement and sub-recipient management not only for Global Fund grants but also other national programs and interventions. I am also pleased to note that no fraud and financial irregularity has been reported although USD3, 994,764 is deemed recoverable to the grants.

I have been informed by the National AIDS Commission (NAC), Principal Recipient (PR) for HIV and AIDS grants, that additional

documentation for transactions amounting to USD 681,051 (see schedule attached) was provided to the OIG mission in May, 2012. I would therefore like to request for a more comprehensive review of this documentation before making a final determination of the recoverable amount.

Meanwhile, I am pleased to inform you that the GoM undertakes to refund USD 3,313,713 within a period of two years from 1<sup>st</sup> July, 2012. We propose a recovery plan which commences with an initial payment of USD 500,000 in September, 2012. The balance of USD 2,813,713 will be paid in three (3) equal installments of USD 937,905 in March, 2013, September, 2013 and March, 2014. This plan will be revised depending on the final review of the additional documentation referred to above.

I look forward to your response.

Yours faithfully,



Randson P. Mwadiwa

**SECRETARY TO THE TREASURY AND CHAIRPERSON,  
MALAWI GLOBAL FUND COORDINATING COMMITTEE**

cc: Dr. Debrework Zewdie, Global Fund  
Mr. Mark Edington, Global Fund  
Mr. Lelio Marmora, Global Fund  
Ms. Ronald Tran Ba Huy, Global Fund  
Mr. Plaikessi Kouadjani, Global Fund  
Mr. Oren Ginzburg, Global Fund  
Dr. Elmar Vinh-Thomas, Global Fund  
Dr. George Ganiza, Malawi Global Fund Coordinating  
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Mr. Thomas Kisimbi, Malawi Global Fund Coordinating  
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Mr. Willie Samute, Ministry of Health  
Dr. Thomas Bisika, National AIDS Commission  
Mr. Alex Mkandawire, Global Fund Local Fund Agent  
Dr. Dorothy Namate, Ministry of Health



## Audit of Global Fund Grants to Malawi

### Introduction

#### Overview

18. The Office of Inspector General (OIG), as part of its 2010 work plan, carried out an audit of Global Fund grants to Malawi. The audit sought to provide assurance that the Global Fund grants provided were being spent wisely to save lives in Malawi. The audit objectives were to:

- i. Assess the efficiency and effectiveness of the management of the grants;
- ii. Measure the soundness of systems, policies and procedures in safeguarding Global Fund grant funds;
- iii. Confirm compliance with Global Fund grant agreements, related policies and procedures and the laws of the country; and
- iv. Evaluate the alignment of the Global Fund's architecture with the sector-wide approach to common funding in which Malawi participates.
- v. Identify any other risks that the Global Fund grants may be exposed to; and
- vi. Make recommendations on the scope to strengthen management of Global Fund grants.

19. The audit covered the grants that had been signed in Malawi as detailed in the table below:

Component	Rd	PR	Grant Number	Grant Amount USD	Disbursed Amount USD
HIV/AIDS	1	National AIDS Commission	MLW-102-G01-H-00	342,557,595	259,425,760
	5	National AIDS Commission	MLW-506-G03-H	17,589,438	13,014,913
	7	National AIDS Commission	MLW-708-G07-H	15,078,417	9,529,917
<b>Sub-Total</b>				<b>375,225,450</b>	<b>281,970,590</b>
Malaria	2	Ministry of Health	MLW-202-G02-M-00	17,957,714	17,957,714
	7	Ministry of Health	MLW-708-G05-M	36,545,312	18,683,203
TB	7	Ministry of Health	MLW-708-G05-T	7,802,037	2,825,106
HSS	5	Ministry of Health	MLW-506-G04-S	22,643,238	21,345,667
<b>Sub-Total</b>				<b>84,948,310</b>	<b>60,811,690</b>
<b>Grand Total</b>				<b>460,173,751</b>	<b>342,782,280</b>

Source: The Global Fund website at 23 July 2010

#### Scope of the audit

20. The audit examined how grants to Malawi were being implemented from the perspective of:

- i. *The role of stakeholders* – and the interactions of participants, including the Malawi Global Fund Coordinating Committee, PRs, SRs, local Fund Agents, the Global Fund

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- Secretariat, HIV pool partners, health partners in the sector-wide approach and other in-country technical partners;
- ii. *Financial management* – to review the adequacy of internal controls in ensuring that grant assets in the common funding mechanism are safeguarded and meet the requirements of the Global Fund;
  - iii. *Grant management* - to confirm that the arrangements in place are efficient and effective in supporting the achievement of grant objectives and value for money;
  - iv. *Procurement and supply chain management* - to assess the effectiveness of the systems and processes in the quantification of need, procurement of health and non-health products, logistics management and quality assurance of health products;
  - v. *Public health* – to review the implementation of work, monitoring and evaluation plans, data collection and reporting systems, the quality of service delivery, and performance-based program reporting under the common funding mechanism; and
  - vi. *Governance and oversight* - to obtain assurance on the adequacy of oversight and management structures for compliance with Global Fund agreements and relevant authorities.

### **Audit approach and methodology**

21. In order to ensure achievement of the audit objectives, the OIG followed a risk-based audit approach. In devising the work plan, a risk evaluation and control assessment model was used. This includes; identification of risks, process mapping, testing control activities, substantive testing and reporting. The OIG deployed a multi-skilled team including: financial auditors; procurement and supply chain management specialist; public health specialist; as well as a civil engineer.

22. The audit included visits to selected SRs and implementing organizations, health facilities and treatment centers, and warehouses and stores in some districts, i.e., Blantyre, Lilongwe, Mchinji, Mzuzu, Nkata Bay, Salima and Zomba. The MoH team visited a total of 10 sites of which 5 were Grant Recipient Organizations (GROs) with construction sites. In addition the OIG audit team carried out field visits to seven sub-warehouses in Lilongwe, RMS-Lilongwe, RMS-Blantyre, RMS-Mzuzu, five district hospitals and five health facilities. The NAC team visited 17 GROs in the districts of: Blantyre, Lilongwe, Mchinji and Salima.

23. The audit was conducted from 01 July to 10 September 2010.

### **The report**

24. The findings of the audit are presented in relation to the main participating parties responsible for grant program implementation and management:

- i. The Ministry of Health, covering grant management, procurement and supply arrangements, and public health aspects, including monitoring and evaluation;
- ii. The National AIDS Commission, in respect of its grant management, procurement and supply management, and monitoring and evaluation; and
- iii. Grant oversight provided by the Country Coordinating Mechanism, the Local Fund Agent and the Global Fund Secretariat.

25. Good internal control practices or significant achievements found during the audit are mentioned in the report, but they are not discussed in depth given that the purpose of the audit was to identify important risks and issues that needed to be addressed. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist those providing oversight in deciding the order in which recommendations should be implemented.

26. This report presents a total of 37 main recommendations, set out in the main body of the report under Detailed Findings. Audit recommendations have been prioritized as follows:
- i. *High Priority* - issues of material concern, fundamental control weakness or non-compliance which, if not effectively managed, present material risk and which may be highly detrimental to the organization's interests and the achievement of aims and objectives. These recommendations require immediate attention by senior management.
  - ii. *Significant* - control weaknesses or non-compliance which present significant risk and where management attention is required to remedy the situation within a reasonable period of time.

### **Health SWAp and HIV and AIDS Pool**

27. At the time of the audit, Global Fund grants were channeled through two basket funding mechanisms, the Health SWAp and the HIV and AIDS pool. Whereas the HIV and AIDS pool provides funds to the National HIV and AIDS program, the Health SWAp provides funds to cover interventions in the entire Health Sector. These funding mechanisms embrace the principles of harmonization and alignment of the Paris Declaration on Aid Effectiveness. The donor groups to the HIV and AIDS pool and the Health SWAp provide oversight through the HIV and AIDS Donor Group (HADG) and the Health Sector Review Group (HSRG), respectively.

28. The HIV and AIDS pool donors fund activities in the Integrated Annual Work Plan derived from the National HIV and AIDS Action Framework. The Global Fund signed the following HIV Pool MOUs: The first MOU was signed on 25 August 2006; amended October 2008 and the second one signed 17 June 2009. Under Round 1, Phase 1, from 2003 to 2006 the Global Fund was a discrete donor to NAC; and from Round 1, Phase 2 to the time of the audit, the Global Fund has been one of the HIV pool funding partners covering more than two thirds of the annual budget.

29. Since 2004, the Ministry of Health and development partners have been implementing a six-year program of work. At the time of the audit, the Ministry was in the process of designing the Health Sector Strategic Plan 2011-2016 (SWAp II). The development of a Sector-Wide Approach was a move beyond the fragmented approach prevalent under traditional projects, and consequently a move toward greater sustainability. The SWAp was developed with an overall objective of improving the effectiveness, efficiency and equity of the essential health care delivery system in Malawi.

30. The Global Fund has made concerted efforts to align with the Memorandum of Understanding of the Health SWAp, while adhering to its own core principles. The Global Fund supports the joint program of work and relies on existing procurement systems. The Global Fund also accepts SWAp indicators, participates in mid-year and annual review meetings and receives the joint annual and external audit reports.

31. The Global Fund was a signatory to the first SWAp MOU signed in 2004 but did not sign the MOU for SWAp extension in 2009 because the MOU did not incorporate the Global Fund's necessary minimum conditions for funding in a common pool. According to the Global Fund's Operational Policy Note for Common Funding Mechanisms, the following conditions needed to be agreed and followed before the Global Fund would support the management of grants under a common funding approach:

- i. Assessment at regular intervals of the common funding performance against agreed targets and program management action;
- ii. Appropriate involvement of the Global Fund Secretariat and the Local Fund Agent in governance mechanisms;
- iii. Reports from PRs on expenditures against budgeted program areas;
- iv. Full account of each donor's annual contributions and other sources of funding against actual expenditures; and
- v. Usual elements of performance-based funding should apply except that information would be reported on a common funding basis.

32. The OIG also noted that there were still significant weaknesses in the systems for procurement, financial and program management at the Ministry of Health, which raised concerns over whether those systems could be relied on for implementation of the Sector-Wide Approach and Global Fund grants.

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### The Ministry of Health

#### Background

33. The Ministry of Health (MOH) signed a Memorandum of Understanding with its development partners including the Global Fund to implement a six-year program of work (POW) in 2004, implemented through a sector-wide approach (SWAp) as a basket funding mechanism. The priorities of the program revolve around the provision of an Essential Health Package (EHP) as part of the Malawi Poverty Reduction Strategy (MPRS), with a broad objective to raise the health status of all Malawians by reducing the incidence of illness and occurrence of premature deaths in the population.

34. The approved grants and amounts disbursed at the time of the audit are summarized in the table below:

Round	Disease	Grant	Grant Amount USD	Disbursed Amount USD
2	Malaria	MLW-202-G02-M-00*	17,957,714	17,957,714
5	HSS	MLW-506-G04-S	22,643,238	21,345,667
7	Malaria	MLW-708-G05-M*	36,545,312	18,683,203
7	TB	MLW-708-G06-T	7,802,037	2,825,106
			<b>84,948,301</b>	<b>60,811,690</b>
	HIV	MoH as SR (NAC)		**12,676,225
<b>Total</b>			<b>84,948,301</b>	<b>73,487,915</b>

Source: Global Fund website at 23 July 2010

\* Round 2 and 7 were consolidated in October 2008

\*\* Exchange rate USD 1 = MWK 151

35. The contributions to the SWAp pool by collaborating partners for the period from 2004 to June 2010 were as follows:

Source	Disbursed amount USD	Disbursed per Source Percentage (%)
<b>Pool Donors</b>		
DFID	120,631,148	13.8%
Government of Norway	104,687,188	12.0%
KfW	3,968,824	0.5%
UNFPA	1,100,000	0.1%
The Flanders	2,599,000	0.3%
The World Bank	10,320,130	1.2%
The Global Fund	57,040,150	6.5%
<b>Total Pool Donors</b>	<b>300,346,440</b>	<b>34.4%</b>
Discrete donors	52,942,857	6.1%
Government of Malawi	520,535,714	59.6%
<b>Grand Totals</b>	<b>873,825,011</b>	<b>100.0%</b>

Source: MoH Financial Monitoring Reports. 30 June 2010

### Achievements and challenges

36. The OIG noted the following good practices and achievements with respect to the grants managed by the Ministry of Health:
- i. The Government and health development partners implemented a joint Program of Work for the sector-wide approach to health, which led to effective co-ordination of health interventions. The program was used as a basis for development of annual work plans at national and district levels.
  - ii. Joint national mid-year and annual Ministry reviews of the sector-wide approach and annual independent reviews of national responses to HIV and AIDS were carried out and the results disseminated to all stakeholders.
  - iii. The Ministry installed and started using an Integrated Financial Management Information System (IFMIS) for posting accounting information. The IFMIS will enable stronger financial controls, faster processing of information and generation of reliable information. The Ministry has also implemented a financial management coaching program aimed at strengthening the capacity of finance staff.
  - iv. The Ministry of Health spearheaded the development of a revised National Medicines Policy (2009) and a Revised Essential Medicines List (2009), to provide guidance on the use of medicines.
  - v. The Ministry of Health has developed a management strategy to get better value for money from technical assistance.
37. The MOH experienced high turnover of key staff in the TB and malaria departments. Key management positions remained vacant for a long time, resulting in delayed implementation of program activities. The National TB Program was initially headed by a Director who left in 2008; and was subsequently led by a Deputy Director until January 2010. The Program has since then been headed by a Deputy Program Manager, with the three senior positions above him remaining vacant.

### Institutional aspects

*Appropriate oversight structures provided for participation of key stakeholders but there was a need to improve the arrangements, in particular to strengthen internal audit and carry out external audits on time.*

38. The Ministry of Health is headed by a Minister and supported by a Deputy Minister and Principal Secretary with directorates, departments, units, zonal offices and district hospitals. Sound management oversight of grant-related activities included:
- i. A top management committee (TMC), meeting monthly and chaired by the Minister. It was responsible for making executive decisions, the final approval of policy, making critical decisions on the program of work and approving budget revisions and allocations.
  - ii. A Senior Management Committee (SMC), chaired by the Principal Secretary and comprising the Ministry's Directors and senior managers, tasked with originating policy proposals in consultation with the Health Sector Review Group (HSRG), the consolidation of work plans into a program of work, and origination of issues for discussion in the various Technical Working Groups (TWGs).
  - iii. A Health Sector Review Group (HSRG), providing oversight of the sector-wide approach for health and implementation of the approved program of work. The HSRG had representatives of all key stakeholders from private and public sectors, development partners, academia and civil society. It was co-chaired by the Ministry

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and a representative from the Health Donor Group. The HSRG met on a quarterly basis and reviewed the progress of implementation of the program of work, sector priorities and budget considerations. It also reviewed reports of the technical working groups and various constituency groups.

- iv. Technical Working Groups, constituted around selected priority thematic areas. The TWGs met quarterly and reported to the SMC but also worked closely with the HSRG.

39. The OIG noted the following shortcomings in the operation of the Technical Working Groups:

- i. Meetings were not held regularly and there was no evidence of follow-up when meetings were not held.
- ii. For some TWGs, no terms of reference were available for audit review. These included the TWGs for Zonal Health Supervision Offices, HIV/AIDS, Laboratories, Public - Private Partnership, Quality Assurance and Hospitals;
- iii. The OIG noted through the review of minutes that several action items kept recurring in subsequent meetings without evidence of follow up and resolution by TWG members. An example of this was the follow up of the Financial Management Improvement Plan (FMIP) action points in the FM & P TWG; and
- iv. Attendance by officials from the Ministry of Health was inconsistent.

### ***Recommendation 1 – Significant***

*The effectiveness of the Technical Working Groups should be strengthened by ensuring regular meetings with consistent attendance by Ministry officials, and more rigorous follow up of action items. Terms of Reference and guidelines for all the TWGs should be developed, approved and shared with TWG members.*

40. In December 2008, an initial disbursement of USD 2,825,106 was made by the Global Fund for the TB program. The PR had not requested any new disbursements at the time of the audit in September 2010. Of the funds disbursed, USD 2.77 million was earmarked for procurement of drugs and construction of microscopy laboratories. The OIG noted a delay of 22 months in the process for construction of the TB microscopy laboratories. At least one microscopy laboratory per district should have been constructed by Year 2 (2010). However, at the time of the audit in September 2010, the contractors had only been selected and construction had not begun.

41. There were also indications to show that funds were not made available to the program as and when needed. Minutes of meetings and reports reviewed by the OIG indicated lack of funds for implementation between January and June 2009, even though financing had been received from the Global Fund by this time.

### ***Recommendation 2 – High***

*Every effort should be made to fill vacant positions in the National TB Program to support successful implementation of the Program's objectives; and the Ministry of Health should ensure that program funds are made available promptly for the implementation of activities.*

42. There were delays in disbursement of funds for the Round 5 HSS Grant and the Round 7 TB grant due delays by the PR to address the conditions precedent. MoH did not have adequate financial resources and technical capacity to address the following CPs:

- i. A Condition Precedent to the Rd 5 HSS grant required the completion of a census for health sector employees and delivery of evidence by the PR that it had adequate

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- human capacity required to ensure continuity, institutional knowledge and sustainability to support the implementation of the Health SWAp; and
- ii. A Condition Precedent to the Rd 7 TB prevalence survey required MoH to obtain donor commitments for funding to fill the gap.

### ***Recommendation 3 – Significant***

*When CPs are set and agreed, there is a need for MoH to engage adequately with the Global Fund secretariat to ensure that the PR is in position to implement the CPs. Management should also communicate and discuss any financial and technical requirements arising from the CPs to avoid delays in the implementation of performance-based programs.*

43. The use of Global Fund grants should be subject to both external and internal audit at national level. Both external and internal audit functions provide essential oversight to ensure that systems of financial and management controls are effective and in place to properly safeguard national and donated funds. There was significant delay in the finalization of the audit of the Health Sector Wide Approach for the year ended 30 June 2009.

44. Although the SWAp Memorandum of Understanding stipulates that audit reports should be issued six months after the year-end, the report for the year ended June 2009 was not issued until August 2010. Delayed audit reporting can substantially increase risk and prevent the rectification of errors and problems.

45. The OIG reviewed the SWAp audit reports for 2005/2006 and noted that there were a number of audit recommendations that had not been implemented. These included late submission of quarterly reports by MoH and the districts, submission of incomplete expenditure reports by the districts, unsupported transactions and poor maintenance of stores.

46. At the end of 2009, an accounting firm was appointed as the Ministry's external auditor. The OIG noted the following weaknesses in the process of appointing the external auditor:

- i. The Malawi National Audit Office (NAO) had not approved the terms of reference for the external audit and did not supervise the external auditors as required by the Public Audit Act.
- ii. The evaluation criteria included in the request for proposals were not comprehensive; and additional scoring criteria that had not previously been included in the RFP were introduced during the evaluation process.
- iii. Scores awarded for some elements of the tender changed between the RFP and the evaluation report. For example the technical approach and methodology was allocated 10 points in the RFP but was awarded 15 points during the evaluation.

47. The OIG reviewed MoH audit arrangements and determined that the audit arrangements did not comply with the Global Fund guidelines in the following aspects:

- i. The National Audit Office did not approve the ToRs and supervise the external auditors as required by the Public Audit Act;
- ii. A single SWAp financial statement and audit report was prepared identifying the contribution of Global Fund to the Pool. However, the financial statements do not clearly identify Global Fund expenditure against budget;
- iii. The audit reports were issued late. The report for the year ended June 2009 was issued 12 months after year-end; and
- iv. The PR did not prepare an SR audit plan to ensure that all SRs were audited annually.



### **Recommendation 4 – High**

- (a) *Management should ensure that external audits are conducted in a timely manner and reports issued in line with deadlines required by the Memorandum of Understanding. To strengthen effectiveness of external audit arrangements, the Ministry of Health should comply with the Global Fund guidelines for annual audit of the financial statements.*
- (b) *The procurement process for external auditors should be supervised by the Malawi National Audit Office to ensure compliance with the Public Audit Act. This will provide oversight of the audit process; improve the quality of tendering and evaluation; and enhance the execution of audits.*
- (c) *Management should ensure that recommendations of the external auditors are implemented on time to enable improvement in the system of internal control.*
- (d) *Requests for proposals in the tendering process should be checked to ensure they reflect the Ministry's requirements for the assignments. Evaluation criteria included in the RFP should be adhered to.*

48. The Ministry of Health's Internal Audit Unit (IAU) was staffed and supervised by a Central Internal Audit Unit (CIAU) in the Ministry of Finance, which was established in 2003. The Ministry of Health's IAU team is headed by a Chief Internal Auditor and has 7 members. The OIG noted the following areas for attention with respect to the Ministry's internal audit:

- i. The CIAU had an audit manual, although CIAU staff members had not been trained in its use and some staff members interviewed at the IAU were unaware of its existence. There was no documented training policy for the CIAU staff and the CIAU's audit charter was still in draft at the time of the OIG's audit.
- ii. The scope of work for the IAU was not documented and had not been formally agreed. The internal audit work did not cover discrete donors and Global Fund related transactions.
- iii. There were no standard working papers and no documented quality control program in place. The IAU team indicated that the documentation of the work done by the Unit is both on computer and on paper. The OIG reviewed some of the files prepared by the audit team and noted an absence of audit programs and plans, and inadequate working papers.
- iv. The CIAU prepared an annual audit work plan, which was a consolidation of Ministry audit work-plans. This mapped out activities for the year and served as a basis for supervision by the CIAU. At the time of the audit, i.e., August 2010, the overall work-plan for 2010 had not been prepared.
- v. The OIG could identify no evidence that the IAU's audit approach was risk based in accordance with good professional practice; and there was no evidence that any risk assessment had been carried out for the Ministry of Health.

49. The Ministry's Internal Audit Committee (IAC) is required to meet at least twice a year. However, the OIG noted that the IAC had met only once in the previous two years; and the minutes of meetings did not record the members present or documentation of action points.

### **Recommendation 5 – Significant**

*To ensure effective oversight by the Ministry's Internal Audit Unit, there is a need for early remedial action to:*

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- (a) *Implement a risk-based approach, with comprehensive risk assessments to ensure that audit effort and focus is placed on high risk areas.*
- (b) *Develop and implement a staff training policy and coach staff in the use of the audit manual;*
- (c) *Establish a quality assurance and review process.*
- (d) *Adopt consistent professional practice in the audit work, incorporating audit programs and standardized procedures for working papers, audit evidence and reporting.*
- (e) *Improve internal audit coverage and assurance to address discrete donors and Global Fund supported programs.*
- (f) *Put in place regular meetings of the Internal Audit Committee to consider reports and activities of the Internal Audit Unit.*

50. The MoH did not have a documented IT Policy to provide guidance on acceptable IT practices. There was also no policy or practice for regular mandatory back-up of information. Information was frequently backed up on flash drives which failed, resulting in loss of data. Further, a number of virus attacks had occurred that resulted in loss of information.

### ***Recommendation 6 – Significant***

*The MoH should develop, approve and implement an IT policy. The staff in the IT department should ensure backups are undertaken and up-to-date anti-virus software is installed on all MoH computers. The IT department should also develop a disaster recovery plan.*

## **Financial Management**

*The integrated financial management system at the Ministry of Health does not generate key financial information. There is an urgent need to strengthen the capacity of systems through staff training, the implementation of audit recommendations and use the IFMIS to generate required information. This impacts all SWAp partners.*

51. The Ministry of Health utilizes an Integrated Financial Management Information System (IFMIS) to record grant-related transactions under the Health SWAp. The IFMIS was installed and launched at the Ministry in November 2005 by the Office of the Accountant General. Manual records were maintained to enable preparation of specific reports for the Global Fund; and transactions for the SR grant from NAC were recorded and maintained outside the IFMIS.

52. The IFMIS held approved budget information against which expenditures were recorded. Prior to 2010/11, budgets were recorded as summarized functional codes and not by activity, which precluded the tracking of implementation of activities through the IFMIS and prevented the reconciliation of expenditure to activity-related budgets at grant level.

53. A new activity based chart of accounts was set up on IFMIS from July 2010 to address this problem. However, at the time of the audit, relevant Ministry staff had not been trained in the use of the new chart of accounts and expenses were not posted and tracked by activity for the first two months of the financial year. In the absence of data in the system, the OIG was unable to confirm the effectiveness of the activity-based chart of accounts.

54. The OIG noted serious weaknesses in the financial record keeping at the Ministry which raised concerns about the validity of the transactions processed through the system. The following issues were noted:

- i. The 2008/09 external audit had questioned payments amounting to MWK 238 million (USD 1.58 million) due to inadequate supporting documents.

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- ii. OIG reviewed a sample of SWAp transactions and noted expenditure worth MWK 33,995,069 (USD 225,133) did not have supporting documents. (See Annex III)
- iii. OIG questioned expenditure worth MWK 44,599,407 (USD 295,360) funded by NAC (with the MOH as SR) due to inadequate supporting documents. (Annex III)
- iv. Records for transactions worth MWK 300,225,391 (USD 1,988,248) funded by NAC (where the ministry is the SR) were not available. (Annex III)
- v. The MOH was unable to provide the OIG with details of actual amounts transferred to its SRs. There were also no supporting documents available for audit review for any transfers of funds to SRs prior to 2008.

55. A portion of the funds that are unsupported are exclusively Global Fund resources, while the other portion related to monies that are either part of the SWAp or HIV and AIDS pool. The PR should provide the supporting documents or refund the Global Fund resources. There needs to be an agreed upon action by the pool donors on how the unsupported pool funds can be recovered.

### **Recommendation 7 – High**

- (a) *To provide an appropriate level of evidenced assurance and active management of Global Fund grant financing, monitoring arrangements need to be strengthened in IFMIS by full use of activity budgets and expenditure codes; the training of staff on the new activity based Chart of Accounts; and the adoption of regular budget variance analysis.*
- (b) *The Ministry of Health should strengthen controls over financial records as a matter of priority. All payments must be adequately supported and supporting documents should be properly filed.*
- (c) *The Global Fund Secretariat should engage with in-country partners that participate in the pool about how cases of funds that are not appropriately accounted for should be addressed.*

56. The Malawi Government at the time of the audit operated a central payment processing system for all government payments and check printing. While the Accountant General attests that every effort is made to ensure that check payments to ministries are released within 48 hours, the OIG noted delays of up to three months in the processing of some checks for the Ministry of Health.

57. Delayed internal processing of funding received from the Global Fund delays grant program activities in country. This is critical because the Global Fund resources are performance-based. Examples of delays in the release of checks to the Ministry of Health by the Office of the Accountant General are shown in the table below:

<b>Voucher No.</b>	<b>Date Voucher List Signed by OAG</b>	<b>Date Check was Received from OAG</b>	<b>Delay (months)</b>
4013147	10/05/2010	25/08/2010	3.6 months
4013145	10/05/2010	25/08/2010	3.6 months
4013403	17/06/2010	**	2.5 months
4011477	30/04/2010	**	4.1 months
4013291	10/06/2010	**	2.8 months
4012288	24/05/2010	**	3.3 months
4013229	09/06/2010	**	2.8 months
4014832	19/07/2010	**	1.5 months
4014831	19/07/2010	**	1.5 months

\*\*These checks had not been received by 01 September 2010

### **Recommendation 8 – Significant**

*Efforts should be made to increase co-ordination between the Ministry of Health and the Office of the Accountant General so as to minimize delays in the printing and release of checks to the Ministry.*

58. The MoH appointed UNICEF as TPPA for procurement of Health products. At the time of the audit, UNICEF had received some USD 14 million to procure items under the Malaria grant. However, there was no reconciliation between the funds disbursed and the products delivered to determine the amount outstanding from UNICEF. There was also no evidence that the funds that were held by UNICEF were held in an interest bearing account as required in the grant agreement.

### **Recommendation 9 – Significant**

*As a matter of urgency, the MoH should prepare a reconciliation between the amounts disbursed to UNICEF and the deliveries made with all variances duly investigated. All further disbursements to UNICEF should be pegged on having an updated reconciliation in place. In line with the agreement with UNICEF, any interest earned on the funds held by UNICEF should be declared and applied towards program activities.*

### **Grant management**

The Ministry of Health needs to strengthen systems for the selection, management and monitoring of SRs; significantly improve the quality of its oversight over SRs to ensure that funds are properly spent and safeguarded; and implement grant activities in accordance with agreed budgets and timescales.

59. The Ministry of Health had four SRs under the HSS grant, i.e., Malawi College of Health Sciences, the College of Medicine, Kamuzu College of Nursing and the Christian Health Association of Malawi (CHAM). The OIG was not provided with any documentation concerning the SR selection and capacity assessment process.

60. The explanation provided in the HSS proposal document is that “... the SR selection was based on the fact that they are an integral part of the system delivering health services in Malawi targeting the three key diseases”. This position is not consistent with the Global Fund guidelines which stipulated that PRs should ensure that the SR selection process is open, fair and based on objective criteria related to performance capacities.

### **Recommendation 10 – High**

*The Ministry of Health should establish proper procedures for the selection, capacity assessment, management and monitoring of SRs. This process should involve a pre-award assessment of the financial and technical capacity of potential SRs.*

61. The Ministry signed agreements with the SRs under the HSS Round 5 grant. According to the agreements, the institutions are required to submit quarterly financial reports to the SWAp Secretariat. The OIG noted that the SRs had not regularly submitted financial reports and that the reports were sometimes submitted to the HSS coordinating unit as opposed to the SWAp Secretariat.

62. In the instances where reports had been submitted, the OIG could identify no evidence that they had been reviewed by someone at the SWAp Secretariat or at the Ministry to monitor progress of activities. Further, financial reports were not shared with the Ministry Accounts Unit to monitor spending against the budget in the SR agreements.

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63. The OIG's audit review of SRs showed unexplained discrepancies between funds remitted to SRs as per MoH records and the amounts confirmed as received by the SRs (see table below). There were also delays in the implementation of project works.

<b>Difference between MoH and SR records for funding (MoH – SR)</b>			
	2007/08	2008/09	2009/10
	MWK	MWK	MWK
<b>College of Medicine</b>			
MOH records	447,183,214	263,888,850	177,318,784
CoM records	127,665,953	249,901,496	14,675,000
Difference	319,517,261	13,987,354	162,643,784
<b>Malawi College of Health Sciences</b>			
MOH records	419,655,431	476,562,492	442,498,872
MCHS records	419,240,931	476,562,492	373,552,208
Difference	414,500	0	68,946,664
<b>Kamuzu College of Nursing</b>			
MOH records	68,260,000	236,633,329	182,673,001
KCN records	50,000,000	202,813,328	156,319,501
Difference	18,260,000	33,820,001	26,353,500
<b>CHAM</b>			
MOH records	36,070,552	43,287,738	30,078,929
CHAM records	36,000,000	42,187,738	2,000,000
Difference	-70,552	1,100,000	28,078,929

### **Recommendation 11 – Significant**

- (a) *Reconciliations should be prepared between the funds released by the MOH and the funds recorded as received by the SRs with variances investigated and explained. No further funds should be released without such reconciliations having taken place. The circumstances under which funds could not be accounted for should be investigated.*
- (b) *The Ministry of Health should ensure that all SRs submit financial and program reports as required by their grant agreements. These reports should be reviewed, with feedback given to the respective SRs. Financial reports from SRs should be shared with the Ministry's finance staff to allow budget monitoring. This should include regular review of SR reports to ensure that they reflect accurate and reliable information on funding; and regular visits to the SRs to review the financial records maintained on funds received from the Ministry.*

### Blantyre District Council

64. The Office of the Inspector General visited Blantyre District Council (BDC) to obtain an understanding of operations at District level. The following was noted:

- i. The absence of any mechanism to monitor budget line items, with the consequence that there were a number of occurrences of exceeding budget limits as indicated in the audit reports for 2005/06 and 2006/07. The OIG noted, however, that the District Finance Office had instituted ledgers starting from year 2010/11 to ensure adherence to the budget.

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- ii. The OIG reviewed BDC's audit reports for 2006/07 and found that 25 of the 34 findings had been raised in the prior year. This was partly due to audits being completed a long time after the year end and also by lack of oversight and follow up of audit issues that could have been provided by the District Finance Committee, if it had been in place. The audit report also indicated that transactions amounting to MWK 74 million (USD 493,000) had not been adequately supported.
- iii. From June 2009, BDC has had an Internal Audit Officer with the responsibility of reviewing the transactions of Blantyre as well as four other Districts and reporting to the District Commissioner, in the absence of the Councilors. Copies of the District internal audit reports were submitted to the Ministry of Local Government, the National Local Government Finance Committee and the Malawi National Audit Office. However, there was no evidence of follow up of the implementation of the recommendations. Also, it was not clear to whom the internal auditor reported; and who was responsible for ensuring quality assurance over his work. Due to lack of funds, only two (Blantyre and Chikwawa) of the five Districts assigned to the auditor had been visited for audit purposes.
- iv. A financial management coaching program within the Ministry of Health was intended to strengthen capacity within the MoH structures through to the district level. However, expected capacity strengthening had not been realized even though coaches had been in place for some time. The MoH had not evaluated the coaching program to identify ways in which it might be improved.

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### The Christian Health Association of Malawi (CHAM)

65. CHAM signed an agreement with the MoH on 25 August 2009 (ending 30 June 2010) for a total grant of MWK 1 billion (USD USD6.67 million) for strengthening one of its Health Training Institutions at Malamulo. The grant included an amount of MWK 90 million (USD 600,000) for the construction of two hostels. By the time of the OIG's audit in September 2010, more than two months after the grant closure date, CHAM had only received bids for the construction and had not completed its evaluation process.

66. CHAM had received MWK 36 million (USD 240,000) in 2008 for construction. The OIG's review of CHAM bank accounts showed that the balance on the construction account was MWK 200,000 (USD 1,333). This implies that the funds for construction had been utilized for other activities.

67. While the signed SR agreement required CHAM to submit quarterly financial reports to the Ministry of Health, CHAM had only submitted annual reports for the funds received. The annual reports submitted to the MoH were consolidated with other CHAM funds and it was therefore not possible for the OIG to confirm the portion of CHAM funds that the Ministry had contributed and for what this had been utilized.

68. CHAM also received funds for salaries and top-up allowances from the MoH. The OIG reviewed these amounts and noted that the amounts requested by CHAM fluctuated from one month to another with no evidence that the Ministry had verified the basis for these fluctuations.

69. The OIG reviewed the Bills of Quantity (BoQs) and the technical drawings and noted that there was no site layout from the survey map to show adjoining properties. In addition, the BoQs had items for which there were no supporting drawings including: steel structural drawings; mechanical/electrical drawings; drainage, water supply and sewerage connections. In consequence, the BoQs may not have been accurate and may not have reflected the required materials for the construction project.

70. CHAM did not obtain written approval from the Town and Country Planning Authority prior to commencement of the construction project as required by the local regulations. The Organization did not comply with the local construction regulations which may lead to penalties and other charges.

### The College of Medicine (CoM)

71. Under its HSS grant, the College of Medicine (CoM) received funds from the Ministry of Health for construction of the Blantyre and Lilongwe campuses, and operations at the Blantyre campus. The OIG noted that the amounts recorded as received in CoM reports differed from the amounts as remitted in the Ministry's records. MoH records indicated that total funding from 2007/2008 to 2009/10 was MWK 888 million, whereas CoM reports recorded that funding of only MWK 392 million had been received. A review of the CoM's bank statements indicated that MWK 870 million had been received from the Ministry.

72. At the time of the OIG review in September 2010, the College had completed construction of a laboratory complex and the two lecture theaters of the seven buildings to be completed at the Blantyre campus. The works at the Lilongwe campus had begun on 31 May 2010 and were due to be completed in August 2011.

73. Construction of the library/resource center had been budgeted for MWK 472 million but in January 2008, the College informed the Ministry that the budget estimate had increased to MWK 720 million, representing a 52% increase. In October 2008, another

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communication from the CoM indicated that the final estimate for construction was MWK 999 million, representing a 123% increase from the original budget of MWK 472 million. Varied explanations of this increase were cited in letters from CoM to the Ministry, including a three-fold increase in the cost of steel; the imposition of MRA and VAT; and lack of foreign exchange in the country at the time.

74. The OIG could identify no evidence that any effort had been made by the relevant MoH departments to verify the causes of the increases, or to obtain assurances as to the extent of the increases. There was no indication that the SR grant agreement had been amended to reflect the changes in the budget. By the time of the OIG audit in September 2010, a total of MWK 693.6 million had been received by CoM for the library block - which had started in August 2007 with a planned completion date of October 2008, and which stood at 95% completion by the time of the audit, almost two years after the planned completion date.

75. The construction of the CoM's two lecture theaters was completed and formally handed over in 2008. However, the theaters remained unutilized for almost a year after completion because of a delay in the procurement of furniture for them. However, the theaters were in use at the time of the audit in September 2010. The OIG noted also that no furniture had been budgeted for the almost-complete library block.

### Kamuzu College of Nursing (KCN)

76. Kamuzu College of Nursing signed two Sub-Recipient agreements with the Ministry of Health, viz. for an initial grant of MWK 1,036 million for the period to June 2009 and a second grant for the period to June 2010. These funds were for construction and operating costs relating to the College campuses in Lilongwe and Blantyre.

77. The OIG noted discrepancies in the total funding figures between the records of KCN and those at the Ministry. The MoH records indicated that funding of MWK 487 million had been remitted to the College, whereas KCN recorded receipt of a total of MWK 408 million for the period from 2007/08 to 2009/10.

78. Construction work at the Blantyre site commenced in June 2009 and includes an administration block, lecture rooms, a laboratory and a student's hostel. The completion date for these works was 13 December 2010, although at the time of audit in September 2010 most of the works had reached only 40% of completion, with the administration block 50% complete.

79. Monthly site meetings had been held and a number of changes made to building designs which had led to delays in the construction. There were many changes to the administration block which led to an increased cost of construction. The OIG found no evidence that approval for these changes had been sought from the Ministry of Health.

80. KCN failed to obtain written approval from the Town and Country Planning Authority prior to commencement of the construction projects at both Lilongwe and Blantyre campuses as was required by the local regulations. This could lead to penalties and other charges.



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### Malawi College of Health Sciences (MCHS)

81. The Malawi College of Health Sciences (MCHS) signed two SR agreements and received funds from the Ministry of Health for construction and operations at its campuses in Lilongwe, Blantyre and Zomba. The Lilongwe campus works included the construction of a classroom block, administration block, resource center and student hostels, as well as rehabilitation of the kitchen, cafeteria and lecture theater. The works started in July 2009 and were expected to be completed by January 2011.

82. The MCHS did not obtain prior written approval for the Lilongwe and Blantyre campus works from the Town and Country Planning Authority as was required by the local regulations, which may lead to the imposition of financial penalties.

83. MCHS used National Competitive Bidding (NCB) to invite potential contractors for the Lilongwe campus, after which an evaluation committee was constituted to review bids, shortlist and eventually select the contractor. The OIG review indicated that the bid evaluation report submitted by the committee was not sufficiently detailed to allow for proper evaluation of bids; an architect firm contracted to provide technical support for the civil works had not been utilized in the bid evaluation exercise.

84. The contractor for the Lilongwe campus, Western Construction Limited, complained of four certified payment certificates which had been outstanding for four months. The management of MCHS Lilongwe campus acknowledged this and indicated that it had been as a result of slow provision of funds by the Ministry of Health.

85. The construction at Blantyre campus consisted of a dining room and a female students hostel. Construction commenced in July 2010 and was to be completed on 20 October 2010. The OIG noted that by the time of the audit in September 2010, the dining room was 95% complete whereas the students hostel was only 60% complete and was unlikely to be fully complete by the planned completion date.

86. At the Blantyre site there was no Clerk of Works on site at the time of the audit visit. The contract with the supervising architects includes provision of a Clerk of Works on site to ensure that the contractor carries out work according to the agreed specifications. The OIG team reviewed the project file at the College and noted that the file did not include any site meeting minutes.

### ***Recommendation 12 – Significant***

*The MoH should strengthen its oversight of SRs. With regard to construction, because of the size of investment and the inherent risks in such projects, such oversight should ensure that:*

- (a) SRs improve the bidding processes so that value for money is obtained from grant funds. Bid evaluation reports should provide adequate details on the performance of each bidder against pre-set criteria; and management should involve technical consultants in the bid evaluations to ensure the required technical input.*
- (b) Approvals are sought from the appropriate authorities to ensure compliance with local construction regulations and avoid the risk of financial penalties. The MOH should ensure that the BoQs and technical drawings cover all the required aspects.*
- (c) Payments to contractors are effected in a timely fashion to avoid delays in construction time and costs.*
- (d) Construction works are executed in accordance with planned timelines and approved building plans to avoid cost escalations and ensure that facilities are available to users on time.*
- (e) Ministry approval is obtained before any major changes are made to originally approved designs, especially if such changes can lead to an increase in the budget for the work.*

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- (f) Oversight of the SRs is strengthened to ensure adherence to agreed budgets and timelines. Every effort should be made to verify the basis and reasonableness of cost escalations and a formal process for the evaluation and approval of justified budget revisions should be established.
- (g) Planning for building construction is improved to ensure that proper provision is made for the facilities and equipment required for effective utilization of new buildings.
- (h) The SRs strengthen supervision over construction at the Blantyre site. This should include ensuring the presence of a clerk of works, attendance at site meetings, regular supervisory visits and maintenance of appropriate documentation.

### Procurement and supply chain management

#### Overview

87. The Malawi public sector has key policy instruments which are used by grant recipients in procurement and supply chain management (PSM) functions for procuring goods (health and a non-health items), works and services for the Global Fund grants in Malawi. The institutional roles in procurement and supply management in Malawi are shown in the following table.

Unit	Key responsibilities
Office of the Director of Public Procurement (ODPP)	<ul style="list-style-type: none"> <li>• Monitoring and oversight of public procurement.</li> <li>• Development of related regulatory and legal framework and professional capacity of public procurement.</li> </ul>
Pharmacy Medicines and Poisons Board (PMPB)	<ul style="list-style-type: none"> <li>• National medicines regulatory body.</li> <li>• Registration of medicines and pharmacy personnel.</li> <li>• Inspection of manufacturers for good manufacturing practice.</li> <li>• Registration of pharmacy premises and wholesalers.</li> <li>• Pharmacological vigilance and post-market surveillance.</li> </ul>
National Drug Quality Control Laboratory	<ul style="list-style-type: none"> <li>• Quality assurance of medicines and condoms</li> </ul>
Central Medical Stores (CMS)	<ul style="list-style-type: none"> <li>• Procurement , storage and distribution of drug supplies to public institutions and some private outlets</li> </ul>
Ministry of Health Procurement Unit (MoH PU)	<ul style="list-style-type: none"> <li>• Procurement of health equipment and instruments, non-health goods, works and services.</li> </ul>
UNICEF	<ul style="list-style-type: none"> <li>• Procurement of medicines and health products for the Ministry of Health and grant products for Global Fund PRs.</li> </ul>

88. To assess the adequacy of procurement and supply chain management arrangements in Malawi, the OIG reviewed:

- i. The procurement and supply chain management framework;
- ii. Procurement planning and forecasting under the malaria and tuberculosis programs;
- iii. Procurement practice; and
- iv. Storage and distribution arrangements.

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### The PSM management framework

89. The oversight structures in place to support procurement activities of the Ministry of Health Procurement Unit included the MoH Internal Procurement Committee (IPC) and the Office of the Director of Public Procurement (ODPP). Technical Working Groups for Financial Management and Procurement and for Drugs, Medicines and Supplies were established as oversight bodies for procurement and supply activities under the Sector Wide Approach.

90. The OIG audit concluded that the MoH Internal Procurement Committee was functioning well and meeting regularly, reviewing regular updates from the Procurement Unit on outstanding tenders and challenges as well as action requirements. However, the OIG noted the following scope for improvement in the performance of the Committee and the Procurement Unit:

- i. Members of the IPC had not signed the oath of secrecy and confidentiality agreements as required by the ODPP's rules and regulations; nor had they been trained in best purchasing practices or the ODPP's rules and regulations, which reduced their effectiveness in managing procurements.
- ii. Minutes of IPC meetings did not provide a clear record of what was discussed and considered in the approval of advertisements and bid documents or in the approval of weekly submissions from various Ministry departments; the OIG was unable therefore to verify the adequacy of the management approval process.
- iii. A number of emergency procurements had resulted from inadequate monitoring of the implementation of the Ministry's procurement plan, including the procurement of services for storage and distribution of nets, and the procurement of security and vehicle insurance services in 2010.
- iv. There had been persistent delays in the finalization of procurement processes, partly attributable to delays in obtaining and finalizing technical specifications from user departments, outdated IT standards and specifications, and a lack of standard specifications for medical equipment and instruments.
- v. The Procurement Unit was not utilizing any price benchmarks to ascertain the value for money and cost effectiveness achieved for international procurements.
- vi. The Unit lacked the necessary technical capacity to manage tendering for services and consultancies, particularly in relation to the development of competitive and generic specifications (such as in the provision of storage and distribution of insecticide-treated nets, customs clearance, vehicle insurance, travel agency services, and the hiring of external auditors). The technical specifications for some tenders were not adequate to ensure that potential providers submitted competitive bids for example for tender 031/sw/g/13/2009 for the supply of five station wagons, the technical specifications were not generic, but specified a Toyota Prado, which put other bidders at a disadvantage. There were no scoring guidelines for use in evaluation of bids to ensure equality of treatment and reinforce transparency.
- vii. There was generally inadequate record-keeping, with key documents missing in contract files. Procurement records were not kept in lockable storerooms with limited access only by authorized persons.

### **Recommendation 13 – High**

*The IPC should improve its working arrangements and coverage, to effectively address the weaknesses identified and to improve procurement performance. In particular, Committee members should be trained in or advised on good procurement practice and the ODPP's rules and regulations, to provide them with the necessary technical knowledge and skills to ensure successful procurement outcomes from the Global Fund's financial support; and records of IPC meetings should include a more comprehensive record of issues discussed*

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*and approvals agreed by the Committee, to support management review and audit oversight.*

91. The ODPP, as the statutory body mandated to monitor and provide oversight of public procurement, provided the oversight through enforcing the requirements of the Procurement Act 2003, Procurement Rules and Regulations, and Desk Instructions. The ODPP approved key tendering and contracting stages to ensure compliance to the rules and regulations by MoH PU and SRs. However, the ODPP did not have adequate capacity to provide the oversight required under the SWAp arrangements. In order to strengthen the procurement oversight role of ODPP to the MoH, TA was provided to ODPP from 2006.

92. The oversight function was provided by the World Bank until September 2008; between December 2008 and June 2009 by Charles Kandell; and at the time of the audit the Oversight Procurement Adviser (OPA) position was provided by EPOS and funded by DFID. The role of the OPA is to conduct initial review of procurements before submission to the ODPP for review.

93. In relation to oversight of the SWAp arrangements, the OIG noted that the Technical Working Group for Financial Management and Procurement was functional and held meetings regularly; and the Group had approved the Ministry's procurement plan for 2010-11 in time to enable implementation to proceed on schedule.

94. The OIG confirmed that the Technical Working Group for Drugs, Medicines and Supplies was established and operational, although the audit showed that there was scope for improvement in a number of areas to make the Group more effective:

- i. The frequency of the Group's meetings needed to increase.
- ii. The Group needed to put greater emphasis on areas that the Central Medical Stores were not managing effectively, such as the implementation of a CMS improvement plan; annual operational planning; the fostering of linkages between CMS and the Ministry's Procurement Unit; and the quantification of procurement requirements.
- iii. There was inadequate oversight of security and distribution, and leakages had occurred in the supply chain, as well as slow progress in the implementation of the recommendations of the Leakage Study of 2006.
- iv. Although the Group's terms of reference required it to foster adequate linkages and communication with the Technical Working Group for Financial Management and Procurement under the Sector-Wide Approach, the mechanism for ensuring that this happened had not been defined, with the result that at times the Ministry's Procurement Unit and the Central Medical Stores had failed to adhere to approved procurement plans.

### ***Recommendation 14 – Significant***

*The Technical Working Groups for Financial Management and Procurement and for Drugs, Medicines and Supplies should define more effectively the linkages and communications required to ensure that they are mutually well informed on activities that require oversight by the respective Groups.*

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### Procurement planning and forecasting

95. As part of its audit, the OIG reviewed the quality of planning, forecasting and quantification of requirements in relation to the malaria and tuberculosis programs supported by Global Fund resources in Malawi.

96. With the malaria program, the OIG noted consistent delays in the planning process, for example, the procurement plan under Round 2 was not approved until 2006, although the grant proposal had been approved in 2002. For Round 9, the PSM Plan was submitted in May 2010 and by the time of the OIG audit in September 2010 there were still queries outstanding (unclear assumptions, the omission of a Quality Assurance Policy, and the need for review and justification of prices in cost estimates) prior to approval. Some delays had been exacerbated by inadequate consultation and coordination between key stakeholders.

97. The National TB Program could not provide evidence to the OIG that the procurement plan had been approved by the Global Fund. The lack of adequate procurement planning combined with inadequate technical specifications had contributed to delays in the procurement of grant commodities.

98. For both malaria and TB, while procurement plans had been developed for non-health products, no plans had been developed for medicines and other health products coordinated through UNICEF and the Global Drug Facility. In consequence, there had been no centralized coordination of the procurement of health products.

99. Forecasting and quantification of requirements under the malaria program showed some skills shortfalls in program staff, and the use of incomplete and unreliable information which had led to stock outs. Stock-outs were reported in the supervisory visit report for period December 2009 to March 2010 which showed that only 20% (10 of 50) facilities visited had all 4 drug presentations in stock on the day of the visit.

100. The OIG also noted the following stock-outs:

- i. At CMS central receipts stores, there were ACT stock outs at the time of the visit.
- ii. At Mzuzu RMS the LA6 and LA12 had been out of stock for more than a month by the time of the visit.
- iii. At Salima LA6 and LA 24 had been out for month on the day of the visit.
- iv. Stock records at Nkhotakota showed that LA6 and LA24 were out of stock on the day of the visit. LA18 had been out of stock for two months.
- v. LA18 had been out of stock for three months at Mchinji Hospital on the day of the visit.

101. As per the December 2009 to March 2010 supervisory report, there were expiries of 422 doses of LA 1x6 at Msenjere HC and 438 doses of LA 3x6 at Madisi HC. The OIG also noted poor and untimely reporting of consumption by hospitals and health facilities. The monitoring and supervision report of October 2009 indicated that only 47% of facilities had physical stock tallying with stock card records. They had disparities between the numbers of doses dispensed and there were discrepancies between the stock cards and the number of patients reported as treated in local registers.

**Recommendation 15 – Significant**

- (a) *The National Programs for malaria and TB need to improve co-ordination with stakeholders to ensure timely finalization of procurement planning for the effective use of Global Fund support.*
- (b) *The PR should strengthen existing procurement planning and forecasting arrangements by improving:*
- *The skills of health professionals at the different levels of the supply chain; and*
  - *Central co-ordination of procurement planning, forecasting and quantification of health products to ensure that all required program products are adequately planned for. In particular, the Ministry should consider strengthening forecasting with the support of robust quantification software; establishing specific guidelines for specialized items; and the development of appropriate guidelines to avoid stock outs, erratic availability and expiry of products in the supply chain.*

Procurement practice

102. The OIG examined procurement practice and processes that had been applied under the malaria and TB programs in Malawi. For malaria, and despite the procurement challenges that were faced during the life of the grants in Malawi, UNICEF was able to provide the required Artemisinin-based combination therapy and long-lasting insecticide treated nets to enable the program to have appropriate commodities for treatment, care and support of patients. At the same time, the procurement monitoring reports showed there had been significant delays in the finalization of procurements between the dates of cost estimating and purchase orders, sometimes resulting in stock outs.

103. The OIG reviewed the data in the Procurement Services Supplier Monitoring Report and identified the lead times between raising the PO and the arrival dates:

<b>Item</b>	<b>Cost estimate Date</b>	<b>PO date</b>	<b>Lead time (months)</b>	<b>Quantity</b>	<b>Date of arrival</b>	<b>Lead time from PO to arrival (months)</b>
LLINS	11/03/08	24/4/09	12	750,000	22/10/09	7
Microscopes & cabinets	12/2/08	22/12/09	22	56	09/04/10	3
Net treatment kits	11/3/08	18/09/09	18	3,000,000	27/04/10	7
ACTs	12/01/08	25/03/09	14	Various	01/06/09	2
ACTs	04/01/10	13/01/10	< 1	Various	12/02/10	1

*Source: UNICEF, 20 July 201*

104. The National TB Program’s own review of procurement processes showed a lack of procurement co-ordination at the program level, where the Program’s Logistics Unit coordinated drug procurement while the Central Reference Laboratory coordinated procurement of laboratory items. By the end of the OIG audit fieldwork in September 2010, staff working on the National TB Program had still not finalized the procurement of health and non-health products for its Round 7 Phase 1 grant which commenced on 1 January 2009. The procurement of specialized TB equipment, which started in December 2008, was still in progress. There was no indication of the expected date of arrival of products in Malawi.

105. One of the major reasons for delay in the process was insufficient coordination between the National TB Program, the Central Reference Laboratory, UNICEF and health technical support services on the finalization of technical specifications. The specialized

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items ordered were non-standard and thus not part of long term agreements with suppliers. Technical assistance to finalize specifications for the specialized items required was obtained from the WHO.

106. As a result of the delays in procurement, program implementation was delayed. Training of microscopists, for example, could not be carried out since the necessary microscopes had not been procured; and the unavailability of X-ray machines affected the quality of care for TB patients and delayed the opening of culture laboratories.

### **Recommendation 16 – High**

- (a) The National Malaria Control Program should engage effectively with the Global Fund Secretariat to finalize the approval of funding to minimize the stock out period for ACTs;*
- (b) The Program should carry out a detailed analysis of the procurement process to identify the causes of delays and co-ordinate stakeholder action to improve performance for future procurements;*
- (c) The National TB Program needs to improve co-ordination with key procurement stakeholders to ensure that the necessary processes are adequately supported to enable prompt and effective purchasing; and*
- (d) The Ministry's support services need to increase the level of technical support to the National Program to facilitate timely procurement of program products and minimize delays in program implementation.*

107. The OIG audit covered an examination of procurement practices at the Ministry of Health and the Central Medical Stores. The procurement processes used by the Ministry of Health's Procurement Unit were reviewed in line with ODPP procurement rules and regulations. The OIG drew on the review of procurements by external auditors from 2008 to 2009, which had found that the Ministry's Procurement Unit procedures, processes and documentation were not always in accordance with the Memorandum of Understanding covering the SWAp. Some procurement had not achieved the expected economy and efficiency, and a similar trend was apparent in procurement by SRs.

108. The Central Medical Stores' procurement unit was established and operational but understaffed. The OIG reviewed external audit reports on the CMS for the period 2006 to 2009. The major areas identified included the following:

- i. Limited consultation with stakeholders, which led to inaccurate forecasting based on manual and unreliable records at the CMS;
- ii. Non-adherence to procurement plans for the financial year 2009-10, with a risk of stock-outs in the public sector of essential medicines and supplies;
- iii. The absence of an approved procurement plan for CMS for 2010-11, with a consequential risk of costly emergency procurements which may not provide value for money;
- iv. The award of contracts which were not open, competitive and transparent;
- v. Weak evaluation processes;
- vi. Contract terms not being adequately enforced to cover all risks and ensure complete and timely delivery of goods;
- vii. Procurement outside the specifications provided or required by the user departments;
- viii. Weak administrative control of procurement processes at CMS leading to delay in finalization of procurements; and
- ix. Price-benchmarking based on CMS catalogue prices, which is not appropriate for assessing and achieving value for money.

### **Recommendation 17 – High**

- (a) *The Office of the Director of Public Procurement should take appropriate steps to ensure adherence to the procurement rules and regulations by the Ministry's Internal Procurement Committee and Procurement Unit; and*
- (b) *The Ministry of Health should take appropriate steps to address the technical shortcomings and long outstanding management issues identified at the Central Medical Stores, including the establishment of effective: governance, leadership, systems and management team.*

### Storage and distribution arrangements

109. The main storage and distribution channel for the public sector is the Central Medical Stores (CMS). The OIG audit covered the CMS, regional medical stores and district hospital storage in this audit, with field visits to seven sub-warehouses, five district hospitals and five health facilities.

110. The OIG reviewed the CMS storage system and practices to evaluate functionality, safety, security and reliability in handling program commodities. The storage and distribution systems and practices were not safe, secure or reliable for storage and distribution of program commodities. Inventory management and storage facilities and conditions were not adequate to assure the efficacy of medicines and consumables received by end-users. The accountability of stocks was not adequate to minimize stock losses and leakage. Systems and controls were not able to prevent or minimize the risk of having significant quantities expire.

111. A detailed review of storage and security systems in place at six sub-warehouses in Lilongwe showed the following areas for improvement:

- i. The warehouses were staffed by non-pharmacy staff which limited the level of technical support and control available for the storage and distribution of medicines.
- ii. The security company providing services at most of the warehouses was not sufficiently vigilant to minimize the risk of theft or abuse.
- iii. Stock records were not kept on site, with a consequent risk of undetected variances and losses; and warehouse dispatch systems were insufficient to minimize pilferage and stock leakages.
- iv. Conditions at most of the warehouses were not suitable for some items of stock, for instance in regard to temperature control systems, lighting, the absence of back-up generators for power outages, and poor cleanliness.

### **Recommendation 18 – High**

- (a) *Storage locations need as a matter of priority to put in place significantly improved and more effective arrangements to improve standards and minimize the risk of stock losses from theft or deterioration in condition.*
- (b) *The Central and Regional Medical Stores, district hospitals and sub-warehouses need to adopt improved storage management practices to ensure adequate control and record keeping of stock movements using standard documentation and effective stock-taking procedures.*
- (c) *The CMS needs to ensure that personnel handling stock throughout the distribution chain possess appropriate skills in the management of drugs and warehousing.*

112. Leakages of ACTs were brought to the attention of the audit team while in-country in Malawi. The PMPB provided the audit team with the details of batch numbers, presentation and quantities of ACTs that had been intercepted by police in Karonga on 23 July 2010. A consignment of 14,400 doses was reported to be destined for Tanzania. The OIG Investigations Unit is following up this case.



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113. A review of inventory records at RMS of Blantyre and Lilongwe demonstrated the following weaknesses that could perpetuate leakages of health products:

- i. There were significant gaps between the date of arrival in Malawi and the date stocks recorded on the bin cards;
- ii. There were differences between quantities recorded as received by UNICEF and CMS stock card quantities; and
- iii. Some order forms that were used for inter-depot transfers from CMS to RMS were photocopies, thus not allowing for verification.

114. The distribution activities and performance by the distribution agent for LLINs were not actively monitored and evaluated by NMCP. During the field visits the OIG audit team noted the following weaknesses in the distribution of nets:

- i. The labeling on the repackaged nets was not always consistent with the contents of the package. For example, the OIG noted an instance where the outer package had a label of 50 nets whereas the actual contents were 40 nets;
- ii. The packaging material was weak, leading to breakages during distribution; and
- iii. Goods Received Notes were not issued to acknowledge products received.

### ***Recommendation 19 – High***

- (a) There is a need to reconcile the quantity of products procured and delivered by UNICEF to the actual quantities received by CMS;*
- (b) NMCP should work with the Health Centers to strengthen controls on receipt of products; and*
- (c) NMCP should work with the distribution agent to improve packaging of LLINs.*

### Public health aspects

*Public health, including the reduction of mortality and morbidity associated with HIV, tuberculosis and malaria, is a challenge that the Ministry of Health is managing comprehensively. Equity of opportunity is addressed through the provision of drugs and services free of charge at all levels of the health system in the public sector; the establishment of relevant policies, strategies and guidelines; a focus on evidence-based policy and practice; monitoring of performance for the three diseases on a six-monthly basis; the measurement of outcomes against targets; and on-going capacity building, both technical and managerial. The Ministry intends to give increasing attention to quality of service delivery and management. Looking forward, there is scope for more effective leadership at various levels of the institutional health system to foster a results-based culture with a clear value for money approach.*

#### The wider context

115. The Malawi Growth and Development Strategy for 2006–2011 focuses on six priority areas including the prevention and management of nutrition disorders and HIV and AIDS, citing progress in the eradication of extreme poverty, the reduction of child mortality and the combating of HIV and AIDS, malaria and other diseases. Political commitment to HIV and AIDS is most visibly seen in that the President personally takes on the role of Minister for Nutrition and HIV and AIDS. There is also a Secretariat for Nutrition and HIV and AIDS in the Office of the President and Cabinet.

116. The Government of Malawi adopted a sector-wide approach (SWAp) in the health sector in 2004, one of the aims of which was to achieve the planned results of the Malawi development strategy, the necessary work towards which is set out in a health sector program of work. The SWAp presents an opportunity for government and development partners to work together following the principles of the Paris Declaration on Aid Effectiveness. The Global Fund signed up to the sector-wide approach in 2005 and the Ministry of Health has facilitated various mid-year, annual reviews and evaluations of the sector-wide approach.

#### Program results

117. The Ministry of Health is responsible for interventions which fight all three diseases and health systems strengthening, acting as a SR for the National AIDS Commission for the biomedical aspects of HIV and HIV/TB. All three disease programs are thoroughly reviewed every six months, independently of the reviews of the SWAp. A review at the time of the audit<sup>2</sup> showed that:

#### HIV and AIDS

- i. The universal access target had been surpassed (1.7 million HIV tests).
- ii. 211,246 patients were alive and on anti-retroviral therapy (55% of need).
- iii. 70% of health facilities offered prevention of mother-to-child transmission.

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<sup>2</sup>Power point presentation of the independent review of the national response to HIV and AIDS for fiscal year 2009/10, 27 August 2010 at NAC

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### Malaria

- iv. An increase from 35% (MICS 2006) to 57% (DHS 2010 preliminary report) of households reported possession of an insecticide-treated net.
- v. An increase from 23% (MICS 2006) to 40% (DHS 2010 preliminary report) of children under five who slept under a treated net.

### TB<sup>3</sup>

- vi. An improved TB cure rate from 63% in 1997 to 86% in 2010.
- vii. A death rate reduced from 21% in 1997 to 8% in 2010.
- viii. Almost 100% of HIV positive clients screened for TB and 86% of TB patients tested for HIV.

### Monitoring and evaluation (M&E)

*Key opportunities for strengthening the M&E system include obtaining sound, useful information for decision making by focusing increasingly on outcome indicators rather than inputs, and by strengthening data entry, collection, reporting and verification. The Ministry of Health could show its commitment to making the best use of available resources and developing a results-based culture by focusing more strongly on results and value for money.*

118. The initial number of indicators was considered too large for monitoring the SWAp. In consultation with SWAp partners, the overall number was reduced to 52. However, the Global Fund advocated the use of 17 additional indicators, 13 of which had not been used in the SWAp program of work.

119. Outcomes were reported against indicators and targets in the Ministry's annual report. However, qualitative aspects related to results, and a consideration of trends and options for the way forward were rarely addressed. Reports could be further strengthened by addressing value for money, e.g., by showing whether the available resources used were commensurate with financial inputs.

120. Data quality assurance arrangements were weak and data quality had been adversely affected by poor data entry and non-compliance with reporting requirements by some health facilities, district councils and non-governmental or community-based organizations. There was a shortage of qualified staff in health facilities, with data entry carried out mostly by inadequately qualified personnel who were not well supervised. The Ministry of Health has now taken steps to employ one data entry clerk for each facility countrywide.

### **Recommendation 20 – High**

- (a) *The Global Fund Secretariat and the Ministry of Health SWAp Secretariat should reconsider the need for the present number of performance indicators. Greater emphasis should be placed on demonstrating value for money.*
- (b) *Since the effectiveness of grant-funded interventions depends on quality information to aid sound decision making, the Ministry of Health should take action to improve the quality of data through refining arrangements for data entry, collection, reporting and verification.*

### **Concluding observations**

121. The Ministry of Health has made commendable progress in strengthening systems and delivering the health program. However, there is scope for improvement in the

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<sup>3</sup>Meeting with TB program 6 September 2010

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arrangements for financial and program management and for procurement. The procurement and supply chain management system could not at the time of the audit be relied on to adequately support program implementation without improvements being made to purchasing, storage and distribution systems.

**The National AIDS Commission**

**Background**

122. The Government of Malawi established the National AIDS Commission (NAC) in July 2001 as a public trust to co-ordinate the country's response to the HIV/AIDS pandemic. The NAC is accountable to the Department of Nutrition, HIV and AIDS in the Office of President and Cabinet, with a mandate to provide leadership in planning, organizing, coordinating and setting standards and guidelines for the prevention and control of HIV/AIDS in Malawi, with objectives which include:

- i. Management and co-ordination of the implementation of Government policies on HIV/AIDS;
- ii. Liaison with relevant Ministries to ensure that there are no legal, medical or regulatory barriers to information on HIV/AIDS;
- iii. Advocacy to ensure that political, community and traditional leaders play a strong, sustained and visible role in the prevention of HIV/AIDS;
- iv. Development and maintenance of an up-to-date information system and suitable mechanisms for disseminating and utilizing information;
- v. Supervision, monitoring and evaluation of the progress and impact of HIV/AIDS prevention, care and mitigation; and
- vi. Development of guidelines for co-operation between the NAC, Government and other organizations and agencies in Malawi.

123. The approved grants and amounts disbursed at the time of the audit are summarized in the table below:

<b>Round</b>	<b>Component</b>	<b>Grant</b>	<b>Grant Amount USD</b>	<b>Disbursed Amount At 31 July 2010 USD</b>
1	HIV/AIDS	MLW-102-G01-H-00*	342,557,595	259,425,760
5	HIV/AIDS	MLW-506-G03-H	17,589,438	13,014,913
7	HIV/AIDS	MLW-708-G07-H	15,078,417	9,529,917
<b>Total</b>			<b>375,225,450</b>	<b>281,970,590</b>

*Source: The Global Fund website at 23 July 2010*

*\*Includes RCC grant*

124. NAC's annual activities are guided by an Integrated Annual Work Plan derived from the National HIV and AIDS Action Framework funded by a pool of donor partners. The Global Fund signed HIV Pool MOUs as follows: the first MOU was signed on 25 August 2006; amended October 2008 and the second one signed 17 June 2009. Under Round 1, Phase 1, from 2003 to 2006 the Global Fund was a discrete donor to NAC; and from Round 1, Phase 2 to date, the Global Fund has been one of the HIV pool funding partners.

125. Below are the contributions made to NAC by various donors for the period 2003-2010 to fund the National HIV and AIDS Action Framework (NAF):

<b>Source</b>	<b>Disbursed Amount (USD million) At 30 June 2010</b>	<b>% Disbursed per Source</b>
Global Fund	248.3	66.7
World Bank	48.1	12.9
CIDA	10.0	2.69

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Source	Disbursed Amount (USD million) At 30 June 2010	% Disbursed per Source
Norway/SIDA	19.5	5.24
UK/DFID	23.7	6.37
Government of Malawi	14.9	4
UNDP	3.5	0.94
CDC	3.5	0.94
ADB	0.5	0.13
<b>Total</b>	<b>372.0</b>	<b>100</b>

Source: NAC Financial Monitoring Reports, 30 June 2010

### Achievements and challenges

126. The OIG noted the following good practices and achievements with respect to grants managed by the NAC:

- i. Effective board and donor oversight.
- ii. Regular external and procurement audits.
- iii. An established Internal Audit Unit reporting to a Board Finance & Audit Committee, with an internal audit charter and procedures manual and a risk-based audit methodology.
- iv. A procurement unit established in 2008 to co-ordinate central procurement of common products and high value items for non-health products and services.
- v. Performance of independent reviews of the HIV Pool.
- vi. A finance unit with sound financial policies and procedures in place.
- vii. Deployment of Finpro accounting software with arrangements for upgrade and maintenance.
- viii. Quarterly financial monitoring reports prepared within the timelines stipulated in the HIV Pool MoU.
- ix. Written procurement guidelines in the form of a Procurement Manual.
- x. Annual PSM and procurement plans and quarterly progress reporting.
- xi. Oversight of the procurement function (for non-health products and services) by the World Bank under the HIV pool funding agreement.
- xii. Annual audit of the NAC procurement function (for non-health products) by external auditors.
- xiii. Annual independent reviews of the national response to HIV and AIDS.
- xiv. Annual work plans at national and district levels.

### Institutional aspects

*The NAC has sound governance structures that have provided effective oversight of programs but needs to strengthen its strategic planning to focus efforts on coordinating the HIV and AIDS National Response.*

127. Malawi had a National HIV Policy and a National HIV/AIDS Action Framework in place, but did not have a National HIV Strategic Plan at the time of the audit. There was scope for the NAC to create an institutional strategic plan to focus the organization's efforts on its vision and enhance long-term financial sustainability.

128. NAC was both coordinating the National Response to HIV and implementing it. The NAC's in-depth involvement in the processes of procurement, selecting SRs, disbursing funds and consolidating reports could adversely affect its effectiveness and focus in coordinating the country's multi-sector response to HIV and AIDS.

129. The NAC had a Board of Commissioners nominated by various constituencies and appointed by the President, with representation from academia, persons living with HIV and AIDS, youth, the country's traditional leaders, the faith community, the private sector, and ex-officio Government representatives.

130. The OIG noted that some of the organizations represented by the Board members received grants from the NAC, which presented conflicts of interest. However, Board members were required to declare such conflicts. The Board met regularly to discuss the implementation of the programs and operated through a number of sub-committees, including Finance & Audit, Grant Management, and the Program Committee.

131. The Office of the President and Cabinet provided oversight of the NAC and advocacy for HIV and AIDS to the Government. The Malawi Partnership Forum, comprising several stakeholders in HIV and AIDS, provided advice to the Board of NAC to ensure that the views of the various stakeholders could be taken into consideration.

132. The NAC Management Team was headed by an Executive Director supported by the Director of Policy and Programs and a Director of Finance and Administration. The head of Internal Audit reported functionally to the Board Finance & Audit Committee and administratively to the Executive Director.

133. The OIG reviewed NAC's audit arrangements and noted that they did not comply with Global Fund guidelines in the following aspects:

- i. A single financial statement and audit report was prepared identifying the income contributed by the Global Fund to the Pool. The financial statements did not clearly identify Global Fund expenditure against budget; and
- ii. The PR did not prepare an SR audit plan to ensure that all SRs were audited annually.

134. The Internal Audit department carried out both assurance and investigative audits. Some 200 GRO audits and 35 CBO audits were carried out in 2009/2010. Good practices included having well-qualified staff (although numbers were not sufficient to carry out effective audits of all grant recipient organizations); the existence of an internal audit charter and internal audit manual; audits based on annual risk assessments; well-documented reports and evidence of follow up of audited entities; and the detection of fraud cases and the establishment of good working relationship with Malawi's Anti-Corruption Bureau.

### ***Recommendation 21 – Significant***

- (a) The OIG suggests that the NAC take the lead in the development of a National HIV Strategic Plan; and consider developing an institutional strategy to focus the organization's efforts and enhance its long-term sustainability; and*
- (b) In order to strengthen effectiveness of external audit arrangements, NAC should comply with the Global Fund guidelines for annual audit of the financial statements.*

### **Financial Management**

*The NAC has made commendable progress in strengthening the financial management system although the OIG audit showed instances of unsupported expenditure and payments outside approved work plans.*

135. The OIG review of financial transactions at the National Aids Commission covered the grant period from June 2003 to June 2010.

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136. The audit showed that expenditure worth MWK 128 million [USD 847,948] under Round 1 Phase I and MWK 30.5 million [USD 202,509] from Round 1 Phase II onwards could not be adequately supported by third party documentation. The absence of third party supporting documentation for audit assurance constitutes a fundamental weakness in internal control. The PR should provide the supporting documents or refund these amounts to the HIV and AIDS Pool.

### ***Recommendation 22 – High***

*NAC management should endeavor to provide documentation to confirm the validity of all expenditures; and ensure in future that appropriate arrangements are put in place to obtain and safeguard supporting documentation for management review and audit purposes.*

137. The OIG noted that during Round 1 Phase I, when the Global Fund was a discrete donor, there had been expenditures outside the Global Fund work plan. MWK 5.96 million [USD 39,733] had been given to the Bakili Muluzi Institute for an HIV/AIDS Campaign; and MWK 0.8 million [USD 5,333] donated to the Ministry of Women as a contribution to celebrations for International Women’s Day. These activities could not be traced to the Global Fund work plan.

138. The OIG examination identified the purchase of 20 Toyota pick-up trucks worth USD 390,500 which could not be traced to the Global Fund approved procurement plan for 2004/05 or the relevant Global Fund work plan for Round 1 Phase I.

### ***Recommendation 23 – High***

*NAC management should take steps to improve financial controls to ensure that all project-related expenditures are based on approved Global Fund work plans and refund expenditures not approved by the Global Fund.*

## **Grant management**

*There is a need to review and strengthen grant management capacity at the NAC. Management need to install more appropriate grant management software and consider reducing the number of grant recipient organizations.*

139. NAC provides sub-grants to grant recipient organizations (GROs) in the public and private sectors which include Government ministries, district assemblies, non-governmental organizations, faith-based organizations and community-based organizations. The NAC has disbursed MK23.9b (USD 199.4m) to over 290 GROs since 2004.

140. Currently NAC uses an MS-Excel spreadsheet file as a grant management tool to record and track disbursements made to GROs; monitor GRO budgets and quarterly reporting time lines; track GRO budget implementation; generate GRO status reports; maintain GRO contact details; and record GRO applications received, processed and approved.

141. The following shortcomings were noted with these arrangements:

- i. Given the size of NAC grants (USD 199.4m) and the number of GROs (290), the Excel spreadsheet software has inherent limitations to efficient operations and in aiding timely decision making:
  - The file does not have adequate provision for an audit trail, making it susceptible to error when accessed by more than one staff member.
  - The file is limited with respect to processing large amounts of data.



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- There is difficulty in identifying and correcting errors in the numerous information fields and workbooks.
  - Spreadsheets are prone to system errors and virus infection which can affect access and, in extreme circumstances, lead to complete loss of data.
- ii. There are inadequate controls to limit access to the data since the file can be updated by different staff in the grant management unit.
  - iii. No evidence was available to show that the Excel data file was reviewed for errors by staff independent of those inputting data.

142. During the audit, the OIG noted vacancies and staff shortages in the NAC grant management unit. Given the geographical spread of grantees across Malawi, more than 290 grantees and the size of the grants, the GMU is constrained by its limited staff numbers in the effective co-ordination, management and monitoring of grantees' performance.

### ***Recommendation 24 – Significant***

- (a) *The NAC requires a more reliable data management tool than Excel spreadsheets to ensure the robustness, accuracy and efficiency of grant management.*
- (b) *NAC should consider filling existing staff vacancies in the grant management unit to improve the efficiency and effectiveness of the unit's management performance.*

143. There had been a number of frauds at grant recipient organizations over the period that the NAC had managed Global Fund supported programs. While NAC management has taken legal action against some of the GROs and recovered funds, some had their funding suspended awaiting financial redress. At the time of the OIG's audit, recoveries stood at 46% of the amounts lost.

144. Despite an increasing number of reports of fraud in different GROs, the OIG did not see evidence that NAC had taken further action to evaluate the fraud risk in detail and apply lessons learnt to prevent recurrence. According to NAC internal audit reports, a total of MWK 54,369,771 (USD 360,065) was lost through fraud at the GROs. While USD 167,923 had been recovered, USD 192,142 were yet to be recovered.

### ***Recommendation 25 – Significant***

*The NAC should analyze the circumstances of alleged frauds at the various GROs to understand the circumstances and establish improved and more vigilant controls to help prevent recurrence. The NAC might consider re-thinking the entire Social Cash Transfer model under which a number of fraud cases were reported. All amounts lost to fraud should be recovered.*

145. The MoH is an SR to NAC under all the Global Fund grants to NAC. Funds disbursed to MoH by NAC are managed using systems parallel to MoH financial accounting systems. Separate books of accounts and accounting records were maintained for these funds. This arrangement bypassed key checks and balances of the MoH system, e.g., the OIG did not obtain evidence that the internal audit arrangements at MoH reviewed NAC grants to MoH.

146. During the audit, the OIG noted that MWK 44,599,407 (USD 295,360) of these funds reported to NAC as expensed were not supported by documentation that could be authenticated and there were no records for expensed amount of MWK 300,225,391 (USD 1,988,248) relating to periods 2004, 2005, 2006, and 2007. These amounts should be refunded.

***Recommendation 26 – Significant***

*The NAC should work with the MoH to strengthen controls over funds remitted to the MoH. The funds that were not accounted for should be refunded.<sup>4</sup>*

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<sup>4</sup> NB: The OIG suggested that the Global Fund Secretariat should enter into a dialog with the PRs on the timing of the recovery action.

### **Procurement and Supply Chain management (PSM)**

#### Overview

147. The NAC established a functional Procurement Unit in 2008. The Procurement Unit works on non-health products and services; health products are procured via MoH through UNICEF. The Unit benefited from technical assistance through a Procurement Management Technical Assistant whose contract came to an end on 31 January 2010. The capacity of the unit was adequate in terms of the number of staff, skills and experience to manage the procurement of non-health products for the grant.

#### The PSM management framework

148. Procurement and supply chain arrangements put in place by the MOH and NAC, were adequate to support the level and complexity of required procurements for the HIV/AIDS program, although a major weakness was the ineffective coordination of stakeholders in ensuring that PSM activities were implemented as planned by all parties. This led to weaknesses in the areas of logistics management and quality assurance. In addition there was limited attention given to management of laboratory equipment and consumables, which are important to the provision of a quality service.

#### Procurement planning and forecasting

149. The NAC, together with its key procurement stakeholders and partners - the Ministry of Health, the Central Medical Stores, UNICEF and the Pharmacy Medicines and Poisons Board, developed procurement plans that were adequate to meet program needs. Procurement and supply plans were incorporated into the NAC's procurement planning and subsequently into integrated annual work plans.

150. The procurement plan for 2004-2005, when the Global Fund was still a discrete donor to NAC, showed the source of funding, which made it possible to track and monitor Global Fund-supported procurements. However, subsequently all procurements were included in pool work plans, making it difficult to monitor progress on individual Global Fund procurements.

151. Forecasting and quantification appeared adequate to ensure continuous availability of medicines for the program. The aggregated quantities of ARVs were reported to be sufficient for the total number of patients on treatment and targeted new patients. The reported stock-outs in some facilities were mainly due to insufficient logistical skills concerning Antiretrovirals and test kits through the Central Medical Stores as well as a poorly coordinated redistribution system.

#### Procurement practice

152. The lead agency for procurement of health products for HIV and AIDs was the Ministry of Health. UNICEF was contracted by the Ministry to provide procurement services due to a lack of capacity within the Central Medical Stores, which was the Ministry's procurement body for health products. UNICEF's procurement agency contracts had been running since 2003.

153. Procurement through UNICEF enabled the program to have antiretrovirals and related commodities available at health facilities, albeit late in some cases. UNICEF used its procurement rules and regulations to procure the required products that complied with the Global Fund's quality assurance policy.

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154. An analysis of the procurement process by the HIV Donor Group showed a number of delays at different levels, leading to total lead times of between 32 to 50 weeks for air shipments from quantification of needs to receipt of products by health facilities. Lead times varied between items and quantities as well as the nature of the order, routine or emergency. Delays were noted at the following stages:

- i. It took six weeks to process cost estimates for the program against the target of three weeks.
- ii. The preparation of progress update and disbursement requests (PUDRs) took more than 5 weeks against a target of 2 weeks, due to delays in collating the required information from the Ministry's HIV and AIDS Unit, the Central Medical Stores and UNICEF.
- iii. It took an average of four weeks for the Global Fund to process disbursements to UNICEF.

155. The OIG reviewed the prices offered by UNICEF and established that, on average, the lowest possible prices were offered to the Malawi HIV and AIDS program.

### ***Recommendation 27 – Significant***

- (a) *The NAC should strengthen its coordination role with key stakeholders to ensure timely and supported submission of data for progress update and disbursement requests.*
- (b) *The NAC needs to engage with the Global Fund Secretariat to ensure that disbursements for procurements can be made in good time.*

156. The NAC and grant recipient organizations procured non-health items. GROs used direct purchase and local shopping for procurement below USD 30,000. The NAC procured on behalf of GROs above USD 30,000 and for common items. The pooling of procurement for common items started in July 2009, resulting in increased workload in the NAC procurement unit, where the staff compliment of the unit was increased to meet the demand.

157. In its review of NAC procurement processes for some non-health products, the OIG noted that there were instances of incomplete record-keeping, an absence of evidence of review and approval of bid evaluation reports by the Internal Procurement Committee, and no generic specifications in use for motor vehicles. Incomplete record keeping was noted on: Procurement of 6 4WD Executive Station Wagons, 5 4WD Double Cabin pickups, 33 hard top station wagons and 92 motorcycles.

### ***Recommendation 28 – Significant***

*The NAC's Internal Procurement Committee should take action to strengthen its oversight role by ensuring reliable record-keeping and improved documentation of procurement processes.*

### **Storage and distribution arrangements**

158. Storage and distribution of HIV and AIDS medicines and commodities involved a mix of private and public sector organizations, including the Central Medical Store and SDV, a third party service provider. The storage and distribution channels for HIV and AIDS commodities were not harmonized. Storage and distribution mechanism for drugs for opportunistic infections, test kits, condoms and PMTCT and ARVs were handled through CMS storage and distribution system as well as laboratory equipment, consumables and reagents. ARVs for mainstream treatment were handled through SDV storage and distribution system and were delivered directly to treatment sites, effectively by-passing the CMS system.

159. On physical inspection, the OIG noted some areas with scope for improvement in relation to the SDV stores, which were without temperature control or monitoring, although stock is only kept in transit for short periods before delivery to anti-retroviral therapy sites. There was no formal supervision of SDV either by UNICEF, the Ministry of Health HIV and AIDS Unit or the National AIDS Commission; and there had been no formal assessment of the distribution system to ensure its efficiency and security, even though there had been reports of stock outs and expired commodities and management information systems were weak.

160. Stock outs of ARVs and test kits in some Health Centers were reported by MoH HIV and AIDS Unit in their program quarterly reports, including Q1 and Q2 of 2010. The Q1 report for 2010 showed that only 48% of facilities visited had stocks of ARVs for maternal PMTCT prophylaxis; and 46% had ARVs for infant PMTCT prophylaxis. There were stock-outs of HIV test kits at many sites.

161. It was reported that the aggregate amount of ARVs had always been adequate for the planned patients on treatment and new ones since Q1 2008. The country had not established a buffer stock of ARVs at the time of the OIG audit in November 2010. NAC and MoH advised that they planned to establish a six month buffer stock as of January 2011. The program planned to establish new storage facilities for the buffer stock considering the lack of capacity at CMS.

### ***Recommendation 29 – Significant***

- (a) The PSM taskforce should review the parallel storage and distribution system and recommend to MoH a cost effective and efficient system for the commodities;*
- (b) NAC should co-ordinate with UNICEF and the Ministry of Health's HIV and AIDS Unit to plan and implement formal supervision of SDV. A formal assessment of the distribution system to ascertain its efficiency and security is required; and*
- (c) NAC and MoH should finalize the planning for and procurement of ARV buffer stock.*

162. In terms of quality control, the quality assurance arrangements by UNICEF were adequate to ensure product quality at the point of procurement. UNICEF has a quality assurance unit in Copenhagen to ensure that only quality products are sourced and distributed to countries. Medicines were sourced from WHO pre-qualified suppliers. The enforcement of medicine registration requirements before importation also ensured quality.

163. However, the OIG found that in-country quality assurance and control arrangements were not sufficient to ensure quality antiretrovirals at the point of entry into Malawi. The PMPB did not have reference standards and reagents for testing; and neither the Ministry of Health HIV and AIDS Unit nor the NAC made arrangements with regional laboratories for testing. Physical inspections were carried out by pharmacy personnel at central and regional medical stores and hospitals, but there were no standardized quality reporting forms for hospitals and RMS to use.

### ***Recommendation 30 – Significant***

*The Ministry of Health and the National AIDS Commission should consider action to strengthen quality assurance arrangements over anti-retroviral products by the finalization of procurement reference standards and outsourcing quality control tests to regional laboratories that are WHO pre-qualified.*

### Public Health Aspects

#### The wider context

164. In marked contrast to the early 1990s, the subject of HIV and AIDS has high visibility in the country with a marked degree of frankness and ease of discussion. There are high levels of awareness among society about HIV and AIDS and a high demand for male condoms.

165. NAC acknowledges that there are some risks. These are primarily associated with the scarce but improving human resource base and the reliance on Global Fund grants. At one point 96% of the NAC budget derived from development partners (69% of which came from the Global Fund), with the GOM contributing 4%.

#### Program results

166. As of August 2010,<sup>5</sup>

- A total of 1.7m HIV tests were performed, which is above the universal access target;
- 211,246 patients were on treatment (55% of need);
- 70% of health facilities offered PMTCT;
- PMTCT was at the same level of 60% as 2 years ago (there had been an increase in absolute numbers, but the denominator had changed); and
- Due to good performance in Round 1 HIV, the Global Fund approved an RCC grant for the scale up of the national response.

167. The CCM's proposal for Round 6 funding and the national strategy application were unsuccessful given (i) an insufficiently detailed needs assessment; (ii) a financial gap analysis that was not comprehensive; (iii) no good linkage with the Round 5 HSS; and (iv) an existing large resource base from the Global Fund. The Round 7 application was successful.

#### Indicators

*Reducing the number of output indicators in future performance frameworks presents a challenge for stakeholders. But it will help improve the focus on obtaining medium term positive results that contribute towards sustainability rather very short term ones that can be reversed at any time and do not demonstrate qualitative aspects such as use, e.g., number of nets or changes in practice.*

168. Global Fund grant applications from Malawi have included indicators not in the national HIV and AIDS M&E framework. For the Round 7 grant this did not present a problem as there was a coincidental review of the M&E framework, necessitated by an emerging need at the time to incorporate a data quality framework. A similar lack of consistency with the HIV and AIDS M&E framework may occur if NAC is successful in subsequent application rounds.

169. According to NAC there have been cases of the Global Fund requesting Malawi to revise its M&E framework to accommodate a particular grant's reporting requirements. This presents a technical challenge as it implies that every time there is a new grant, the M&E plan should be revised. This causes disruptions in efforts to strengthen the existing M&E system.

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<sup>5</sup>Power point presentation of the independent review of the national response to HIV and AIDS for fiscal year 2009/10, 27 August 2010 at NAC

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Currently Global Fund reporting requires 20 indicators across the three grants that are not part of the national M&E framework.

### Data entry, collection and quality

170. NAC had its own activity reporting form. In 2009, to encourage ownership of reporting by districts, the NAC with the MOH and Ministry of Planning developed a reporting format for local assemblies. The local authority HIV and AIDS activity reporting form (LAHARF) has to be filled in by all relevant stakeholders (CBOs, FBOs, NGOs and private sector workplaces) and submitted to the appropriate local or district assembly (the M&E officer) by the 15th of the month following the month being reported on.

171. The form had been adapted following the signing of Global Fund grants and includes all indicators. If a stakeholder is doing activities covered under both the MOH as a SR and from NAC it has to fill in both the SWAp indicator form and the LAHARF. The Local Authority Reporting System (LAHARS) is based on the LAHARF. It mandates districts to collect, enter, analyze and report all information within their jurisdiction. The product of this process, the Local Authority Quarterly Service Coverage Report (LAQSCR) is shared within the district and with NAC at the national level. NAC uses the LAQSCR to develop a national QSCR.

172. However, according to NAC, the LAHARS is still work in progress as the database is still undergoing maintenance to eliminate all systemic errors that have sometimes resulted in districts not being able to report on certain indicators. One such indicator in which database errors have been observed relates to condoms, as it has been noted that there is no analytic tool that would enable districts to generate reports for this particular indicator.

173. Data quality is generally weak, given non-compliance with reporting requirements and/or poor entry data by district and city councils and other HIV and AIDS implementers such as CBOs, FBOs, NGOs and those in the private for profit sector. This has resulted in concerns regarding the completeness of data, timeliness and accuracy.

174. District and city councils were particularly challenged by M&E. From discussions by the OIG at district level, e.g. in Blantyre, it transpired that each sector has its own M&E system, and systems were not harmonized. Some staff members did not appreciate the importance of M&E. There was a limited understanding of M&E at the levels where the information was collected. Furthermore, it was recognized that the M&E results were not taken into account in policy formulation and planning.

175. While quantitative outcomes against indicators and targets were usually reported in the annual independent review of the national response, there was little attention given to qualitative aspects of implementation or a discussion of trends and options going forward. Reports could be further strengthened by specifically examining value for money and questioning whether the positive results were commensurate with the increased financial input from stakeholders.

### **Recommendation 31 – High**

- (a) *The Global Fund Secretariat and NAC should examine how to reduce to the absolute minimum any additional indicators in performance frameworks, especially at the output level; and*
- (b) *The NAC should improve the quality of data through strengthening data entry, collection, reporting and verification. The effectiveness of interventions depends on quality information to aid sound decision making.*

#### Quality of service delivery

176. The NAC recognizes that it was crucial to ensure good quality service delivery during service scale-up by its SRs. An opportunity to work with MoH and other stakeholders on planning ways to strengthen supervision, monitoring, and coordination to ensure quality should take place when SWAp partners consider the MOH program of work.

### **Recommendation 32 – Significant**

*NAC, working with MoH and other stakeholders, should improve its focus on quality supervision of treatment and care.*

#### Technical/management capacity

177. At the time of the audit, the post of head of the Behavior Change Interventions Unit in the Directorate of Policy and Programs in NAC was vacant. Various functions of the unit have been allocated to different people in other units. Given the importance of prevention as the strategy to defeat HIV, the head of unit position needs a high profile in the NAC. There are a number of district/city AIDS coordinator posts that are vacant; of seven posts in the Northern Region only two have full time people. The remaining five posts each have an acting coordinator with another full-time job, one as director of public health.

178. Much time is spent by NAC personnel on approving and disbursing funds through the umbrella mechanism for the HIV and AIDS response at district and community levels. While work at these levels is crucial, it does not seem cost-efficient to give small grants to a large number of CBOs.

### **Recommendation 33 – High**

- (a) *NAC should give prevention a high profile by ensuring that behavior change has a prominent role;*
- (b) *NAC should intensify work with district and city authorities to reduce the number of district/city AIDS coordinator posts that are vacant; and*
- (c) *The current model of financing numerous CBOs would benefit from an evaluation that addresses options for the future to help ensure a locally appropriate, sustainable approach to HIV and AIDS work at the community level.*

#### Prevention

179. The use of condoms is an important aspect of the prevention of HIV. Condoms are promoted by MOH both as an HIV preventive measure and for family planning. There is a high demand for male condoms among the general public and from commercial companies who provide them free for their employees as part of their corporate social responsibility on HIV prevention.

180. The OIG found that in Blantyre informants had not had access to free condoms for the past 6 months; in Nkhata Bay commercial sex workers stated that no free condoms had been available for the past 6-8 weeks.



181. OIG fieldwork demonstrated difficulties with condom distribution, with two major challenges:

- i. The Central Medical Store (CMS) charges a 5% handling fee for condoms. The DHO had to obtain condoms from CMS. Given the handling fee, condoms moved down on the DHO's priority list<sup>6</sup>; drugs for treatment took priority.
- ii. According to NAC "there is a pull system as the boxes of condoms are bulky and when there is little space in the district vehicle that is collecting drugs and commodities, then priority is given to drugs for treatment. There is a need for a push system".

182. Only one of the zonal health offices was eventually able to produce figures on condom distribution requested by OIG<sup>7</sup>. Not all districts were keeping data on condoms and their distribution despite their being on the MOH tracer drug list.

183. The review of the distribution of condoms by the Northern Zone during the 2009-2010 fiscal year<sup>8</sup> showed that overall at the zonal level almost 6.5 million male condoms were received with nearly 6 million distributed. However, there were distribution challenges below that level. Chilipa district only distributed just over half the quantity they received, whereas Karonga district distributed all theirs. There was a shortfall in distribution of almost three quarter million male condoms by Nkhata Bay. Female condoms were persistently under-distributed.

184. For the most part free condoms were only available from health facilities. In some they were available from both the HIV clinic and the family planning clinic. In others it was only from the latter. Some workplaces had free condoms, as did some 'hospitality' houses (brothels). At the time of the audit, NAC was revising the national condom strategy to include a more active role in ensuring condom availability in non-health outlets such as bars and in toilets in hotels using a variety of distributors at the local level to help demedicalize the provision of condoms.

185. In the light of concerns about condom distribution raised by the OIG audit a decision was made to immediately push the available condoms in the country to the districts with NAC supporting the 5% handling fees<sup>9</sup>.

### ***Recommendation 34 – High***

*The reporting of condom distribution by districts should be strengthened. NAC should urgently strengthen the mechanisms for condom distribution to non-health outlets.*

### **Concluding observations**

186. The National AIDS Commission has established strong and effective oversight structures. There is scope to strengthen arrangements further by the development of strategic plans, which would enable the NAC to better focus on its core mandate of coordinating the multisectoral response of the country to HIV and AIDS.

187. The NAC needs to strengthen controls over expenditure and ensure that all payments are in accordance with approved work plans. There is a clear need for the NAC to review and strengthen the management and monitoring of grant recipient organizations. An evaluation

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<sup>6</sup>Email to OIG consultant 24 September 2010 from MOH

<sup>7</sup>Email to OIG consultant 29 September 2010 from MOH Northern Zone

<sup>8</sup>Email to OIG consultant 29 September 2010 from MOH Northern Zone

<sup>9</sup>Email to OIG 24 September 2010 from MOH

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of the increasing number of fraud cases should be carried out to support improved oversight or control and help reduce the incidence and risk of fraud and abuse.

### **Grant Oversight**

#### **Background**

188. The Global Fund's fiduciary arrangements rely on effective management oversight. Principal Recipients and SRs implement the programs and are overseen by a Country Coordinating Mechanism (CCM), which is a country-level multi-stakeholder partnership. A Local Fund Agent (LFA) provides assurance to the Global Fund Secretariat on the implementation of grant programs by assessing implementation and management capacity and verifying financial and programmatic reports.

#### **Country Coordinating Mechanism**

189. A CCM is a country-level multi-stakeholder partnership that is central to the Global Fund's architecture and committed to local ownership and participatory decision-making. The CCM is tasked with the following responsibilities:

- i. Co-ordination of the development and submission of national proposals;
- ii. Nomination of PRs;
- iii. Oversight of the implementation of approved grants;
- iv. Approval of any reprogramming and submission of requests for continued funding; and
- v. Ensuring linkages and consistency between Global Fund grants and other national health and development programs.

190. The CCM in Malawi, the Malawi Global Fund Coordinating Committee (MGFCC), was established in November 2001. The OIG noted good practices by the MGFCC, including regular, well-attended meetings where key issues affecting programs are discussed. The MGFCC has also taken steps to collaborate with the CCMs of other countries in the Southern Africa region.

191. However, while MGFCC meetings were held regularly and were well attended, OIG noted a number of shortcomings that needed to be addressed to strengthen effectiveness of these meetings. There was no proper follow up of resolutions and action points; minutes of meetings held in 2003, 2004, 2005 and 2010 were not available for audit examination; reports and other information presented in meetings had not been filed for future reference; the MGFCC had no sub-committees to handle technical details; and the Chairperson was absent in most of the meetings.

192. The MGFCC had an operations manual that outlined procedures to be followed by the CCM in overseeing grant implementation. This manual was developed in June 2006 but had not been updated to cover recent changes in the grant operations environment, such as new Global Fund processes like the National Strategy Application, management of the independent MGFCC Secretariat, and working in a SWAp or pooled funding arrangement.

193. In January 2010, following assistance provided by the National AIDS Commission, an independent Secretariat was put in place to support the MGFCC. There is an opportunity to strengthen this Secretariat to effectively support the work of the MGFCC through the:

- i. Development of a funding plan and strategy for the CCM and Secretariat;
- ii. Recruitment of staff to support the finance function and program monitoring; and
- iii. Training and orientating new program staff.

194. The MGFCC coordinated the development and submission of successful national proposals, including those for Round 1, the Rolling Continuing Channel, and Rounds 2, 5, 7

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and 9. Proposals submitted by the MGFCC for HIV Round 6, TB Round 9 and the National Strategy Application were unsuccessful.

195. The OIG noted that proposals submitted by potential PRs in most cases reflected limited understanding of the role of a PR; and adequate time was not provided in the process of PR selection to ensure consideration of all interested applicants.

196. The OIG identified weaknesses in the CCM's monitoring of the implementation of program activities, which included a lack of reports showing that oversight field visits had been undertaken during the period under review; and no effective follow-up of action plans for poorly-performing grants.

### ***Recommendation 35 – High***

*The capacity of the MGFCC as Country Coordinating Mechanism should be reviewed and action taken to:*

- (a) Develop capacity in its Secretariat to better support the work of the Committee, particularly by strengthening staffing in finance and program monitoring and developing a budget strategy;*
- (b) Share lessons learned from failed grant proposals to increase the prospects for future successes;*
- (c) Improve its own record keeping and management;*
- (d) Strengthen communications and advocacy in PR selection;*
- (e) Improve program monitoring and the effectiveness of field visits; and*
- (f) Work with the Ministry of Health to help strengthen systems for financial management, procurement and program management.*

### **Local Fund Agent (LFA)**

197. Given that the nature of the Global Fund's architecture does not include a direct in-country presence for the Global Fund itself, it relies on Local Fund Agents to provide oversight over the implementation of grant program activities. The scope of the LFA is mainly to carry out initial capacity assessment of PRs before grant approval and signature; review semi-annual Progress Updates and Disbursement Requests (PUDRs) before submission to the Global Fund; assess the PR after Phase 1 of implementation; and carry out on-site data verification.

198. Following a re-tendering of the LFA contract in 2008, there was a change in LFA for Malawi. The LFA at the time of the audit was Cardno Emerging Markets Group (EMG). In-country partners reported improved LFA coordination and communication with key stakeholders after the appointment of EMG. The OIG also noted that there had been an effective handover process from PricewaterhouseCoopers to EMG. The OIG noted good practices in LFA services in Malawi, including comprehensive PR assessments; the identification of critical performance issues; and good interaction with the Government and development partners.

199. The procurement of products and services accounts for a significant proportion (41%) of the total Global Fund grant disbursements to Malawi. The OIG noted serious and long-outstanding shortcomings in procurement and supply chain management which would have benefitted from closer attention by the Local Fund Agent. The LFA was not able to provide sufficient resources and stable staffing to procurement management, which compromised its ability to deliver quality work.

200. The LFA had not carried out a country risk assessment or developed a management plan to guide their work in Malawi, and the OIG was unable to link the work of the LFA to key risks in the country operating environment, since they had not been documented or

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prioritized. The LFA may not have been focusing on the riskiest areas, which could expose Global Fund grants to misuse and sub-optimal program performance.

201. The OIG noted that the LFA did not have a documented methodology or approach for performance of its work, and the OIG was unable to obtain working papers to support the work done and conclusions made in LFA reports. In the absence of a documented methodology, there is a risk that review procedures may not be consistently applied to all assignments, which would affect the quality of work.

202. The OIG noted the following concerns in relation to the accuracy and reliability of the Progress Update and Disbursement Requests from the Ministry of Health that had been approved by the current LFA:

- i. During the process of preparation of PUDRs, vouchers were simply accumulated to match the disbursements from the Global Fund, without any accompanying evidence that these payments had been made from Global Fund resources. The OIG was unable to reconcile PUDRs to the Ministry's accounting records.
- ii. The PUDRs could not be linked to program performance under each disease, because they contained only Global Fund-specific expenditure even though the program indicators are supported by other partners in the SWAp.
- iii. In most cases the PUDRs were inaccurate and had to be corrected by the LFA, which compromised the LFA's oversight role.

### **Recommendation 36 – High**

- (a) *The LFA should develop a country risk assessment and management plan to guide their work in Malawi. Priority effort should be made to identify and address risks in the procurement and supply system.*
- (b) *The LFA should develop and document a comprehensive approach for performance of its activities, against a methodology which covers planning, execution and quality assurance, and provides for working papers to support work done and conclusions reached.*
- (c) *The LFA should strengthen the assurance provided over Progress Update and Disbursement Requests from the Ministry of Health. PUDRs should cover expenses for the entire disease component and should be linked to performance. The accuracy and reliability of PUDRs should be improved by generating PUDRs wherever possible from the financial management system.*

### **The Global Fund Secretariat**

203. At the time of the audit, the Global Fund was a member of both the Health SWAp and the HIV Pool. The commitment to program-based approaches is part of the Global Fund's framework document which reflects that in making funding decisions, the Global Fund will support proposals which build on, compliment and co-ordinate with existing regional and national programs in support of national policies, priorities and partnerships.

204. The Global Fund has made concerted efforts to align with the Memoranda of Understanding of the Health SWAp and HIV Pool, while adhering to its own core principles. The Global Fund supports the joint program of work and relies on existing procurement systems. The Global Fund also accepts SWAp/Pool indicators, participates in annual and mid-year review meetings and receives the joint annual reports and external audit reports.

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205. However, the OIG noted that additional specific Global Fund reports on progress are being used to support disbursement requests; and the SWAp/Pool performance framework is not fully aligned to the performance framework for Global Fund-supported programs.

206. The OIG noted that the Global Fund had not signed the amended Health SWAp Memorandum of Understanding of 2009, although Global Fund grants were still being disbursed through the Health SWAp. The Secretariat informed the OIG that this was because the MoU did not meet the minimum policy conditions for Global Fund to operate in a common funding arrangement. The OIG's discussions with Ministry of Health management and development partners indicated that these minimum conditions had not been clearly communicated during the formulation of the MoU and the Global Fund had not been represented in negotiations.

### ***Recommendation 37 – High***

*The Global Fund Secretariat needs to work with the Government and its development partners to ensure that the minimum conditions for working in common funding mechanisms can be incorporated in the Memorandum of Understanding, so that the Global Fund can sign the MoU and formalize its participation in the Health SWAp.*

### Events Subsequent to the Audit

207. After the audit field work and on the basis of preliminary findings, the Global Fund Secretariat took a number of decisions aimed at mitigating drug-theft risks while ensuring the uninterrupted supply of health products to end-users. The Global Fund Secretariat has notified the OIG of several changes in the implementation arrangements for the grants in Malawi since the OIG's visit to the Country. The OIG welcomes these initiatives but has not yet reviewed whether they fully mitigate the risks identified in the audit.

208. The key changes in implementation arrangements include:

- i. Opting out of the SWAp. The Global Fund engaged the MGFCC, MOH and donors on incorporating the Global Fund's minimum requirements for funding in the pooled mechanism. A series of discussions were held, which culminated in the Global Fund's opting out of the pooled funding mechanism in August 2011, becoming a discrete donor.
- ii. The Global Fund pharmaceuticals and other health products purchased with Global Fund financing will not pass through the Malawi Central Medical Stores (CMS) until such a time that structures are considered secure. The Global Fund will use alternative supply systems to ensure that the products reach end-users.
- iii. Government has identified a warehouse (Manobec) for storage of Global Fund-procured health products. Global Fund-procured products are currently being moved to the new warehouse from other warehouses.
- iv. A decision has been made to procure all malaria products through the Voluntary Pooled Procurement mechanism. An MOU has been signed between the MoH and John Snow, Inc. for storage and distribution of malaria products.
- v. The MOH has initiated a re-tender for a distribution agent for LLINs as advised by the Global Fund Secretariat.

209. The government has put in place the following measures to strengthen the structures in place at a country level:

- i. *Capacity Building:* The Ministry of Health has developed plans to strengthen CMS structures through an independent Supply Chain Agent in charge of customs clearance, inventory management, quality control testing, warehouse management, and distribution. The Supply Chain Agent will also be responsible for building the capacity of CMS staff and the transfer of skills.
- ii. *Governance:* In an effort to reinforce Central Medical Stores governance, the Government of Malawi has recently appointed a Board of Trustees for the newly formed Central Medical Store Trust, an independent entity in charge of managing the Stores. Once functional, the Trust is designed to ensure the effective management of the Central Medical Stores.

### Annex 1: Abbreviations

ART	Anti-Retroviral Therapy
AIDS	Acquired Immune Deficiency Syndrome
ACT	Artemisinin-based Combination Therapy
ARV	Antiretroviral
BCC	Behavior Communication Change
BDC	Blantyre District Council
CBO	Community-based Organization
CCM	Country Coordinating Mechanism
CE	Cost Estimate
CHAM	Christian Health Association of Malawi
CIDA	Canadian International Development Agency
CIAU	Central Internal Audit Unit
CMS	Central Medical Stores
CoM	College of Medicine
CP	Condition Precedent
CRL	Central Reference Laboratory
CSO	Civil Society Organization
DCU	District Coordination Unit
DFID	Department for International Development
DHO	District Health Office
DIP	District Implementation Plan
DMS	Drugs, Medicines and Supplies
DOTS	Directly Observed Treatment, Short Course
DP	Development Partners
DR	Disbursement Request
FBO	Faith Based Organization
FCDA	Foreign Currency Denominated Account
FMA	Financial Management Agency
FMR	Financial Monitoring Report
FM&P	Financial Management & Procurement
GoM	Government of Malawi
GRO	Grant Recipient Organization
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
HSRG	Health Sector Review Group
HTC	HIV Testing and Counseling
HTSS	Health Technical Support Services
LAWP	Integrated Annual Work Plan
ICB	International Competitive Bidding
IEC	Information, Education and Communication
IFMIS	Integrated Financial Management Information System
IGA	Income Generating Activity
IPC	Internal Procurement Committee
IRS	Indoor Residual Spraying
ITN	Insecticide Treated Net
JAR	Joint Annual Review
KFW	Kreditanstalt für Wiederaufbau



## **Audit of Global Fund Grants to Malawi**

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LFA	Local Fund Agent
LLITN	Long Lasting Insecticide Treated Net
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MGFCC	Malawi Global Fund Coordinating Committee
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MWK	Malawi Kwacha
NAC	National AIDS Commission
NACP	National AIDS Control Program
NAO	National Audit Office
NCB	National Competitive Bidding
NAF	National HIV and AIDS Action Framework
NGO	Non-Governmental Organization
NLGFC	National Local Government Finance Committee
NMCP	National Malaria Control Program
NSA	National Strategy Application
NTP	National TB Program
ODPP	Office of the Director of Public Procurement
OI	Opportunistic Infection
OIG	Office of Inspector General
OVC	Orphans and Vulnerable Children
PLWHA	Persons Living With HIV and AIDS
PMPB	Pharmacy Medicines and Poisons Board
PMTCT	Prevention of Mother To Child Transmission
PMU	Project Management Unit
POW	Program of Work
PQR	Price and Quality Reporting
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supply Chain Management
PU	Procurement Unit
PUDR	Progress Update and Disbursement Request
QA	Quality Assurance
RBM	Reserve Bank of Malawi
RCC	Rolling Continuation Channel
RDT	Rapid Diagnostic Test Kits
RFQ	Request For Quotation
RHO	Regional Health Office
RMS	Regional Medical Store
SBD	Standard Bidding Documents
SMC	Senior Management Committee
SR	Sub Recipient
SSR	Sub-SR
STI	Sexually Transmitted Infection
TA	Technical Assistance
TB	Tuberculosis
TMC	Top Management Committee
TOR	Terms of Reference

## **Audit of Global Fund Grants to Malawi**

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TRP	Technical Review Panel
TWG	Technical Working Group
UN	United Nations
UNDP	United Nations Development Program
USD	United States Dollars
VCT	Voluntary Counseling and Testing
WHO	World Health Organization
ZHO	Zonal Health Office

**Annex 2: Audit Recommendations and Management Action Plan**

<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<b>Recommendation 1 – Significant</b>				
The effectiveness of the Technical Working Groups should be strengthened by ensuring regular meetings with consistent attendance by Ministry officials, and more rigorous follow up of action items. Terms of Reference and guidelines for all the TWGs should be developed, approved and shared with TWG members.	<p>As part of the Governance Structures for the new Health Sector Strategic Plan (HSSP) 2011 – 2016, Technical Working Groups have been reconstituted and provided with Terms of Reference. Issues raised by TWG are tabled at Management Meetings for policy directions and any further action that is required by management. SWAP Secretariat and Chairperson of the TWGs who are MOH Directors take responsibility of tabling TWG recommendations at Management Meetings and following up on the decisions of management with TWGs.</p> <p>All Technical Working Groups (TWGs) were reconstituted in July 2011 as part of HSSP completion and launching. Since then all TWGs meet quarterly and management meets twice a month to discuss, amongst other things, reports from TWGs and their minutes.</p>	Director SWAp	On going	
<b>Recommendation 2 – High</b>				
Every effort should be made to fill vacant positions in the National TB Program to support successful implementation of the	This has been addressed by the appointment in July 2010 of a qualified Medical Doctor as Program Manager.	Program Manager-TB	Appointed July 2010 and August 2011	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>Program’s objectives; and the Ministry of Health should ensure that program funds are made available promptly for the implementation of activities.</p>	<p>The Ministry has provided a fair amount of funding to the program dependent on monthly funding from Treasury. The program has been able to implement some of its crucial Global Fund supported activities in the past year despite the fact that Global Fund disbursement in Phase 2 of the TB Round 7 Grant has been delayed. Now that GF is a discreet donor, we are of the view that flow of funding to the program will not be affected in any way with budgetary and funding constraints from Treasury.</p>			
<p><b>Recommendation 3 Significant</b></p>				
<p>When CPs are being set and agreed, there is need for MoH to engage adequately with the Global Fund secretariat to ensure that the PR is in position to implement the CPs. Management should also communicate and discuss any financial and technical requirements arising from the CPs so as to avoid delays in the implementation of the time-based programs.</p>	<p>This response is with regards to the national TB prevalence survey. While it is true that there have been funding deficiencies in the past year and Ministry could not fund fully the TB Prevalence Survey, it should be noted that the conduct of the prevalence survey is dependent on thorough preparations in conjunction with and under the guidance of the World Health organization (WHO). The WHO has been preparing countries towards successful conduct of prevalence surveys for the past three years and Malawi has been participating fully in the preparations by among other things, attending</p>	<p>Program Manager-TB</p>	<p>On Going</p>	<p>The Secretariat should ensure that the CP on the Round 5 HSS grant related to the completion of a census for health sector employees is also followed up and addressed.</p>

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	<p>international meetings in Geneva, Ethiopia and Cambodia. The country is now equipped with knowledge and skills to conduct the survey from 2012.</p> <p>In addition, there have been severe delays in securing chest x-ray equipment and other health products required during the conduct of the survey so that even if the country were ready to conduct the survey now, it would be impossible to do so without the equipment. The Ministry has been working tirelessly with the Voluntary Pool Procurement (VPP), in order to secure the procurement of the equipment. It is anticipated that the equipment should be arriving in Malawi between February and March 2012.</p> <p>In terms of TB Control Program, this was addressed by engaging the Global Fund Team during their visit to Malawi in February and April 2011. However, there are some cross-cutting CPs which address government systems and the Ministry as PR will continue to engage the GF in future grants and negotiations, including any financial implications of such CPs.</p>			

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<b>Recommendation 4 - High</b>				
<p>(a) Management should ensure that external audits are conducted in a timely manner and reports issued in line with deadlines required by the Memorandum of Understanding. To strengthen effectiveness of external audit arrangements, the Ministry of Health should comply with the Global Fund guidelines for Annual audit of the financial statements.</p>	<p>The MoU provides for an audit to be completed within 6 months of the end of the financial year, i.e. by December 31st. The large number of health sector cost centres and their wide geographical spread pose a challenge on this deadline. In spite of this challenge there is an improving trend e.g. the 2009/10 audit was completed by end February 2011, an improvement from 2008/2009 audit which was completed by June 2010. In the current financial year, audit completion is expected by January 2012. This is because there were delays in engaging the external Auditors due to the recruitment process we had to go through. The 2011/12 Audit is therefore expected to meet the deadline. The Ministry of Health has been in correspondence with Global Fund to ensure that arrangements are fully in line with guidelines for annual audit of the financial statements, and expects to be fully compliant.</p> <p>The 2011/12 financial year's audit is expected to be completed by 31 December 2012.</p>	DOF	ONGOING	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>(b) The procurement process for external auditors should be supervised by the Malawi National Audit Office to ensure compliance with the Public Audit Act. This will provide oversight of the audit process; improve the quality of tendering and evaluation; and enhance the execution of audits.</p>	<p>The procurement of external auditors is in accordance with Malawi Procurement law and Regulation. Procurements are approved by the Office of the Director of Public Procurement (ODPP) and by the SWAp-appointed Procurement Oversight Agent. Prior to this, the National Audit Office approves the Terms of Reference and provides the pre-qualified list of Auditors. After the Audit, a copy of the Audit Report and Management letter are given to the National audit office for further attention.</p> <p>This is now institutionalized. The Terms of Reference for engagement of External Auditors for the 2010/11 FY audit were submitted to NAO and approved on June 1 2011.</p>	<p>Chief Procurement Officers/DoF</p>	<p>On going</p>	
<p>(c) Management should ensure that recommendations of the external auditors are implemented on time to enable improvement in the system of internal control.</p>	<p>This is currently being addressed through the ministry's audit committee and through the Financial Management Improvement Plan which is updated annually with new audit findings and recommendations. See copy for 2010/2011 and 2011/2012 attached.</p> <p>This was done on 9<sup>th</sup> February 2012. It will be effected through the FMIP to be prepared in the first 3 months of each year drawing upon audit findings, and to be implemented during the course of the year.</p>	<p>DOF</p>	<p>On going</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
(d) Requests for proposals in the tendering process should be checked to ensure they reflect the Ministry’s requirements for the assignments. Evaluation criteria included in the RFP should be adhered to.	<p>The Ministry has taken note of this important observation and will continue to improve on RFPs. The Ministry has included the same in the Procurement Improvement Plan for 2011/2012 Financial year through:</p> <p>a) Provision of general training course on Procurement Act 2003 and Procurement Regulation 2004.</p> <p>b) Orientation of all members of IPC on issues relating to IPC</p> <p>This was done in developing new Terms of Reference. Exhaustive consultations were conducted in September 2011 amongst key stakeholders including POA and the FMS. The process has now been institutionalized.</p>	Chief Procurement Officer	On going	
<b>Recommendation 5 – Significant</b>				
To ensure effective oversight by the Ministry’s Internal Audit Unit, there is a need for early remedial action to:				
(a) Implement a risk-based approach, with comprehensive risk assessments to ensure that audit effort and focus is placed on high risk areas.	Risk Based Approach has been adopted by the Government through the Central Internal Audit Unit in the Ministry of Finance and is incorporated in the Audit Manual. The approach is used as a planning tool when developing audit work plans.	DDA & Chief Internal Auditor	Implemented in the 2009/10 FY i.e. from July 2009 to June 2010. The approach has now been institutionalized and this can be verified by the	



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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
			LFA.	
(b) Develop and implement a staff training policy and coach staff in the use of the audit manual;	<p>There is a Government Audit Manual which is used by the Ministry's internal auditors to coach audit staff. The Ministry's audit unit will conduct regular workshops of all aspects of the manual. It should also be noted that the manual is being used as reference document in audits of the Ministry by the Ministry's Internal Auditors.</p> <p>To be implemented as in 2012/13 Financial Year i.e. from July 2012 to June 2013, subject to financial resources being made available in the budget.</p>	DDA & Chief Internal Auditor	On going	
(c) Establish a quality assurance and review process.	Quality Assurance mechanism is already built in Audit processes of the Ministry's audits and as required by the Government's audit manual. Among others, audit work is guided by annual audit plans; each assignment has detailed audit program and is supervised by senior officers; working papers and reports are reviewed by Senior Audit Staff.	DDA & Chief Internal Auditor	This was established in FY 2009/10 i.e. July 2009 to June 2010, and is now institutionalized. This can be verified by the LFA.	
(d) Adopt consistent professional practice in the audit work, incorporating audit programs and standardized procedures for working papers, audit evidence and reporting.	The Government's Audit Charter and Audit Manual is being applied in all our audit processes.	DDA & Chief Internal Auditor	This was established in FY 2009/10 i.e. July 2009 to June 2010, and is now	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
			institutionalized. This can be verified by the LFA.	
(e) Improve internal audit coverage and assurance to address discrete donors and Global Fund programs.	<p>The Audit Manual already covers project auditing. However, our internal auditors have to be trained in accounting and reporting requirements of the Global Fund. In the Annual Audit Plan 2011/12 we have planned to audit Global Fund activities implemented by the National Malaria Control Program and the National TB Control Programs and also the Supply Chain System.</p> <p>By 30th of June 2012 subject to funds being released from the Capacity Building resources on TB and Malaria Grants. The Audit Work Plan for 2011/12 is available for verification.</p>	DDA & Chief Internal Auditor	On going	
(f) Put in place regular meetings of the Internal Audit Committee to consider reports and activities of the Internal Audit Unit.	The Audit Committee is in place. However the ministry will strive to conduct the meetings as scheduled.	DDA & Chief Internal Auditor	30 June 2012	
<b>Recommendation 6 (Significant)</b>				
The MoH should develop, approve and implement an IT policy. The staff in the IT department should ensure backups are undertaken and up-to-date anti-virus	a) The country already has a Draft National ICT Policy which is awaiting cabinet approval and it is already operationalised. Preparations are underway for the Ministry	Chief Systems Analyst. Deputy Director CMED	National ICT Policy still being revised in Cabinet. Policy	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>software is installed on all MoH computers. The IT department should also develop a disaster recovery plan.</p>	<p>to develop an e-health strategy, and funds permitting in the budget, will go for full implementation.</p> <p>b) The Ministry has the main systems of HRMIS, for HR and payroll. The main server is housed at the Department of Public Service Management. Backups are done at the Department level. The Ministry also uses IFMIS, with the servers housed in Accountant General’s Department where backups are also taken. HMIS system is housed in the Ministry building and two backup copies are made, one kept here and the other at Department of Information Systems and Technology Management. As for data on various computers, the Ministry is in the process of identifying source of funds, through a donor to procure a backup server with all the relevant software to enable automated central backup.</p> <p>c) The Ministry has already approached GIZ to assist on this as a short to medium term solution. GIZ are currently in the process of procuring the software on our</p>		<p>expected to be finalized this year (2012) but outside control of MoH</p> <p>Key backups are in place. Many of the systems rely on central government backup (Payroll, IFMIS, etc.). The backup was established at the time when the systems were prepared and installed.</p> <p>AV software now installed on MoH computers (Kaspersky) with effect from January 2010.</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	<p>behalf. For the longer term, we shall incorporate the procurement of the corporate anti-virus in our budget.</p> <p>d) The Ministry will work on this but it will be made much easier on implementation of centralized backup.</p>		June 2013 (but subject to resources being available)	
<b>Recommendation 7 – High</b>				
(a) To provide an appropriate level of evidenced assurance and active management of Global Fund grant financing, monitoring arrangements need to be strengthened in IFMIS by full use of activity budgets and expenditure codes; the training of staff on the new activity based Chart of Accounts; and the adoption of regular budget variance analysis.	A full description of the accounting systems to be adopted for the new discrete arrangement for the Global Fund was defined and agreed with the Financial Expert from the Global fund.	DOF	This was done in accordance with discrete donor arrangements put in place jointly with Global Fund. Documents submitted to Financial Expert in September 2011.	
(b) The Ministry of Health should strengthen controls over financial records as a matter of priority. All payments must be adequately supported and supporting documents should be properly filed.	The Ministry acknowledges that management of financial records needs to be improved, and in particular that filing can be strengthened. The new Financial Management Improvement Plan (FMIP) provides for regular within-year reviews to ensure completeness of Payment Vouchers and properly filling of records.	DOF	To be completed by 30 <sup>th</sup> June 2012	
(c) The Global Fund Secretariat should				

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
engage within country partners that participate in the pool about how cases of funds that are not appropriately accounted for should be addressed.				
<b>Recommendation 8 – Significant</b>				
Efforts should be made to increase co-ordination between the Ministry of Health and the Office of the Accountant General so as to minimize delays in the printing and release of checks to the Ministry.	This has been done. The delays will be completely eliminated now that GF is a discreet donor with its own bank account. In this case, cheques will be written within the ministry.	DOF	Completed. Printing of cheques is done at the Ministry – no longer Accountant General.	
<b>Recommendation 9 – Significant</b>				
As a matter of urgency, the MoH should prepare reconciliation between the amounts disbursed to UNICEF and the deliveries made with all variances duly investigated. All further disbursements to UNICEF should be pegged on having an updated reconciliation in place. In line with the agreement with UNICEF, any interest earned on the funds held by UNICEF should be declared and applied towards program activities.	A letter has been written to UNICEF requesting statements of all the funds disbursed to them. Reconciliation will commence as soon as statements from UNICEF are received and verified by the Local Fund Agent.	DOF	Partially done. To be monitored to ensure that compliance is being made by 30 <sup>th</sup> of June 2012	
<b>Recommendation 10 – High</b>				
The Ministry of Health should establish proper procedures for the selection, management and monitoring of SRs in keeping with the Global Fund’s requirements. This process should involve a pre-award assessment of the financial and technical	The Ministry has developed draft guidelines for selecting SRs which have been submitted to MGFCC. Thereafter, the guidelines will be shared with GF and LFA.	Planning	Done, since June 2010 when the Infrastructure Unit was set up in the Ministry. Finalization for	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
capacity of potential SRs.			June 2012	
<b>Recommendation 11 – Significant</b>				
(a) Reconciliations should be prepared between the funds released by the MOH and the funds recorded as received by the SRs with variances investigated and explained. No further funds should be released without such reconciliations in place. The circumstances under which funds could not be accounted for should be investigated.	Reconciliation exercise has started with Ministry records on all payments made to SRs. The next phase will include visits to SRs and is scheduled for the first week of December 2011. A report will thereafter be issued and submitted to LFA for verification.	Planning and Finance	Done on 1 <sup>st</sup> December 2011 – copy to be submitted.	
(b) The Ministry of Health should ensure that all SRs submit financial and program reports as required by their grant agreements. These reports should be effectively reviewed and feedback given to the respective SRs. Financial reports from SRs should be shared with the Ministry’s finance staff to allow budget monitoring. This should include regular review of SR reports to ensure that they reflect accurate and reliable information on funding; and regular visits to the SRs to review the financial records maintained on funds received from the Ministry.	Sub Recipients have been submitting their quarterly reports albeit irregularly. The reports are shared with the finance staff and also discussed at the Infrastructure TWG meetings. The Ministry has since sent reminders to all SRs to ensure that they timely submit their financial and infrastructure progress reports. The Infrastructure, program and accounts staff will make regular visits to SRs to review progress and financial records. The Ministry’s Internal Auditors will also be roped in to ascertain the correctness of both the financial and technical reports	Planning and Finance	Done. However we shall continue to monitor closely to ensure that regular reconciliation and reporting is being made by 30 <sup>th</sup> June 2012.	
<b>Recommendation 12 - Significant</b>				
The MoH should strengthen its oversight of SRs. With regard to construction because of the size of investment and the inherent risks				

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
in such projects, such oversight would cover areas like:				
(a) Ensuring that SRs employ proper bidding processes so that value for money is obtained from grant funds. Bid evaluation reports should provide adequate details on the performance of each bidder against pre-set criteria; and management should involve technical consultants in the bid evaluations to ensure the required technical input.	It is now a requirement for each SR to use proper bidding processes so as to obtain value for money. Bid evaluation reports provide adequate details on the performance of each bidder against pre-set (procurement) criteria; and technical consultants are involved at every stage in the bid evaluation process.	Planning	For new procurements this is being done from April 2010.	
(b) Approvals are sought from the appropriate authorities to ensure compliance with local construction regulations and avoid the risk of financial penalties. The MOH should ensure that the BoQs and technical drawings cover all the required aspects.	The Ministry, with technical support from the Office of the Director of Buildings (DoB), seeks approval from, among others, the Treasury, Ministry of Justice, and the Office of the Director of Public Procurement (ODPP) to ensure compliance with local construction regulations and avoid the risk of financial penalties.	Planning	In place. From 25 <sup>th</sup> March 2011, NCCI regulations are adhered to in tendering and evaluation in compliance with OPC Circular ref. 15/15 (to be submitted)	
(c) Payments to contractors are effected in a timely fashion to avoid delays in construction time and costs.	Soon after a voucher is submitted, the Ministry frequently follows up with the Accountant General's Department to ensure that payments to contractors are effected in a timely fashion to avoid delays in construction time and costs.	Planning and Finance	Completed. These procedures are now in place from June 2010 when the Ministry assumed the oversight function.	
(d) The Ministry of Health should also ensure that construction works are executed in	The Ministry prepares an addendum to every 'major' project variation. The	Planning	This is being done since the	At KCN, there were

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>accordance with planned timelines and approved building plans to avoid cost escalations and ensure that facilities are available to users on time.</p>	<p>addendum is reviewed by Ministry's Management, the Treasury, Director of Buildings, and the ODPP.</p>		<p>assumption of this function from the former Technical Assistant. However in the current FY 2011/12 contractor payments were affected by the move of Global Fund to a discreet account.</p>	<p>many changes to the administration block which led to delays and increased cost of construction. The OIG found no evidence that approval for these changes had been sought from the Ministry of Health.</p>
<p>(e) Ministry approval should be obtained before any major changes are made to originally approved designs, especially if such changes can lead to an increase in the budget for the work.</p>	<p>It is now current practice that all SRs present and justify their planned activities/project before the beginning of every fiscal year so that the Ministry assesses project performance and any revisions.</p>	<p>Planning</p>	<p>This was done from March 2009 when projects were being formulated.</p>	
<p>(f) The Ministry of Health should strengthen its oversight of the SRs to ensure adherence to agreed budgets and timelines. Every effort should be made to verify the basis and</p>	<p>All construction works and accompanying equipment are now reviewed by technical personnel to ensure adequacy of the structure and materials. To simplify the</p>	<p>Planning</p>	<p>This has been done from June 2010 when the Ministry assumed</p>	



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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>reasonableness of cost escalations and a formal process for the evaluation and approval of justified budget revisions should be established.</p>	<p>process, the architect in the Ministry has been tasked to come up with standard drawings for the different types of health facilities which shall in turn become the Ministry's minimum requirements. In the same vein, the Department of physical asset Management (PAM) is reviewing its standard equipment list.</p>		<p>the oversight function from the previous Technical Assistant.</p>	
<p>(g) Planning for building construction needs to be improved to ensure that proper provision is made for the facilities and equipment required for effective utilization of new buildings.</p>	<p>The ministry has an infrastructure unit in the planning department which is staffed by an architect, quantity surveyor and planners. The unit also works hand in hand with the physical assets unit to assist in the determining the equipment needs. This mix of skills should ensure both quality and immediate equipping of the facility when completed.</p>	<p>Planning</p>	<p>This has been done from August 2010 when the Infrastructure Unit was set up. PAM has developed standard lists of medical, house and District Hospital equipment requirements.</p>	
<p>(h) The SRs should strengthen supervision over construction at the Blantyre site. This should include ensuring the presence of a clerk of works, attendance at site meetings, regular supervisory visits and maintenance of appropriate documentation.</p>	<p>A consultant has been tasked to provide for a full time clerk of works in Blantyre. He shall be independent of the contractor for objective reporting. Infrastructure Unit is planning for a supervision schedule of all GF grant projects</p>	<p>Planning</p>	<p>Done. Supervision has been strengthened. Last meeting was in December 2011.</p>	
<p><b>Recommendation 13 – High</b></p>				
<p>The IPC should improve its working</p>	<p>The IPC Members were trained in good</p>		<p>Done.</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>arrangements and coverage, to effectively address the weaknesses identified and to improve procurement performance. In particular, Committee members should be trained in or advised on good procurement practice and the ODPP's rules and regulations, to provide them with the necessary technical knowledge and skills to ensure successful procurement outcomes from the Global Fund's financial support; and records of IPC meetings should include a more comprehensive record of issues discussed and approvals agreed by the Committee, to support management review and audit oversight.</p>	<p>procurement practice and the ODPP's rules and regulations at a training workshop from 24<sup>th</sup>-26<sup>th</sup> August 2011 facilitated by ODPP in Salima. Another capacity building workshop to provide necessary technical knowledge and skills for IPC members was conducted by EPOS from 20<sup>th</sup> to 24<sup>th</sup> February 2012.</p>			
<p><b>Recommendation 14 – Significant</b></p>				
<p>The Technical Working Groups for Financial Management and Procurement and for Drugs, Medicines and Supplies should define more effectively the linkages and communications required to ensure that they are mutually well informed on activities that require oversight by the respective Groups.</p>	<p>SWAP Secretariat ensures cross fertilization of issues between TWGs. The Financial Management and Procurement TWG focuses on flow of budgeted funds, financial management and implementation of the Annual Procurement Plan. On the other hand the Drugs and Medical Supplies Committee focuses on the functionality of the Supply Chain as it relates to drug availability in the public health facilities. There are some members who belong to both TWGs so that issues that require presentation from one TWG to the other is done through these members with support</p>	<p>Director Swap</p>	<p>Technical Working Groups were reconstructed in July 2011. After reconstruction members who belong to both TWGs share information. Secondly, SWAp Secretariat Director consolidates all</p>	<p>The roles of the respective TWGs are well defined. However, the linkage between the two TWGs is not well defined to ensure that the procurement issues that</p>

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	of the SWAp Secretariat, which oversees functionality of the TWGs.		issues from all TWGs and presents to Senior Management Meeting for discussion and management guidance.	will be affecting the supply chain are brought to the attention of the FMPTWG and vice versa. The link depends on the attendance of the common members which may not be a reliable mechanism. This mechanism could include (i) The feedback (on items that need common oversight) from either group should be a

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
				permanent agenda item on both group meetings. (ii) Sharing minutes/notes by the two TWGs.
<b>Recommendation 15 - Significant</b>				
(a) The National Programs for malaria and TB need to improve co-ordination with stakeholders to ensure timely finalization of procurement planning for the effective use of Global Fund support.	Coordination has greatly improved with stakeholders. For example, development of PSM plan, action plan on over consumption of antimalarials, joint review of health products and production of distribution list is done together with the concerned stakeholders.	Director of Preventive Health Services	25th February,2011 for Round 9 & 28th February,2011 for Consolidated grant	
(b) The PR should strengthen existing procurement planning and forecasting arrangements by improving:				
<input type="checkbox"/> the skills of health professionals at the different levels of the supply chain; and	There are annual joint quantification exercises with DHMT members of staff for health products. DHMT members of staff bring their own data which they use for the exercise	Director of Health Technical Services	This is an annual exercise which started in 2006. From October 2012 the exercise will be decentralized to districts.	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p><input type="checkbox"/> central co-ordination of procurement planning, forecasting and quantification of health products to ensure that all required program products are adequately planned for. In particular, the Ministry should consider strengthening forecasting with the support of robust quantification software; establishing specific guidelines for specialized items; and the development of appropriate guidelines to avoid stock outs, erratic availability and expiry of products in the supply chain.</p>	<p>Central coordination of procurement planning is done through annual quantification exercises and mid-term review meetings of health products. Supply chain manager software was specially designed to reduce stock outs and improve reporting rate.</p>	<p>Director of Health Technical Services</p>	<p>March 2012</p>	<p>The recommendation that guidance for forecasting be developed is not addressed. The Secretariat should ensure that this recommendation is implemented.</p>
<p><b>Recommendation 16 – High</b></p>				
<p>(a) The National Malaria Control Program should engage effectively with the Global Fund Secretariat to finalize the approval of funding to minimize the stock out period for ACTs;</p>	<p>This started early this year and resulted in the two grants being signed in February and April with disbursements made almost immediately. Discussions are underway for procurement of next health products.</p>	<p>Program manager Malaria Control Program</p>	<p>January 2011</p>	
<p>(b) The Program should carry out a detailed analysis of the procurement process to identify the causes of delays and co-ordinate stakeholder action to improve performance</p>	<p>Prolonged clarification process which was delaying disbursements has improved through teleconferences instead of emails. VPP is also used for procurement of health</p>	<p>Program manager Malaria control Program</p>	<p>January 2011</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
for future procurements;	products.			
(c) The National TB Program needs to improve co-ordination with key procurement stakeholders to ensure that the necessary processes are adequately supported to enable prompt and effective purchasing; and	Currently all procurement is being done through Global Fund processes and there are regular follow ups.	Program Manager T.B.	Done. This process was institutionalised in May 2011.	
(d) The Ministry's support services need to increase the level of technical support to the National Program to facilitate timely procurement of program products and minimize delays in program implementation.	The ministry has assigned a logistics officer in addition to a procurement desk officer for the program. This has improved level of technical support	Program manager T. B.	March 2011	
<b>Recommendation 17 – High</b>				
(a) The Office of the Director of Public Procurement should take appropriate steps to ensure adherence to the procurement rules and regulations by the Ministry's Internal Procurement Committee and Procurement Unit; and	Issue has been referred to the Office of the Director of Public Procurement for action and follow up	ODPP	31.03.2012	
(b) The Ministry of Health should take appropriate steps to address the technical shortcomings and long outstanding management issues identified at the Central Medical Stores, including the establishment of effective: governance, leadership, systems and management team.	The CMS Board of Trustees is now in place. AEDES, Supply Chain Management Technical Agent, has also been engaged	Board of Trustees	AEDES team is in place since October 2011 and is supporting these issues. Their support will end after two years in	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
			September 2013.	
<b>Recommendation 18 – High</b>				
(a) Storage locations need as a matter of priority to put in place significantly improved and more effective arrangements to improve standards and minimize the risk of stock losses from theft or deterioration in condition.	The Ministry will undertake a comprehensive national review of storage facilities and formulate a costed-improvement- plan which will include security and accountability issues	Director of health Technical Services	Ongoing	
(b) The Central and Regional Medical Stores, district hospitals and sub-warehouses all need to adopt improved storage management practices to ensure adequate control and record keeping of stock movements using standard documentation and effective stock-taking procedures.	Uniform Good Warehousing Practices are being adopted across all levels in collaboration with SCMA. These will be compiled as SOPs for all levels	The CMS Board, DHTSS- Pharmaceuticals	31.03.2012	
(c) The CMS needs to take action to ensure that personnel handling stock throughout the distribution chain possess appropriate skills in the management of drugs and warehousing.	This is one area targeted by SCMA in the strengthening of management systems in CMS	CMS Board	Ongoing	
<b>Recommendation 19 – High</b>				
(a) There is need to reconcile the quantity of products procured and delivered by UNICEF to the actual quantities received by CMS	UNICEF is no longer being used for procurement of Health products. However on each delivery of the health product, there is an invoice from the supplier and a packing list of the products made to the clearing agents. With this system it is easy to compare what was procured and what	Program Manager	February 2011	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	was received. There is also close linkage between the program, VPP and USAID/Deliver for all health products procured.			
(b) NMCP should work with the Health Centres to strengthen controls on receipt of products.	Each health center signs a delivery note for the products received. Copies of delivery notes are sent to the program, HTSS and the distributor. With this system, it is easy to trace the movement of products.	Program Manager	February 2011	
(c) NMCP should work with the distribution agent to improve packaging of LLINs.	This was resolved immediately after the debriefing of the audit team was done.	Program Manager		The response does not indicate the improvements that have been put in place. The Secretariat should follow up to ensure recommendations are implemented
<b>Recommendation 20 – High</b>				
(a) The Global Fund and the Ministry of Health SWAp secretariat should re-consider the need for the present number of performance indicators bearing in mind the June 2009 Global Fund common funding policy note which requires an assessment of performance against agreed upon targets and	Through the consultative process of designing the new Health Sector Strategic Plan, key indicators for measuring performance of the Health Sector have been agreed upon and Global Fund was party to this. Disease specific indicators will be followed and reported at program level, and	Director Swap	End of HSSP (2011 – 2016)	Recommendation reworded for greater clarity.



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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>program management at regular intervals (at least once a year). Greater emphasis should be placed on the need to demonstrate good value for money.</p>	<p>these indicators for programs have been agreed upon through the disease specific TWG sub-committees in consultation with Development Partners who provide discrete funding for such programs.</p>			
<p>(b) Since the effectiveness of grant-funded interventions depends on quality information to aid sound decision making, the Ministry of Health should take action as a matter of priority to improve the quality of data through refining arrangements for data entry, collection, reporting and verification.</p>	<p>With regard to quality of data, the Ministry and the Development Partners have agreed in the MOU and Joint Financing Agreement (JFA) for the HSSP to support the Central M &amp; E Department to improve technical supervision of data collection points to validate and improve quality of data.</p>	<p>Director of Planning</p>	<p>By June 2011</p>	
<p><b>Recommendation 21 – Significant</b>                      The OIG suggests that the NAC take a lead in the development of a National HIV Strategic plan; and consider developing an institutional strategy to focus the organization’s efforts and enhance its long-term sustainability.</p> <p>In order to strengthen effectiveness of external audit arrangements, NAC should comply with the Global Fund guidelines for Annual audit of the financial statements.</p>	<p>NAC Management has noted the recommendation. NAC in collaboration with The Department for Nutrition, HIV and AIDS procured the services of external consultants with the support from the World Bank and DFID to develop the HIV Strategic plan (2011 - 2016) and currently the plan is in its final draft form undergoing a validation exercise. Plans are underway to develop the Institutional Strategy. However, some efforts have been made to address other strategic issues such as The Resource Mobilization Strategy which is currently under development.</p> <p>The Global Fund grants are managed within a Pooled Funding arrangement</p>	<p>NAC/DNHA</p>	<p>31<sup>st</sup> December 2012</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	<p>hence NAC complies with the guidelines for external financial audits as agreed with the Pooled Funding partners in the Memorandum of Understanding (MOU). The Terms of Reference (TORs) for the NAC external financial audit are thoroughly reviewed and approved by the World Bank on behalf of the Pooled Funding partners for compliance with external audit guidelines. In addition The Global Fund also reviews the TORs to ensure that they comply with minimum standards for The Global Fund guidelines. With the pool arrangement, the Global Fund financial statements are audited together with other Pool Donors with a segmental report on the conduct GRO audits for a period of three years and a centralized audit plan for all individual donors including the Global Fund resources provided in the Notes to the financial statement.</p> <p>Previously SRs were required to prepare their own audit plans that were funded by NAC. However, NAC has procured the services of an audit firm (Graham Carr) to SRs has been prepared for that purpose.</p>			

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p><b>Recommendation 22 – High</b>                      NAC management should Endeavour to provide documentation to confirm the validity of all expenditures; and ensure in future that appropriate arrangements are put in place to obtain and safeguard necessary supporting documentation for management review and audit purposes.</p>	<p>NAC Management has noted the recommendation. Most of the missing supporting documentation relate to the first three years (2003 to 2006) of Global Funding to Malawi that were not systematically archived during the movement from the previous office premises to the current premises. However, this documentation was reviewed by external financial auditors before it was archived. So far documentation amounting to MK64.2m has been identified and is ready for verification. NAC Management will endeavor to obtain the necessary documentation for all expenditures and will ensure that the records are properly retained for the mandatory retention periods as required.</p>	<p>NAC</p>	<p>31<sup>st</sup> December 2012</p>	
<p><b>Recommendation 23 – High</b>                      NAC management should take steps improve financial controls to ensure that all project-related expenditures are based on approved Global Fund work plans.</p>	<p>The observations as noted by the OIG are correct. The three payments in questions were isolated incidences and are in no way reflective of the strengths of current controls within the Commission. Self evidently, subsequent financial transactions demonstrate that there have been significant improvements in governance processes, risk management and management control. Notably, NAC has since introduced the Internal Audit Unit, entered into an agreement with the Anti-corruption Bureau and enforced regular</p>	<p>NAC</p>	<p>Ongoing</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	<p>independent audits and reviews.</p> <p>Further to the above, Board oversight and management controls over the operations of the Commission continue to tighten in order to avert diversion from budget, policy, regulations and laws. In this regard, Board of Commissioners and Management have signed conflict of interest declarations while all grants are now approved by the Board, as opposed to approval by management, as was previously the case.</p>			
<p><b>Recommendation 24 – High</b></p> <p>(a) The NAC requires a more reliable data management tool than Excel spreadsheets to ensure the robustness, accuracy and efficiency of grant management.</p> <p>(b) NAC should consider filling existing staff vacancies in the grant management unit to improve the efficiency and effectiveness of the unit’s management performance.</p>	<p>With support from UNAIDS, a new Grants Management system has been developed and is in the process of implementation.</p> <p>Recruitment of three (3) additional grants officers was completed in March 2011</p>	<p>NAC</p> <p>NAC</p>	<p>30<sup>th</sup> June 2012</p> <p>Done</p>	
<p><b>Recommendation 25 – Significant</b></p> <p>The NAC should analyze the circumstances of alleged frauds at the various GROs to understand the circumstances and establish improved and more vigilant controls to help prevent recurrence. The NAC might consider re-thinking the entire Social Cash Transfer</p>	<p>NAC Management has noted the recommendation. Cumulatively, recovery of funds unaccounted now stands at 67%. In line with NAC Operating Procedures analysis and documentation of lessons learnt from fraud continues to be a priority activity. Based on the lessons learnt, we have instituted a risk based approach in the</p>	<p>NAC</p>	<p>On-going</p>	<p>Recommendation reworded for greater clarity.</p>

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<p>model under which a number of fraud cases were reported.</p>	<p>National Response. This has been complimented by a risk assessment of the National Response to HIV and AIDS in order to identify risky areas that should be prioritized to minimize recurrence of fraud and enhance efficiency, economy and effectiveness of operations.</p> <p>In addition, systems related to social cash transfers and other high risk interventions have been strengthened.</p>			
<p><b>Recommendation 26 – Significant</b> The NAC should work with MoH to strengthen controls over funds remitted to MoH. The funds that were not accounted for should be refunded.</p>	<p>NAC Management has noted the recommendation. NAC will strengthen its controls over validation of reported expenditure by the Ministry of Health and lobby for a permanent Finance Desk Officer within the Ministry to improve accountability of funds.</p> <p>In addition NAC will continue providing technical assistance in financial management to the Ministry.</p>	NAC	30 <sup>th</sup> September,2012	
<p><b>Recommendation 27 – Significant</b> (a) The NAC should strengthen its co-ordination role with key stakeholders to ensure timely and supported submission of data for progress update and disbursement requests.</p> <p>(b) The NAC needs to engage with the</p>	<p>NAC Management has noted the recommendation and will continue to liaise with its key stakeholders to ensure timely submission of data for progress update and disbursement request.</p> <p>In addition, NAC will engage The Global</p>	NAC	30 <sup>th</sup> June 2012	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
Global Fund Secretariat to ensure that disbursements for procurements can be made in good time.	Fund Secretariat to ensure that DRs are processed in time and feedback provided whenever delays are anticipated.	NAC	30 <sup>th</sup> June 2012	
<p><b>Recommendation 28 – Significant</b>            The NAC’s Internal Procurement Committee should take action to strengthen its oversight role by ensuring reliable record-keeping and improved documentation of procurement process.</p>	<p>NAC Management has noted the recommendation. Overtime NAC has registered some improvements in the procurement systems with the establishment of the centralized procurement system. The overall risk rating has improved from moderate to low risk. This improvement has mainly been in an area of retention of documentation and record keeping.            Further improvements will be made in the operations of the IPC to enhance controls over procurement transactions and documentation.</p>	NAC	Ongoing	
<p><b>Recommendation 29 – Significant</b>            (a) PSM taskforce to review the parallel storage and distribution system and recommend to MoH the cost effective and efficient system for the commodities.             (b) The OIG recommends that the NAC co-ordinate with UNICEF and the Ministry of Health’s HIV and AIDS Unit to plan and implement formal supervision of SDV. A formal</p>	<p>(a). PSM taskforce will undertake regular review meetings organized by NAC on all existing parallel storage and distribution systems.             A formal assessment of the transitional storage, distribution system including its security will be conducted.            There is a general MOU between MOH and UNICEF giving a general guide of how the two parties will work together.</p>	<p>CEO-NAC, SH,             SH, CEO-NAC.             MOH and UNICEF Resident Representative</p>	<p>On-going             30<sup>th</sup> June 2012             On-going</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>assessment of the distribution system to ascertain its efficiency and security is required.</p> <p>(c) NAC and MoH to finalize the planning and procurement of ARV buffer stock.</p>	<p>Furthermore, the contracts between UNICEF and its logistics service providers outline the different roles and responsibilities between the parties, and will include Standard Operating Procedures (SOP) for in country arrival of HIV Health Products, transition storage and distribution to designated facilities.</p> <p>(b). Monitoring tools will be developed to be used by the NAC (PR) and MOH (SR) to monitor HIV health products starting when the drugs are delivered in-country, transitional storage, and distribution to sites. Spot checks, linked to distribution, will be conducted to selected sites.</p> <p>A disbursement request (DR 19) has already been submitted to the Global Fund. DR 19 contains the request for the procurement of the buffer stock. Money still pending for DR 19.</p> <p>MANOBEC warehouse will be the storage for all HIV health products from the GF. As an interim measure, UNICEF has agreed to consider managing distribution for these products (ARVs, HIV Test kits, OI and STI</p>	<p>NAC, MOH, CMS Trust, SCMA</p> <p>NAC</p> <p>NAC,UNICEF ,CMS, SCMA</p>	<p>31<sup>st</sup> January 2012</p> <p>30<sup>th</sup> June 2012</p> <p>On-going</p> <p>31<sup>st</sup> March 2012</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
	Drugs, lab Reagents) to all the designated sites. Currently an assessment of the warehouse for security arrangements and racking is on-going. Racking and enhanced security will have been installed by March 2012.			
<p><b>Recommendation 30 – Significant</b>                      The Ministry of Health and the National AIDS Commission should consider action to strengthen quality assurance arrangements over anti-retroviral products by the finalization of procurement reference standards and outsourcing quality control tests to regional laboratories that are WHO pre-qualified.</p>	<p>A machine for quality assurance including reference standards for testing of antiretroviral products was procured in 2011 and installed at a national regulator, the Pharmacy, Medicines and Poisons Board (PMPB), and is now fully operational.                      Samples for quality control confirmation tests are sent to WHO pre-qualified laboratory in South Africa.</p>	NAC	Done	
<p><b>Recommendation 31 – High</b>                      (a) A challenging but very useful exercise would be for the Global Fund and NAC to examine how to reduce to the absolute minimum any additional indicators in performance frameworks, especially at the output level. This should be done bearing in mind the June 2009 Global Fund common funding policy note which states that there should be ‘an assessment of performance against agreed upon targets and program management at</p>	<p>NAC Management has noted the recommendation. This is already being considered through the development of Single Stream Funding through grant consolidation exercise of the existing HIV/AIDS grants where most of the indicators have been streamlined while some have been refined to conform to conventional indicator descriptions for effective performance tracking. The SSF documents are yet to be submitted and approved by the Global Fund.</p>	NAC	30 <sup>th</sup> June 2012	<p>Recommendation reworded for greater clarity.</p>



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<p>regular intervals (at least once a year)’. It also allows for annual disbursements. Having annual rather than six monthly performance assessments should reduce the need for so many output level indicators.</p> <p>(b) The M&amp;E system would benefit greatly from an intensive drive to improve the quality of data through strengthening aspects of data entry, collection, reporting and verification. The effectiveness of interventions depends on quality information to aid sound decision making.</p>	<p>NAC Management has noted the recommendation. The National M&amp;E system has recently gone through a comprehensive assessment process using the UNAIDS M&amp;E Systems Assessment Framework. This process has informed development of the draft third generation National M&amp;E Plan, which includes an implementation plan. Some of the activities in the implementation plan address data quality gaps identified by both the OIG and the assessment process. Furthermore, implementation of the current data quality audit protocol will be enhanced.</p>			
<p><b>Recommendation 32 – Significant</b> To enable NAC to better meet one of its objectives, which, among other things addresses supervision of treatment and care; benefit could be gained from working with MoH and other stakeholders on addressing quality.</p>	<p>NAC Management has noted the recommendation. NAC will ensure that joint monitoring, supervisory visits and spot checks together with MOH and other partners are conducted.</p>	NAC	Done.	Recommendation reworded for greater clarity.
<p><b>Recommendation 33 – High</b> (a) Give prevention a high profile in NAC by ensuring that behavior change has a prominent role.</p>	<p>NAC Management has noted the recommendations. NAC recognizes the importance of the Behavior Change Interventions Unit in its Programs. As an interim measure management has appointed an Acting Head of BCI to</p>	NAC	Done	Recommendation reworded for greater clarity.



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	<p>MOH has embarked on a push system at national level. Furthermore, NAC in collaboration with implementing partners, has intensified distribution of condoms to non-medical outlets through the following distribution methods: HTC Providers, Community Based Organizations, Community Based Distribution Agents, Workplace Programs, Places of entertainment.</p>			
<p><b>Recommendation 35 – High</b>                      The capacity of the MGFCC as Country Coordinating Mechanism should be reviewed and action taken to:                      (a) Develop capacity in its Secretariat to better support the work of the Committee, particularly by strengthening staffing in finance and program monitoring and developing a budget strategy;</p>	<p>(b) TRP comments for Rounds 9 and 10 were circulated to various stakeholders for their information as preparations for Round 11 were underway. In addition, the TRP comments were presented and/or referred to in various fora including during meetings of the Round 11 proposal writing team. This helped stakeholders to address programmatic shortcomings of the previous rounds in the Round 11 draft. For systemic issues, Government and stakeholders partnered to provide remedial action such as restructuring of the Central Medical Stores (CMS).</p> <p>(c) The MGFCC secretariat secured a</p>	<p>MGFCC</p>	<p>Done</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>(b) Share lessons learned from failed grant proposals to increase the prospects for future successes;</p> <p>(c) Improve its own record keeping and management;</p> <p>(d) Strengthen communications and advocacy in PR selection;</p>	<p>separate office through the Ministry of Finance where there is a robust filing system for records management.</p> <p>(d) For Round 11, the PR selection process begun with a call in the local papers with the widest circulation for organisations wishing to become PRs to attend a workshop to learn functions of the PR in GF grants. This was followed by a call in the same papers for interested organisations to submit expressions of interest to become PRs in Round 11. This helped to improve the quality of Expressions of Interest (EOIs) as organisations assessed themselves on whether they met the requirements outlined in the call</p> <p>(e) With assistance from the GMS, the MGFCC has a dashboard for oversight of Program implementation. In addition, there is an Oversight Manual that guides the conduct of oversight activities including field visits. It provides for the oversight process as well as guidelines for field visits. At least one field visit has been conducted using the oversight manual. More field visits will be conducted when GF support to the secretariat becomes available.</p>	<p>MGFCC</p> <p>MGFCC</p> <p>MGFCC</p>	<p>Done</p> <p>Done</p> <p>On-going</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>(e) Improve program monitoring and the effectiveness of field visits;</p>	<p>(f) The GF engaged the MGFCC, MOH and donors on how to incorporate GF's minimum requirements for funding in the pooled mechanism. A series of discussions were held which culminated in GF opting out of the pooled funding mechanism in August, 2011 in order to become a discrete donor.</p> <p>(g) The MGFCC in collaboration with partners including the GF is working with MOH to strengthen systems currently under use. For instance, most of the grants are utilising the Voluntary Pooled Procurement (VPP) to procure essential drugs. Central Medical Stores (CMS) has been turned into a Trust and a supply chain management agent has been engaged to develop systems. Procurement and distribution agents have also been engaged to help ensure timely delivery of drugs. Through these processes, there will be skills transfer which will improve the capacity of MOH</p>	<p>MGFCC</p>	<p>On-going</p>	

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
<p>(f) Work with the Ministry of Health to help strengthen systems for financial management, procurement and program management.</p>		<p>MGFCC, MOH, GF, Other Donors</p>	<p>TBD</p>	
<p><b>Recommendation 36 – High</b></p> <p>(a) The LFA should develop a country risk assessment and management plan to guide their work in Malawi. Priority effort should be made to identify and address risks in the procurement and supply system.</p> <p>(b) The LFA should develop and document a comprehensive approach for performance of its activities, against a methodology which covers planning, execution and quality assurance, and provides for working papers to support work done and conclusions reached.</p> <p>(c) The LFA should strengthen the assurance provided over Progress Update and Disbursement Requests from the Ministry of Health. PUDRs should cover expenses for the entire disease component and should be linked to performance. The accuracy and reliability of PUDRs should be improved by generating PUDRs wherever possible from the financial</p>	<p>(a) The LFA has developed and provided Country Risk Assessment to the Secretariat. The LFA has secured the services of a dedicated PSM Expert and together with the Secretariat has developed a PSM Strategy for the Malawi portfolio – which includes the increase in number of missions by the PSM Expert, attendance at meetings and being an observer at Technical Working groups.</p> <p>(b) The LFA expanded its TEAM in (Malawi and at Headquarters) to cater for the required services on the complex portfolio (common funding mechanism and increase donor participation). The LFA have increased their presence on the ground through attendance at all meetings and consistent</p>			

**Audit of Global Fund Grants to Malawi**

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<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>RESPONSIBLE OFFICER</b>	<b>COMPLETION DATE</b>	<b>OIG RESPONSE</b>
management system.	debriefings. (c) The LFA now conducts 100% verification of all expenditures. This process will remain in place until the agreed upon discrete system is fully functional			
<p><b>Recommendation 37 – High</b> The Global Fund Secretariat needs to work with the Government and its development partners to ensure that the minimum conditions for working in common funding mechanisms can be incorporated in the Memorandum of Understanding, so that the Global Fund can sign the MoU and formalize its participation in the Health SWAp.</p>	Following the discussions with the MGFCC MOH, Development Partners and Senior Management, the Global Fund is now a discrete donor to the Health SWAp.			

**Annex 3: Summary of Unsupported and Ineligible Expenditure**

Ministry of Health	USD Unsupported	USD	USD	Total USD	Comment
<b>SWAp</b>					
Period 2007/08 - 2009/10	<b>225,133</b>	-		<b>225,133</b>	GF to work with other SWAp Partners to agree on mechanism to recover the funds
<b>National AIDS Commission</b>		<b>No records</b>	<b>Ineligible</b>		<b>Comment</b>
<b>PR Spending</b>					
Round 1 Phase 1 - GF Specific (Prior to the Pool)	<b>847,948</b>	-	<b>435,566</b>	<b>1,283, 514</b>	Funds are GF specific funds. PR should provide supporting documents or the amounts should be refunded.
Round 1 Phase 2 - Pool Spending	<b>202,509</b>	-		<b>202,509</b>	GF to work with other HIV Pool Partners to agree on mechanism to recover the funds
<b>Sub -total</b>	<b>1,050,457</b>	-	<b>435,566</b>	<b>1,486,023</b>	
<b>SR Spending</b>					
MoH - GF funds remitted prior to the Pool	<b>266,514</b>	<b>1,929,725</b>		<b>2,196,239</b>	Funds are GF specific funds. PR should provide supporting documents or the amounts should be refunded.
MoH - Funds from HIV Pool	<b>28,846</b>	<b>58,523</b>		<b>87,369</b>	GF to work with other HIV Pool Partners to agree on mechanism to recover the funds
<b>Sub- total</b>	<b>295,360</b>	<b>1,988,248</b>	-	<b>2,283,608</b>	
<b>NAC TOTAL</b>	<b>1,345,817</b>	<b>1,988,248</b>	<b>435,566</b>	<b>3,769,631</b>	
<b>GRAND TOTAL</b>	<b>1,570,950</b>	<b>1,988,248</b>	<b>435,566</b>	<b>3,994,764</b>	



## Annex 4: Response from the Global Fund's Grant Management Division



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20 June 2012

Mr John Parsons  
Inspector General  
Office of the Inspector General  
Chemin de Blandonnet 8  
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### Subject: Country Audit of Global Fund Grants to Malawi

Dear Mr Parsons

The Secretariat would like to thank the Office of the Inspector General (OIG) for its collaboration during the audit of the Global Fund grants in Malawi. Following the receipt of the final draft report on 4 June 2012, this letter represents the Secretariat's response to the OIG findings.

The Secretariat appreciates the OIG's inputs and will ensure that those are incorporated into the Global Fund programs managed by the two Principal Recipients: National AIDS Commission (NAC) and the Ministry of Health (MOH) in Malawi. The Secretariat will continue to work closely with the Malawi Global Fund Coordinating Committee (MGFCC), PR, Development Partners and the Local Fund Agent (LFA) to monitor the implementation of the agreed upon audit recommendations. In particular, these will be given due consideration in the upcoming negotiation and signing of the Round 1 RCC Phase 2 Single Stream of Funding grant, for which NAC is the Principal Recipient.

This letter provides a brief contextual background to the Global Fund supported programs in Malawi and indicates the specific actions that the Secretariat, MGFCC, Development Partners and PRs have taken to address the challenges and key risks in the portfolio, as noted in the report.

### Contextual background

Malawi is one of the world's 20 poorest countries with a high HIV prevalence among adults 15-49 (11 % down from 14%) and equally high malaria incidence (6.8 million reported cases yearly). The country's health system faces many challenges due to sustainability of its program - high disease burden, insufficient information systems, and human resource constraints at all levels, infrastructure capacity and most importantly supply chain management.

Since 2003, the Global Fund has invested significant resources in HIV/AIDS, Tuberculosis, Malaria and health systems in Malawi, implemented through the HIV Pool or Health Sector Wide Approach (SWAp). The National AIDS Commission is the Principal Recipient for all Global Fund HIV grants and the Ministry of Health is the Principal Recipient for Health System Strengthening, Malaria and Tuberculosis. A total of US\$ 477,515,953 has been

disbursed to date, including US\$ 347,564,968 (73%) under the Round 1, 5 and 7 HIV grants. Despite a challenging environment, through the Global Fund supported programs, the country has been able to achieve commendable results amidst a challenging environment which include the following:

- As of 31 December 2011, 323,638 adults and children with advanced HIV infection had received ARV treatment from the Global Fund supported programs. From July 2011 Malawi started implementing the staged approach to the new WHO treatment guidelines (Option B+). All ARVs in-country are paid for by Global Fund funds.
- Cure rates among new TB smear positive cases increased from 85% in 2007 to 88% in 2010 (the WHO target is 85%); and
- The malaria fatality rate declined from 7% in 2007 to 3% in 2010. In July 2011 Malawi rolled out the RDT Action Plan and in 2012 the country intends to undertake a Universal Access Campaign.

### Risk Mitigation Measures

The Global Fund Secretariat has already initiated risk mitigation measures to address key areas of concern identified by the OIG in its Audit Report. These measures include (but are not limited to) controls relating to the supply chain management through the implementation of a parallel system for the storage and distribution of malaria products; technical support to Central Medical Stores Trust (CMST) through a Supply Chain Management Agent and the provision of financing of a warehouse to store Global Fund Health Products including pharmaceutical products. To mitigate risks relating to Institutional Capacity, Financial Management and Controls, and Sub-recipient Management for both Principal Recipients, the Global Fund has earmarked grant financing to support the capacity development plans of the HIV Pool and the Health SWAp.

Additionally, the Global Fund Secretariat informed MGFCC of its requirement to change from being a 'pool' donor to becoming a 'discrete' donor ensuring compliance to Global Fund Board requirements on performance based funding, value for money and fiduciary safeguards. Despite this the current intention is for the Global Fund to continue to participate in the Health SWAp and the option to revert to 'pool' donor status is dependent on (but not limited to) the Principal Recipient's implementation of the capacity building plans to the satisfaction of the Global Fund and incorporation of the value for money and performance based funding principle into the Health SWAp Memorandum of Understanding. The Global Fund Secretariat, with the involvement of the Government of Malawi and support from Development Partners will monitor and track the implementation of the capacity building plans.

### OIG Audit Recommendations and way forward

The Secretariat agrees with the OIG Report's recommendations and is committed to overseeing their implementation within the stated timelines if possible. Overall, the Global Fund notes the following in relation to the MGFCC's responses: a) that the responses do not provide detailed substantive actions taken or to be taken by MGFCC; b) some recommendations are still to be formally accepted by MGFCC; and c) the approach taken by MGFCC in responding to the recommendations in general is not linked to the need for MOH to oversee national programs.

The Global Fund Secretariat is deeply concerned that some of the OIG's recommendations have not already been addressed by the Principal Recipients, even though a number of these issues have been raised by the Secretariat several years before the Audit. The Secretariat

respectfully suggests that the publication of the audit report presents a new opportunity for the PRs to respond and improve their systems and management of grants.

The Global Fund Secretariat seeks greater commitment from the Government of Malawi in its support to address the challenges to program implementation. This will require a commitment to address human resource constraints, supply chain management and infrastructure activities. Political and financial commitment from the highest levels of the Government of Malawi has been inconsistent until now and this has affected the performance of the Global Fund grants.

In follow-up to the Audit Report, please find below additional key recommendations and action by the Global Fund Secretariat which relate to both Principal Recipients.

**A. Summary of key recommendations and action by the Secretariat**

<b>Institutional Capacity</b>	
Strengthen Institutional Capacity to manage the Global Fund grants according to the Standard Terms and Conditions of the Grant Agreement and to ensure that the PRs are in a position to efficiently and effectively implement the Condition Precedent, Special Terms and Management Actions in a way as to avoid delays in the implementation of performance-based programs.	<p>The Global Fund has earmarked funding to support capacity development across all grants.</p> <p>The Global Fund will, with the involvement of the Government of Malawi, MGFCC, PRs and Development Partners provide technical support to assist in expediting the production and implementation of the Capacity Building Plans.</p>
<b>Financial Management and Controls</b>	
<p>Strengthening of systems, improvement in financial controls, training of staff, effectiveness of technical working groups and commitment to follow up on financial recommendations arising from all audit reports, are important for successful oversight of HIV and SWAp funds received from the Government of Malawi and other donors.</p> <p>Additionally, there is a great need to strengthen the internal and external audit arrangements, budget monitoring and controls over the timely generation of PUDRs, and maintenance of financial records for the Global Fund grants.</p>	As stated above, the Global Fund is committed to strengthening financial management and controls. Funds have been earmarked for capacity development.
<b>Procurement and Supply Chain Management</b>	
Strengthen the Procurement and Supply Chain Management System to execute procurements and support accountability of health products procured under the Global Fund grants.	The Global Fund seeks to engage high level Government Officials to secure their commitment to the transition of Central Medical Store (CMS) to a Public Trust. This includes the appointment of the Chief Executive Officer and construction of the Central Medical Warehouse. Little progress has been made and this can be considered a contentious issue.

<p>Strengthening measures include: staff development, ensuring complete and reliable information for forecasting, improving monitoring and quality assurance, and strengthening the capacity of the Central Medical Stores. Addressing these challenges would result in fewer emergency procurements and delays in the finalization of procurement processes, better record keeping, and improved tendering.</p>	<p>The Global Fund is providing support through the Round 1 RCC Phase 2 grant through funding of the Supply Chain Management Agent in CMS, funding of a Global Fund dedicated warehouse (Manobec) for pharmaceutical and health products, funding for the construction of a new CMS, funding for the renovation of the Pharmacy Medicines and Poisons Board (PMPB) Laboratory, funding for the strengthening of Health Management Information System (HMIS) and funding to support additional PSM staff.</p> <p>The Global Fund will continue to keep up the pressure with the CMS Trust, MGFCC and the PRs on the timely implementation of these activities.</p>
<p><b>Recommendation 9 (Priority Significant)</b></p> <p>As a matter of urgency, the MOH should prepare reconciliation between the amounts disbursed to UNICEF and the deliveries made with all variances duly investigated. All further disbursements to UNICEF should be pegged on having an updated reconciliation in place. In line with the agreement with UNICEF, any interest earned on the funds held by UNICEF should be declared and applied towards program activities.</p>	<p>The fulfilment of this recommendation will be a special condition of the Round 1 RCC Phase 2 grant if not sorted out during the grant negotiation process.</p>
<p><b>Sub-Recipient Management</b></p>	
<p>Strengthen and improve the controls over the selection, management and monitoring of Sub-Recipients, focusing specifically on pre-award capacity assessments.</p>	<p>The Global Fund has earmarked funds for technical assistance to also build capacity at the Sub-recipient levels.</p>
<p><b>Recovery of Ineligible and Unsupported Expenditures</b></p>	
<p>The OIG has identified a recoverable amount of US\$ 3,994,764 for ineligible and unsupported expenditures.</p> <p>The Global Fund Secretariat should engage with Pool Partners on how to address funds not appropriately accounted for.</p>	<p>The Global Fund will pursue and engage with the PR in the recovery of all amounts that were not cleared through the follow up review.</p>
<p><b>Malawi Global Fund Coordinating Committee Oversight</b></p>	
<p>The OIG identified a number of areas that should be addressed by the MGFCC, including the need for an updated Operations Manual, improved analytical capabilities in the MGFCC Secretariat, a need to share lessons learned from proposals, a strengthened process for</p>	<p>The Global Fund, in collaboration with MGFCC and Development Partners will engage technical support to strengthen the capacity of the MGFCC Secretariat and its members. The upcoming support should center on program, administrative, the Global Fund processes and policies and</p>

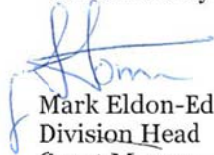
<p>selecting PRs, and improved monitoring of programs.</p>	<p>financial management.</p> <p>The Global Fund also seeks to ensure the MGFCC engages all partners in the CCM during oversight and decision making processes for the Global Fund grants.</p>
<p><b>LFA</b></p>	
<p><b>Recommendation 36 (High Priority)</b></p>	
<p>(a) The LFA should develop a country risk assessment and management plan to guide their work in Malawi. Priority effort should be made to identify and address risks in the procurement and supply system.</p> <p>(b) The LFA should develop and document a comprehensive approach for performance of its activities, against a methodology which covers planning, execution and quality assurance, and provides for working papers to support work done and conclusions reached.</p> <p>(c) The LFA should strengthen the assurance provided over Progress Update and Disbursement Requests from the Ministry of Health. PUDRs should cover expenses for the entire disease component and should be linked to performance. The accuracy and reliability of PUDRs should be improved by generating PUDRs wherever possible from the financial management system.</p>	<p>(a) The LFA has developed and provided a Country Risk Assessment to the Secretariat. The LFA has secured the services of a dedicated PSM Expert and together with the Secretariat has developed a PSM Strategy for the Malawi portfolio – which includes the increase in number of missions by the PSM Expert, attendance at meetings and being an observer at Technical Working groups.</p> <p>(b) The LFA expanded its Team (in Malawi and at Headquarters) to cater for the required services on the complex portfolio, (common funding mechanism and increase donor participation). The LFA have increased their presence on the ground through attendance at all meetings and consistent debriefings.</p> <p>(c) The LFA now conducts 100% verification of all expenditures. This process will remain in place until the agreed upon discrete system is fully functional.</p>
<p><b>Global Fund Secretariat</b></p>	
<p><b>Recommendation 20 – High Priority</b></p>	
<p>(a) The Global Fund and the Ministry of Health SWAp secretariat should re-consider the need for the present number of performance indicators bearing in mind the June 2009 Global Fund common funding policy note which requires an assessment of performance against agreed upon targets and program management at regular intervals (at least once a year). Greater emphasis should be placed on the need to demonstrate good value for money.</p>	<p>This recommendation has been incorporated in the negotiation of the consolidated Performance Framework for HIV Round 7 and RCC Phase 2 grants. With the consolidation, the number of indicators has been rationalized. Indicators are aligned with the draft Malawi National HIV and AIDS Monitoring and Evaluation Plan 2011-2016 and focus on monitoring people reached with key services, outcomes and impact. Reporting periods in the consolidated Performance Framework have been aligned with the national reporting cycle of Malawi.</p> <p>The Global Fund will also monitor outcomes</p>

	<p>of its investments in human resources (e.g. trainings and salary top-ups) during Phase 2 of the consolidated grant and demonstrate good value for money of these investments and ensure sustainability of the program.</p> <p>For Malaria, indicators will be rationalized and aligned to national reporting in the Round 7 and Round 9 grants, at the time of Phase 2 negotiation for the Round 9 grant.</p>
<p>(b) Since the effectiveness of grant-funded interventions depends on quality information to aid sound decision making, the Ministry of Health should take action as a matter of priority to improve the quality of data through refining arrangements for data entry, collection, reporting and verification.</p>	<p>A Monitoring and Evaluation System Assessment for HIV was conducted in August-September 2011. System strengthening actions have been identified as an outcome of the workshop; however these do not provide details on how gaps will be addressed.</p> <p>The Global Fund will require the PR to provide regular updates on implementation of identified activities to ensure timely progress.</p>
<p><b>Recommendation 31 – (High)</b></p> <p>(a) A challenging but very useful exercise would be for the Global Fund and NAC to examine how to reduce to the absolute minimum any additional indicators in performance frameworks, especially at the output level, This should be done bearing in mind the June 2009 Global Fund common funding policy note which states that there should be ‘an assessment of performance against agreed upon targets and program management at regular intervals (at least once a year)’. It also allows for annual disbursements. Having annual rather than six monthly performance assessments should reduce the need for so many output level indicators.</p> <p>(b) The M&amp;E system would benefit greatly from an intensive drive to improve the quality of data through strengthening aspects of data entry, collection, reporting and verification. The effectiveness of interventions depends on quality information to aid sound decision making.</p>	<p>See comments for Recommendation 20 above.</p>
<p><b>Recommendation 37 (High Priority)</b></p> <p>The Global Fund Secretariat needs to work with the Government and its Development Partners to ensure that the minimum conditions for working in common funding</p>	<p>Following discussions with the MGFCC, MOH, Development Partners and Senior Management, the Global Fund is now a discrete donor to the Health SWAp.</p>

<p>mechanisms can be incorporated in the Memorandum of Understanding, so that the Global Fund can sign the Memorandum of Understanding and formalize its participation in the Health SWAp.</p>	
<p><b>Recommendation 7 (High Priority)</b></p> <p>The Global Fund Secretariat should engage with Pool Partners on how to address funds not appropriately accounted for.</p>	<p>The Secretariat will engage with Pool partners on the appropriate action to be taken on funds misappropriated.</p>

The Secretariat thanks the Office of the Inspector General for the completion of this report and is looking forward to a constructive engagement on matters raised in the letter.

Yours sincerely



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