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## OIG RELEASES REPORT ON AUDIT OF GRANTS TO MALAWI

Malawi has secured positive outcomes and achievements with Global Fund grants but needs to address weaknesses in grant administration, procurement and supplies management, and financial management, an audit report by the Office of Inspector General (OIG) has said.

The report, which was released in early August 2012, did not detect any grant funds that had been misappropriated. However, it identified \$3.9 million in ineligible and unsupported expenditures that the OIG said should be paid back. Malawi has agreed to refund at least \$3.3 million.

The audit involved seven grants from Rounds 1, 2, 5 and 7, administered by two principal recipients (PRs): the Ministry of Health (MOH) and the National Aids Commission (NAC). The MOH had four grants: malaria, Rounds 2 and 7; TB, Round 7; and health systems strengthening (HSS), Round 5. The NAC had three grants: HIV, Rounds 1, 5 and 7.

The audit was conducted from 1 July to 10 September 2010. The time period covered by the audit was October 2003 to 30 June 2010. The value of all seven grants was \$460 million, of which \$343 million (75%) had been disbursed at the time of the audit.

This article provides a summary of the OIG's findings concerning the performance of the PRs and the oversight provided by the country coordinating mechanism (CCM) and the local fund agent (LFA). The article also provides comments from the CCM on the audit's findings and recommendations.

Concerning weaknesses in administration and management for both PRs, the OIG said there is need to improve financial controls at the PR and SR levels, and to strengthen external audit arrangements and budget monitoring. In the area of procurement and supplies management, the OIG said that there is a need to strengthen staff skills, ensure complete and reliable information for forecasting, improve

monitoring and quality assurance and strengthen the capacity of the Central Medical Stores.

In addition, the OIG said the controls over the selection, management and monitoring of SRs should be improved, with a specific focus on conducting capacity assessments before contracts are signed. The OIG said that there is also a need to analyse the causes and circumstances of financial mismanagement in detail to learn lessons, improve controls and prevent recurrence.

Funds that the OIG said should be repaid

The \$3.9 million in ineligible and unsupported expenditures involved both PRs. This figure represents just over 1% of the funds that had been disbursed to the PRs as of the start of the audit.

The OIG defines “ineligible expenditures” as costs not in line with the budget and work plan approved by the Global Fund. It defines “unsupported expenditures” as those lacking adequate supporting documents to provide evidence that the activity took place and that the expenditure was in line with programme activities.

National Aids Commission. Of the \$3.9 million in ineligible and unsupported expenditures that the OIG said should be repaid, \$3.7 million involved the National Aids Commission. Of the \$3.7 million, the OIG categorized \$435,566 as ineligible and \$3.3 million as unsupported.

Of the \$435,566 in ineligible expenditures, \$390,500 was used to purchase 20 pick-up trucks. The OIG said that this was not in the approved work plan.

Of the \$3.3 million in unsupported expenditures, \$1,988,248 was for expenses incurred between 2004 and 2007 for which there were no records. An additional \$295,360 was for funds reported to the NAC by the MOH as expensed but not supported by documentation that could be authenticated. The MOH was an SR for some of the grants managed by the NAC.

Ministry of Health. Of the \$3.9 million in ineligible and unsupported expenditures that the OIG said should be repaid, \$225,133 involved the MOH. The OIG said that there were unexplained discrepancies between funds remitted to SRs as per the ministry’s records and the amounts confirmed as received by the SRs.

As indicated above, Malawi has already agreed to refund \$3.3 million out of the \$3.9 million the OIG said should be repaid. The CCM has submitted to the OIG additional information to support the balance of these expenditures. The OIG fielded a team to Malawi in May 2012 to review the information.

## Oversight

CCM. The OIG noted good practices by the CCM, including regular, well-attended meetings where key issues affecting programmes are discussed. However, the OIG noted a number of shortcomings, as follows: 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 CCM had no sub-committees to handle technical details; and the Chairperson was absent for most of the meetings.

The OIG identified weaknesses in the CCM’s monitoring of the implementation of programme activities, including a lack of reports showing that oversight field visits had been undertaken, and no effective follow-up of action plans for poorly-performing grants.

LFA. The OIG said that there was a change in LFA for Malawi from PricewaterhouseCoopers to Cardno Emerging Markets Group (EMG) in 2008. In-country partners reported improved LFA coordination and communication with key stakeholders after the appointment of EMG. The OIG noted good practices in

EMG's services, including comprehensive PR assessments; the identification of critical performance issues; and good interaction with the government and development partners.

However, EMG had not carried out a country risk assessment or developed a management plan to guide its work in Malawi. The OIG said that EMG was not concentrating its efforts on areas of greatest risk. The OIG also noted that EMG did not have a documented methodology or approach for conducting its work. Finally, the OIG said that it was unable to obtain documentation to support the work done and conclusions made in reports from EMG.

### Recommendations and follow-up

The audit report made 37 recommendations to address the shortcomings noted in the audit.

Following the preliminary audit findings, the Global Fund Secretariat, the CCM and the PRs developed action plans to address key shortcomings. Global Fund General Manager Gabriel Jaramillo says in a letter accompanying the audit report that most of the OIG's recommendations are already in the process of being implemented.

### Comments from the CCM

In a letter to the Global Fund, Randson Mwandawa Chairperson of the Malawi CCM – who is also the Secretary to the Treasury in Malawi – described the OIG recommendations as “valuable” and added that they would assist Malawi in the management of risk in financial, procurement and sub-recipient management not only for the Global Fund grants but also other national programmes.

Speaking to GFO in confidence, a source at the Malawi CCM said that although the country has accepted to repay the money as per the OIG's recommendations, the CCM believes that some of the unsupported expenditure the OIG said should be refunded should have been accepted as legitimate expenditure because there were genuine circumstances which made it impossible to provide all documentation.

“For example,” he said, “In the course of the implementation of Global Fund grants in Malawi, the country changed its capital city from Zomba to Lilongwe, which meant that all documents in government offices had to be moved to Lilongwe. In the course of this movement, some documents relating to Global Fund grants were lost and could not be found at the time the OIG audit was carried out.”

Concerning the purchase of vehicles which the OIG classified as unsupported, “the truth of the matter is that the vehicles were part of the work plan and had actually been purchased at a cost of \$120,000, but there was delay in taking the auditors to the Central Medical Stores for physical verification,” the source said.

He said that even with strict financial management, it is difficult for countries like Malawi to provide every single document relating to expenses incurred while implementing Global Fund grants all the way from Round 1.

GFO provided both PRs and the LFA with an opportunity to comment on a draft of this article, but did not receive a response. The OIG audit report on Malawi, and all other OIG reports, are available on the Global Fund website [here](#).

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