# The same problems remain unresolved: Audit of Global Fund Grants in Kenya

Background

On 11 March 2022 the Office of the Inspector General (OIG) published its audit report on the Global Fund Grants in Kenya.

According to the report, the Global Fund had approved $1.8 billion and disbursed over $1.4 billion to Kenya.

One and a half million people are living with HIV of which 96% knew their status, 89% were on treatment and 94% were virally suppressed in 2020. Annual new infections decreased by 44% from 75,000 in 2010 to 41,416 in 2019 and AIDS-related deaths decreased by 59% from 51,000 in 2010 to 20,997 in 2019.

In 2020, 4.5 million malaria cases were treated but, due to travel related and other pandemic disruptions, only 194,000 long-lasting insecticidal nets (LLINs) were distributed in 2020 against a target of 12.9 million.

Kenya is among the 30 global high TB and TB/HIV burden countries. In 2021, it transitioned out of the 30 high MDR/RR-TB burden countries. The 2016 TB prevalence survey estimated TB incidence to be 426 cases per 100,000 persons, TB case notifications decreased by 14% from 81,518 in 2015 to 70,387 in 2020, and between 2018 and 2020 the TB incidence rate fell by 11% from 292 to 259 cases per 100,000 population. The TB treatment success rate was 84% for new cases in 2018.

Audit objectives, ratings and scope

The audit's overall objective was to provide reasonable assurance on the adequacy, effectiveness, and efficiency of Global Fund grants to the Republic of Kenya. Specifically, the audit assessed:

| Objective | Rating | Scope |
| --- | --- | --- |
| Controls and assurance over the procurement and supply chain management systems are sound to deliver and account for quality-assured medicines and health products. | Ineffective | Audit Period:<br><br>January 2018 to April 2021 |
| Effectiveness of Global Fund COVID-19 response in maintaining and scaling up TB and HIV screening and testing and LLINs intervention, including adaptation during the COVID-19 period. | Partially Effective | Grants and implementers:<br><br>NMF2 grants implemented by the National Treasury, Kenya Red Cross Society (KRCS) and Amref (formerly called the African Medical and Research Foundation) |
| Effectiveness of the financial assurance framework/mechanism during the pandemic including absorption capacity, C19RM funding utilization and co-financing mechanism. | Needs significant improvement | Scope exclusion:<br><br>None |

Key achievements and good practice

The report notes four areas of achievement/good practice:

- HIV, TB and malaria programs have achieved good results. TB incidence fell 11% between 2018 and 2020. In 2019, the HIV program adopted a more targeted testing approach, which contributed to test yield increasing from 1.5% in 2016 to 2.3% in 2020. These achievements led to grants meeting their targets: in June 2021, the TB program under the National Treasury was rated A2 (meeting expectations), and the HIV program implemented by KRCS was rated A1 (exceeding expectations). The country experienced an overall reduction in malaria prevalence from 8% to 6% between 2015 and 2020. Additionally, the malaria program successfully undertook a 2020 malaria indicator survey despite pandemic-related challenges.
- Centralized supply chain arrangements under the Kenya Medical Supplies Authority (KEMSA) have enhanced country ownership.
- In January 2021, the Ministry of Health (MOH) took prompt action in response to supply chain challenges identified by the Kenya Auditor General around KEMSA’s utilization of COVID-19 funds, by establishing a 32-member Reform Committee. A new Board was appointed in April 2021, with a mandate to enhance efficiency and continue the reforms.
- The Global Fund Secretariat has a mechanism to request Local Fund Agent (LFA) pre-award reviews to oversee the transparency, competition and value for money of the KEMSA procurement process. KEMSA is now procuring HIV and malaria commodities at competitive prices.

## Key issues and risks

The report raises the following key issues:

- Late recruitment of sub-recipients (SRs) and engagement with provinces, as well as COVID-19 lockdown regulations and labour strikes, significantly delayed TB implementation which affected TB case detection and linkage to treatment.
- Long turnaround timelines for procurement resulting in delays, thereby impacting program implementation. KEMSA procures most commodities and, on average, procurement for the COVID-19 response mechanism (C19RM) takes 349 days, for HIV 278 days, for TB 348 days and malaria 406 days. Only half of C19RM funds were spent by the end of the grant in June 2021, and the distribution of procured commodities was very slow compared with the initial timelines agreed with distribution providers. Due to gaps noted in advanced planning and turnaround timelines, long procurement delays are impacting program implementation and leading to stock-outs and non-availability of KEMSA commodities at almost all health facilities (HFs) visited. The two other Principal Recipients (PRs) also experienced delays – but much less – procuring COVID-19 commodities: up to 182 days for Amref and over 180 for KRCS.
- Inadequate supply chain controls have worsened, largely due to inefficiencies and pandemic disruptions.
- KEMSA has poor internal controls on warehousing and inventory management, resulting in a 16% difference in batch numbers verified, and discrepancies of 908,000 LLINs between actual and expected stock balances. KEMSA does not have an adequate system to ensure commodities distributed via third-party logistic companies (3PLs) arrive at HFs on time and in the correct quantity. Only 31% of commodity receipt documents (proof of deliveries) were delivered to KEMSA by 3PLs on time in 2021. A limited market survey found Global Fund-financed commodities, including some which KEMSA had reported as not being distributed, on sale in four of seven sampled pharmacies spread across four counties; this issue has been referred to the OIG investigation unit for further analysis. The OIG also noted weak internal controls over the accuracy of HF data in KEMSA's inventory system, which led to discrepancies between the MOH's list of approved facilities and KEMSA's system. Poor controls over IT systems are compromising data reliability and contributing to poor stock management.
- COVID-19 has impacted programs and exacerbated pre-existing programmatic challenges. For malaria, the planned 2020 mass distribution campaign of LLINs was delayed by a year but was underway at the time of the audit.
- The design of assurance mechanisms to oversee grant implementation is adequate, but mitigation measures to address known and emerging risks either do not fully address issues or are improperly implemented.
- Improvements are needed in terms of financial controls for better accountability and absorption of C19RM funding.

## COVID-19 Situation

The report notes that, since March 2020, the Government has taken stringent containment measures to slow the spread of the virus, including lockdowns and dusk-to-dawn curfews. However, no further information on the impact is given.

## Portfolio Performance

The National Treasury, KRCS and Amref Health Africa are grant PRs. The MOH implements grants on behalf of the National Treasury through the national programs for the three diseases. Each disease program is implemented by a government implementer and a non-governmental organization (NGO).

Approximately 60% of grant funding goes towards procuring medicines and health products. The National Treasury contracted KEMSA, a government entity, as its procurement agent for the grants. KEMSA is responsible for procuring, storing, and distributing medicines and health products.

Kenya has received $45 million through C19RM and grant flexibilities to fight COVID-19's impact on the three diseases. These amounts are included in the grants presented above totalling $444.2 million.

## Findings

The report has five findings.

First finding: Inefficient processes are delaying procurements and affecting medicine availability across the supply chain.

KEMSA is procuring quality-assured health commodities at competitive prices; however, insufficient coordination and procurement planning among stakeholders creates inefficiencies and bottlenecks, delaying their availability; and the audit noted irregularities in procurements, weak contract management, and inadequate assessment of vendor performance:

- Procurement delays due to ineffective planning, coordination and execution.
- Ineffective procurement controls resulted in unmitigated operational risks.

Delayed procurement processes and inadequate procurement plans have led to sub-optimal budget absorption rates for the malaria program (74% at the end of the grant) and for COVID-19 funding (51% at the end of the grant).

Second finding: Poor controls over critical health products at central and HF levels cause unmitigated traceability and availability risks.

Ineffective controls at KEMSA's warehousing and distribution systems are affecting commodity traceability, and accountability for commodities received and distributed cannot be ensured. There is no robust system to monitor, track and report commodities delivered to HFs, and HFs cannot fully account for the drugs that they have received. The audit noted ineffective controls across the supply chain at all levels, which seriously compromise the achievement of grant objectives. These are detailed in full in the main report.

Third finding: There are gaps in the Secretariat risk management and assurance mechanisms for procurement and supply chain risks:

There was limited risk assessment and ineffective risk monitoring for procurement and supply chain risks in Kenya. Kenya did not benefit from a full Country Portfolio Review in 2020 or 2021, despite procurement and supply chain risk levels having increased significantly between 2019 and 2021. The increased risk was due to several factors, such as declining performance following a change of Chief Executive Officer at KEMSA, and widely reported corruption allegations over KEMSA's personal protective equipment procurements. The Secretariat performed a risk assessment for the Kenya portfolio, adjusting the ratings upwards: Procurement risk moved to High, and In-Country Supply Chain risk to Very High. On 13 April 2021, during the grant making stage, this assessment was documented in the Integrated Risk Management module which records all grant-related risks:

| RISK CATEGORY | 2019 CPR<br>ASSESSED RISK LEVEL | 2020<br>ASSESSED RISK LEVEL | 2021 REVIEW<br>ASSESSED RISK LEVEL |
|---|---|---|---|
| Procurement | Moderate | No assessment performed in 2020 | High |
| In-country supply chain | Low | | Very High |

Fourth finding: Actions were taken to mitigate COVID's impact on program activities, but challenges remain for TB and malaria interventions.

COVID-19 severely impacted Global Fund Programs in Kenya during 2020. While the programs managed to recover thanks to adaptations and reprogramming, further efforts will be needed if grants are to reach program targets by 2023. Also, several issues noted during the previous OIG audit in 2018 remain.

Fifth finding: There has been limited utilization of COVID-19 funds and improvement is needed in the design and implementation of financial controls:

- The low utilization of COVID-19 funds has impacted program effectiveness due mainly to the delayed approval processes between the various stakeholders and the inefficient procurement processes.
- Counterpart funds are provided exclusively for procuring health commodities. Between July 2018 and June 2021, the Government allocated approximately $90 million for this purpose; however, only 57% ($38.5 million) of the committed funding was actually made available.
- Treasury management and other financial controls could be improved for better accountability.

Agreed Management Actions (AMAs)

1. The Secretariat will work with the PRs to develop (by 30 June 2023) a framework document that outlines all the different steps throughout the procurement process and that makes clear the responsible stakeholders, the deliverables they are responsible for to move to the next step, and the reasonable time/key performance indicator (KPI) within which the steps can be reached.
2. The Secretariat will work with the National Treasury, the MOH, and KEMSA to develop (by 31 December 2023) an action plan to provide enhanced assurance oversight of in-country distribution of Global Fund commodities. The action plan should cover both: (i) existing supply chain controls that are in place but require corrective actions; and (ii) any new controls that should be established – with standard operating procedures (SOPs) for implementation within set timelines.
3. The Secretariat should perform (by 31 December 2022) a comprehensive risk assessment for the Kenya portfolio and assess the status of the current mitigation measures in place. If needed, additional assurance arrangements should be included as part of the current assurance plan, which should also be updated to capture any additional mitigation measure emanating from AMA1 and AMA2.
4. The Secretariat will support the PRs, the MOH and technical partners, under the Country

Coordinating Mechanism (CCM) to (by 30 June 2023):

- For TB: Undertake an in-depth review analysis to identify the reasons for sub-optimal TB case notification rates. An action plan should subsequently be developed with strategies to address the challenges identified in the desk review, including building on ongoing implementation of TB case finding initiatives.
- For HIV: Evaluate the implementation of the targeted testing strategy (2018) and use lessons learnt to inform the development of an action plan to address existing gaps.

Commentary

This report must raise concerns in the Secretariat. Look at the ratings in the previous OIG audit report on Kenya published in November 2018:

1. The design and implementation of the programs to deliver quality services to intended beneficiaries was rated as partially effective.
2. Procurement and supply chain processes and systems in ensuring availability of quality assured medicines and health products to patients were rated as effective.
3. Grant implementation arrangements in the context of devolution including governance, oversight and coordination to ensure sustainability were rated as partially effective.
4. The adequacy and effectiveness of frameworks in place to measure grant performance was rated as partially effective.

This audit report rates the effectiveness of the financial assurance framework/mechanism as need significant improvement. More importantly, it rates the controls and assurance over the procurement and supply chain management systems to deliver and account for quality-assured medicines and health products to be ineffective. So, grant performance has deteriorated, especially procurement and supply chain processes. This is clear from the second key issue in the report: “Inadequate supply chain controls have worsened”. It is therefore surprising that the report includes as the second achievement “Centralized supply chain arrangements under the Kenya Medical Supplies Authority (KEMSA) have …… enhanced both accountability and country ownership of the three programs and has created efficiencies for all three major funders” (Global Fund and the Kenyan and US governments). What efficiencies were created? KEMSA’s performance does not reflect any.

The third achievement listed in the report is that “Governance and supply chain challenges are being tackled by a newly constituted Reform Committee” and “A new five-member Board was appointed in April 2021, with a mandate to enhance efficiency and continue the reforms.” But, under the third finding, we are informed that “Key procurement risks had been highlighted by the assurance providers in 2019 but were not promptly escalated” and “at the instruction of the Global Fund, the LFA performed a review of procurement processes of health products undertaken by the PR (the National Treasury) through the KEMSA. The report was sent to the Global Fund in December 2019, and a Management Letter, with recommendations to mitigate the identified risks, was sent to the country in February 2020. The LFA review identified almost all the key procurement risks highlighted in this report, including long procurement processes and poor supplier performance. While proposed mitigations were sent to the country as part of the Management Letter, our audit noted no progress, and identified similar issues.” So, no progress was actually made.

From the many references in the report, KEMSA clearly remains a major problem. It is worrying that theso-called 'KEMSA reform project' has yielded no reported improvements.

On the day this audit report was published, the Global Fund Executive Director issued a statement about the report in which he said:

"The Global Fund had already responded to a decline in KEMSA's performance due to deficiencies in the governance structures of the organization. Building on the joint Global Fund/USAID assessment of KEMSA in 2019 and recognizing the Kenya Office of the Auditor-General KEMSA audits, and the challenges at KEMSA following the 2020 corruption allegations, the Ministry of Health engaged with stakeholders, including partners, to form the KEMSA Reforms Implementation Committee (KRIC), which developed an action plan to address gaps in all the critical functions of the organization. Implementation of the KEMSA reforms action plan is ongoing under the leadership of the new KEMSA board and acting CEO, with support from the Global Fund and partners. The key objective of the KEMSA reforms is to address challenges in the national supply chain, specifically by establishing end-to-end visibility of health products and strengthening accountability and reporting at all levels of the supply chain."

Sounds good; but it is still open-ended. And that was the frustration vented by civil society groups as reported by Devex on 29 March 2022. "This is a problem that has been there for a long time," said Maureen Milanga, the director of international policy and advocacy for Health Global Access Project, speaking to Devex from Nairobi, Kenya. "The Global Fund should be held accountable because they keep funding a broken system."

A respondent to the Devex article rightly pointed out that the Global Fund has a mandate to utilize existing in-country structures and work alongside in-country stakeholders (including civil society organizations (CSOs), government agencies, other donors) to strengthen them. But KEMSA's performance has deteriorated. The Global Fund wants to raise more finance for health when here we have an in-country entity that is causing major cost inefficiencies with program consequences that go beyond finance. It may therefore be time for the Global Fund to revisit its policy on the use of local structures, and certainly this one.

It would be interesting to see what the current position is with the grants that closed at the end of June 2021. Unfortunately, at the time of writing this article, the data were not available from the Global Fund Data Explorer.

It is of concern that the Government failed to meet its co-financing commitments and that the audit report makes no mention of follow-up on this major issue. What is happening with regard to co-financing of the current grants that opened on 1 July 2021? They were in place at the time of the audit. So why is there no mention of the current grants? At the top of page 6 of the report it states: "Since 2003, the Global Fund has signed over $1.8 billion and disbursed over $1.4 billion to Kenya. Active grants total $444 million for the 2020-2022 Funding Allocation (July 2021 to June 2024 implementation period)". This is confusing and probably best ignored because, according to the portfolio performance table in the report, the $444 million was the total of the grants that ended on 30 June 2021.

Given the poor performance and the evident urgent need to improve controls and cost effectiveness, it is surprising that AMAs 1 and 2 – for which 18 months and 21 months have been allowed – only require papers to be produced. When are the corrective actions going to happen? To get this portfolio back on track, some corrective actions should already have started, especially regarding the procurement and supply chain processes.

Virtually every OIG report includes the word 'accountability' but when do we see evidence of its application? Having worked in public sector governance for many years in many countries I have never seen anyone in a civil service or parastatal position held accountable for poor performance. And you can be sure that if a committee is appointed to oversee the implementation of any initiative/plan, apart from meetings, nothing is going to happen. So, it is not surprising that, as the Devex article shows, in their frustration at the lack of progress many CSOs in Kenya blame the Global Fund for not taking corrective action in the face of KEMSA's repeated poor performance.

Finally, we at Aidspan reported on the poor performance of KEMSA and the governance issues that have dogged it in our article A looming shortage of antiretroviral drugs threatens the wellbeing of Kenyan citizens published in May last year.  I hope that steps to mitigate and improve the situation will bear fruit sooner rather than later so that we are not writing about this these same issues in a year's time!

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