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## OIG AUDIT IN MOZAMBIQUE IDENTIFIES SERIOUS WEAKNESSES IN ONE PR: THE MINISTRY OF HEALTH

According to the Office of the Inspector General (OIG), in the short to medium term the Ministry of Health (MOH) in Mozambique may not be able to meet the strict requirements of the Global Fund due to limitations in capacity. The MOH is principal recipient (PR) for three active grants, one for each disease.

The OIG made this observation in the final report of its audit on grants to Mozambique. We reported recently on some of the results of the audit (see [GFO article](#)). In this article, we provide more details.

In its report, the OIG said that it had identified significant fiduciary risks related to implementing grants through the public system in Mozambique. “If the Global Fund is to continue investing in Mozambique in the short to medium term,” the OIG said, “[it] should acknowledge the significant risks and set expectations for acceptable risk-taking in light of the weak control environment.”

Although the audit, which was carried out between November 2011 and March 2012, covered grants administered by three principal recipients (PRs), the main focus was on funds provided to one PR, the MOH, during the period 2008–2010.

During this period, the Global Fund grants were technically being administered directly by the MOH. Previously, between 2004 and 2008, money from the grants had been fed into a Common Fund for Health, known as PROSAUDE, which also included money from other donors. Institutional arrangements had been established to manage the money in the Common Fund. These arrangements were set out in a memorandum of understanding (MOU) signed in 2003. In the 2004–2008 period, the Global Fund disbursed \$136 million into the Common Fund.

In September 2007, because of a lack of predictability of funding, the MOH requested that the Global Fund leave the Common Fund. When a new MOU for the Common Fund was negotiated in 2008, the Global Fund did not sign on. In 2008, the Global Fund asked the MOH to set up an accounting system for grant monies separate from the Common Fund for both drug procurement and other grant expenditures. Nevertheless, the OIG reported, the grants continued to be managed and implemented under the same institutional arrangements that were in place for the period 2004–2008.

It was not until 2010 that a Programme Management Unit (PMU) was established in the MOH to manage the Global Fund grants. The OIG said that although the PMU had developed procedures to ensure accountability and reporting by disease and grant, at the time of the audit the accountability and reporting systems had not yet been tested. As a result, no funds had been disbursed directly to the MOH since 2008.

During this period, the only disbursements made for the grants managed by the MOH were for the delivery of health products; these were made directly to suppliers through the Global Fund's Voluntary Pooled Procurement (VPP) programme. From December 2009 through the end of 2010, the Global Fund disbursed \$84 million in this fashion.

The OIG said that when the Global Fund signed the first MOU for the Common Fund in 2003, the Fund did not have a substantive policy to guide funding through common funding mechanisms.

The OIG said that a capacity assessment of the MOH was not conducted prior to the start of grant disbursements in 2004. The OIG said that the MOH did not have sufficient capacity – particularly with respect to financial management systems and human resources – to manage and account for grant funds. The OIG said that many of the weaknesses in financial management were reported as early as 2006 but had not been addressed by 2012 when the OIG audit ended.

The OIG identified the root causes of the problems at the MOH as follows: (a) insufficient monitoring of provincial and district levels of government to ensure timely and accurate reporting; (b) insufficient mechanisms to monitor compliance to the Ministry's policies and procedures; and (c) a failure to act on recommendations from external reviewers.

The OIG said that some development partners have provided technical assistance to the MOH, but that "this effort was not well coordinated and sustained long enough to secure the required impact."

The OIG report describes a litany of problems with grant implementation. The following are a few examples:

- The progress update and disbursement requests (PU/DRs) submitted by the MOH for LFA review in 2009 were not of acceptable quality.
- The report of an external audit conducted in 2009 was not issued until June 2011.
- The MOH was not able to provide sufficient information to support the needs (gap analysis) stated in two disbursement requests submitted in 2011 for the purchase of pharmaceutical products .
- A large quantity of expired drugs was found in a warehouse in 2011.
- Bed nets that were supposed to be distributed free of charge were being sold.

In addition, the OIG said, its audit and other studies demonstrated significant supply chain weaknesses such as poor inventory control; a failure to reconcile stock balances; and instances of stockouts. This weak supply chain system remains a major risk to Global Fund investments, the OIG said. "Sufficient steps have not been taken to mitigate these risks."

The OIG noted that back in October 2004, the Global Fund Secretariat commissioned the then LFA,

Deloitte Emerging Markets Group, to conduct a financial review of the Common Fund arrangement. The LFA concluded that established policies and procedures put in place for programme and financial management were not being followed and that supervision and internal controls were not adequate to manage the programme effectively. The LFA recommended that further disbursements to the Common Fund not be made given the prevailing circumstances. The OIG said that the internal control weaknesses identified by the OIG in 2012 are similar to those reported by the LFA in 2004. In other words, the OIG said, the control environment had not changed substantially in eight years.

The OIG said that the Global Fund Secretariat prepared a list of actions to address some of the weaknesses at the MOH, and that these actions were included as conditions precedent to a Round 8 grant (signed in November 2009) and two Round 9 grants (signed in February 2011). According to the OIG, many of these control weaknesses were still evident at the time of its audit in 2012.

## Recommendations

The OIG recommended that the Global Fund support the MOH to develop and implement a capacity building plan, supported by money from the grants. The OIG also recommended that a competent entity be appointed to support the Ministry of Health to strengthen internal control systems for financial management, procurement and supply chain management and monitoring and evaluation.

According to the OIG, the Global Fund Secretariat, the MOH, the CCM, and in-country partners have agreed take a number of steps in response to the problems identified in the audit. For example, they have agreed to improve procurement by reorganising procurement units and recruiting qualified personnel; improving the quality of consumption data used for forecasting procurement needs; implementing a new logistics management information system; improving inventory management practices at warehouses; and implementing new standard operating procedures for managing of medicines at all levels.

Some of the capacity building and systems strengthening recommended by the OIG will be done through a Round 8 health systems strengthening grant that was recently re-programmed and “re-launched” (see [separate article](#)) .

The audit report for Mozambique is available on the Global Fund website [here](#).

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