

Our ref: OGM/GJ/JP

19 April, 2012

MESSAGE FROM THE GENERAL MANAGER AND INSPECTOR GENERAL

Audit Reports and Diagnostic Review issued by the Global Fund's Office of the Inspector General on 20 April 2012

Dear Reader:

Today the Global Fund has released three audit reports and one diagnostic review. These audits and reviews are part of the Global Fund's well established and consistent quality assurance process which seeks to ensure that grant money is used as effectively and efficiently as possible.

The reports are:

- Audit Reports: Ethiopia, Kenya and Uzbekistan;
- Diagnostic Review: Cuba.

While diagnostic reviews and audits serve similar purposes—they provide the Global Fund with an opportunity both to learn and to improve the way it does its business—there are certain important differences between them.

Audits take an historical perspective and comprehensively review grant implementation over time to substantiate whether grant funds have been used for the purpose intended and to provide assurance that grant funds are used wisely to save lives.

Diagnostic reviews look at the grants at a given point in time to identify the key risks to which grant programs are exposed. They provide recommendations to mitigate the risks identified.

The audit reports in the current release are 'legacy' reports, which relate to grants signed as far back as 2004 and to audits performed in 2009 and 2010. Many of the findings relate to weaknesses in grant management and oversight during the early years of the Global Fund that have been identified before, including in the High Level Panel Report and in other audit reports by the Office of the Inspector General. Many findings are already being addressed.

The diagnostic review in this release was performed in late 2011. It points to areas for improvement in managing Global Fund support. It also demonstrates solid achievements and good grant management practices.

Each report published today includes a concrete time-bound management plan of action that indicates how the findings will be addressed and the recommendations implemented. We both applaud the considerable progress that has already been made to improve grant management in response to the recommendations offered by the Global Fund's Office of the Inspector General.

Gabriel Jaramillo



John Parsons





THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

EXECUTIVE SUMMARY

Audit of Global Fund Grants to the Republic of Kenya

GF-OIG-10-011

20 April 2012

Executive Summary

Introduction

1. The Office of the Inspector General (OIG) carried out an audit of Global Fund grants to Kenya from 21 June to 30 July 2010. The audit covered all ten grants totaling USD 376 million, of which USD 204 million had been disbursed, from April 2003 (the inception date of the first grant) to 30 June 2010. The Principal Recipients (PRs) in Kenya were: The Ministry of Finance (which acted as a pass-through recipient for public sector and civil society Sub-Recipients), CARE International in Kenya, The Kenya Network of Women with AIDS and SANAA Art Promotions¹.

2. Kenya has achieved meaningful results in its fight against HIV/AIDS, tuberculosis and malaria. However, at the time of the audit there was significant scope for improvement in all Kenya grants, particularly in (i) governance and oversight, (ii) financial management, (iii) procurement, and (iv) Sub-Recipient management.

The Public Health Response

3. HIV prevalence in Kenya was estimated at 6.3% of the adult population. Utilization of HIV counseling and testing and PMTCT uptake were considerable, and adults on ART represented 70% of estimated need. There is scope to improve the uptake of infant ART, which remained at 24% of those in need, in part due to loss to follow-up from PMTCT.

4. Despite being one of the 22 highest TB burden countries worldwide, Kenya had achieved WHO targets for case detection and treatment success with the assistance of the Global Fund, specifically through raising community and health worker awareness, recruiting and deploying laboratory technicians and training service providers. Challenges to the program included weak linkages between HIV/AIDS and TB, insufficient laboratory capacity, MDR-TB treatment delays, and the need to strengthen community-based DOTS.

5. Malaria remained a major public health problem in Kenya, although the last decade had seen a steady decline in prevalence related to the rapid scale-up of interventions with stricter guidelines on diagnosis and management. There is scope to improve adherence to guidelines among health workers, ensure sufficient stock of ACTs and rapid diagnostic test kits, and putting in place external quality assurance over diagnosis.

Financial Management

6. At the time of the audit, extensive scope for improvement existed in the financial control environment at PR and SR level. Control risks included poor maintenance of books of account and absent accountability statements, the use of personal bank accounts for program purposes, irregular payments, expenditure not in line with the grant agreement and funds spent without supporting documentation.

7. Regular audits of grant recipients did not take place and disbursement delays to SRs were commonplace.

¹ The latter two institutions were not audited given that they had received funding only under Round 1 and were no longer involved in implementation.

Procurement and Supplies Management

8. Procurement (valued at over USD 100m by the time of the audit) for Global Fund grants in Kenya was managed by a consortium comprising the Kenya Medical Supplies Agency (KEMSA), Crown Agents, the Gesellschaft für Technische Zusammenarbeit, and John Snow, Inc. The consortium built a strong Secretariat and followed good procurement practices. However, there was scope for improvement in the timeliness of procurement, competitive selection, regular quality assurance in line with Global Fund requirements, maintenance of proper books of account and fund accountability, local capacity building, the transparent application of fees, and the recording of interest and other income.

Civil Society Sub-Recipient Management

9. There was scope for improvement in the selection process of and allocation of funds to civil society organizations acting as Sub-recipients. The criteria and processes for selection were not consistently clear or documented, and while CSO capacity assessments were undertaken, CSOs contracted included those without sufficient capacity to implement, report or absorb funds. These weaknesses slowed down implementation and placed a greater burden on limited PR management and capacity building resources.

Oversight

10. At the time of the audit, there was a need to improve the effectiveness of the oversight structures in place to identify and resolve challenges in the complex grant operating environment in Kenya. While the CCM undertook reviews to strengthen program performance, many of the recommendations contained in these reports were not implemented. However, a technical advisor had been appointed to strengthen controls.

Conclusion

11. At the time of the audit, considerable risk existed in financial, procurement, and Sub-Recipient management. The audit found that grant funds disbursed to Kenya were not always used appropriately and that value for money was not assured in Global Fund investments. This report includes a table that identifies an amount of USD 3,253,161 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

12. 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:

- The Country Team approach was introduced for the Kenya portfolio in March 2011;
- The CCM has been re-organized for improved oversight;
- KEMSA has taken over procurement and supplies management; and
- CARE Kenya had overcome many of the grant start-up difficulties, which had resulted in better performance towards the end of Phase 1.

13. A brief validation review by the OIG in late 2011 demonstrated that 55% of all recommendations made by the OIG in the draft report had been fully implemented. The OIG commends the Kenya CCM and in-country stakeholders for progress made in addressing audit recommendations and looks forward to working with the Global Fund Secretariat to track the implementation of the remaining recommendations.

Message from the General Manager



10 YEARS
OF IMPACT

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Our ref: OGM/GJ/

19 April, 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 the Global Fund grants in Kenya.

The audit was conducted in 2010 and covers grants made from 2003 to 2010, worth a total of USD 376 million. The report outlines meaningful advances in Kenya in the treatment and prevention of HIV, tuberculosis and malaria. The report also recognizes a need for improvement in accounting, timely procurement, and oversight functions.

The audit identified several challenges and key risks in the implementation of grants in Kenya. In Annex 4, the Secretariat responds in detail to each one. In Annex 5, the Country Coordinating Mechanism provides a management action plan that outlines actions already taken, and action still to be taken to implement recommendations by the Office of the Inspector General.

I am confident that with our new emphasis on risk management and grant management, we will have appropriate procedures in place to address and resolve in a timely way the issues raised in this report by the Office of the Inspector General.

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 Ministry of Public Health and Sanitation of Kenya



MINISTRY OF PUBLIC HEALTH AND SANITATION

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KCM/GF/SEC/VOL.V/

28th February, 2012

Mr. John Parsons
Inspector General
Office of the Inspector General
The Global Fund to Fight AIDS, Tuberculosis and Malaria
Chemin de Blandonnet 8, 1214 Vevrier
Geneva
SWITZERLAND

Dear

Mr. Parsons,

RE: FINAL OIG DRAFT REPORT ON THE GRANTS IN KENYA

This is to acknowledge with thanks receipt of your letter Ref. No. OIG/JF_12/C15ao dated 21st February 2012 forwarding the final Draft Report for our comments. It is gratifying that we have been given an opportunity to comment on the Report before publishing the final copy.

This is to confirm that we agree with the contents of the Report and that implementation of the Action Plan submitted to you in October, 2011 is on track and a status report will be submitted to OIG by 28th March, 2012.

May I take this opportunity to thank you for the excellent support we have continued to receive from you as we strive to improve the performance of our grants.

Yours

sincerely,
M. K. Bor

Mick K. Bor, CBS
PERMANENT SECRETARY/KCM CHAIRMAN