

# FEDERAL REPUBLIC OF NIGERIA

Gavi Secretariat, Geneva, Switzerland

**Audit Report – October 2014**



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## List of Abbreviations

AG	Auditor General
AM	Aide-memoire
APR	Annual Progress Reports
CIPP	Charter Institute of Professional Printers
CPA	Cash Programme Audit
DFPC	Donor Fund Procurement Committee
DL	Decision Letters
DP	Development Partner
EFCC	Economic and Financial Crimes Commission
ED	Executive Director
EPI	Expanded Programme on Immunisation
FAR	Fixed Assets Register
FMoH	Federal Ministry of Health
FMA	Financial Management Assessment
GoN	Government of Federal Republic of Nigeria
HPCC	Health Partner Coordinating Committee
HSS	Health Systems Strengthening
ICB	International Competitive Bidding
IFMIS	Integrated Financial Management Information System
IAU	Internal Audit Unit
ICC	Inter-Agency Coordinating Committee
ISS	Immunisation Services Support
LGA	Local Governments
LCB	Limited Competitive Bidding
LIO	Local Immunisation Officers
NCB	National Competitive Bidding
NPHCDA	National Primary Health Care Development Agency
MoH	Ministry of Health
MoU	Memorandum of Understanding
PFM	Public Financial Management
PPDF	Procurement Procedures for Donor Funded Project
PPM	Procurement Procedures Manual
PS	Permanent Secretary
PU	Procurement Unit
PV	Payment Voucher
RIO	Routine Immunisation Officers
SIO	State Immunisation Officers
TAP	Transparency & Accountability Policy
UNICEF	United Nations Children's Fund
VAT	Value Added Tax
WHO	World Health Organisation
WHT	Withholding Tax

## **Acknowledgements**

Gavi Alliance wishes to thank the Federal Ministry of Health (FMoH), the National Primary Health Care Development Authority (NPHCDA) and Gavi in-country Development Partners, namely; United Nations Children’s Fund (UNICEF), the World Health Organisation (WHO) for their support during the audit.

# 1 EXECUTIVE SUMMARY

## 1.1 Introduction

The Government of Nigeria (GoN) through the Federal Ministry of Health (FMoH) and the National Primary Health Care Development Agency (NPHCDA) has received vaccine and cash-based support from Gavi Alliance since 2002. As at 31 March 2014, a total amount of US\$165m had been disbursed for vaccines and US\$143.5m for cash support through a number of mechanisms including: Health Systems Strengthening (HSS), Immunisation System Support (ISS), operational costs for vaccine campaigns (Measles SIA, Meningitis, and Yellow Fever) and Vaccine Introduction Grants (VIG). Summary of disbursements by grant is in section 1.3 of this report.

A Financial Management Assessment (FMA) was carried out in 2009 and an Aide-memoire (AM) establishing the terms and conditions of cash grants to Nigeria signed in July 2012. In December 2013, Nigeria also signed a Partnership Framework Agreement (PFA) with Gavi.

External financial audits were undertaken covering the period 2008-2011 (which is a Gavi requirement); these covered the programmes of HSS (2010 and 2011) and ISS (for each of the years 2008 – 2011). The audits raised significant concerns regarding the operation of controls in the programmes. These included the identification of approximately US\$300,000 of unsubstantiated expenditures relating to the ISS programmes for the years 2009, 2010 and 2011 which caused the auditor's opinions to be qualified; documentation to support these amounts was subsequently identified and the 2012 audit opinions were unqualified (though issues were still raised regarding the appropriate operation of controls). Concerns remained overall about the effectiveness of the programme procedures and controls to ensure Gavi funds were appropriately applied and accounted.

Given the significance of issues raised by the external audits, submitted to Gavi in February 2013, a monitoring review was undertaken by Gavi shortly after and then followed by this Cash Program Audit (CPA) later in 2013. The CPA covered three years of cash grants, 2011 - 2013. Because of the non-availability of supporting documents, the audit was carried out in two phases. Phase 1 covered a review of all areas of internal controls and included verification of expenditure across all budget categories, largely at the national level. Phase 2 focused on areas perceived to be high risk (based on the results of Phase 1), which included procurement, the management of advances, cash and bank processes, and asset verification (which was also carried out at the states level).

Of the total reported expenditure of N4.5bn (US\$29m) for 2011-2013, 33 per cent or N1.5bn (US\$9m) was reviewed during the audit. The key findings are set out in the paragraphs below.

This Executive Summary is provided to facilitate a ready assimilation of the key findings of the audit – it is not meant to be a substitute for a full reading of the report which contains essential detail to form a complete understanding of the conclusions in the report.

## ***1.2 Summary of audit findings - internal controls***

Internal controls were found to be inadequate in several areas identified below; a ‘High’ risk rating is attributed to each of them.

### **Procurement**

Over 40 per cent of the total expenditure of N4.5bn (US\$29m) in the period 2011-2013 was spent on procurement with the main categories being: printing N919m (US\$5.8m); incinerators N184m (US\$1.2m); drugs N243m (US\$1.6m); rehabilitation and equipping of medical facilities N437m (US\$2.8m); other procurement N90m (US\$397k), motor vehicles N17.8 (US\$113k). **Procurement is covered in further detail in Chapter 3.**

The audit identified fundamental weaknesses in controls around procurement including a lack of segregation of duties, ineffective oversight, and indications of collusion that created an environment that Gavi believes resulted in irregular activities. Specifically, the audit identified the following:

- a) There is a lack of segregation of duties in various aspects of the procurement process. The Tender Board and Donor Procurement Committee are both chaired by the CEO/ED of the NPHCDA. The CEO/ED also approves all payments and is a signatory to the bank accounts operated for the Gavi grants. While the composition of the Tender Board is provided for in the relevant procurement regulations, the combination of the CEO/ED being on the Tender Board as well as having financial responsibilities creates a situation in which appropriate standards of control can be compromised as established by the audit.
- b) The procurement regulations stipulate that the “Shopping” method (by which three quotations are obtained from pre-approved suppliers) should only be used for low value procurements (less than N2.5m, US\$16k) which the CEO/ED can approve. However, the audit noted multiple instances where the Shopping method was used for significantly higher value goods/services, and which were approved by the CEO/ED.
- c) In most instances, the procurement method prescribed in the approved Procurement Plan (PP) was not used. Limited Competitive Bidding (LCB) and Direct Procurement methods were used most of the time for Gavi-funded procurement, which are not fully competitive processes. For both LCB and direct methods, suppliers are selected from a database of pre-approved suppliers. The main reason cited for using these two methods is that goods were required urgently, and hence there was no time to conduct International Competitive



Bidding (ICB), or National Competitive Bidding (NCB). The audit team believes that with better planning, emergency procurement can be avoided. In addition, if a transparent process is put in place for selection of pre-approved suppliers, this would ensure that emergency procurement is carried out in a transparent and cost effective manner.

- d) Most of the procurement carried out by the NPHCDA PU is split into smaller lots, reducing the purchase cost, and allowing for the use of procurement methods that would not be appropriate if the requirements had not been split. For example, using Shopping where NCB was planned and NCB where ICB should have been used.
- e) The use of LCB and Direct Procurement where suppliers are selected from the database of pre-approved suppliers has been used to select questionable companies to supply goods to NPHCDA at inflated prices. In some cases, payments are made to suppliers who either have not delivered the assets/goods or have delivered sub-standard goods/services. Examples are printing, incinerators, and water boreholes.
- f) In certain instances assets have been delivered and payments made in full, yet they were not functional – this was observed for procurement relating to incinerators, boreholes, and medical equipment.
- g) The audit established that several suppliers share the same addresses and telephone numbers and it found documents of different suppliers that were signed by the same people. However, these related suppliers submitted separate quotations/bids in order to create the appearance of competition. Multiple companies registered to one individual are used to increase the chances of obtaining contracts at inflated prices – this was observed for procurement relating to printing, motor vehicles and incinerators. Some of the suppliers could not be located at the addresses provided to the NPHCDA.
- h) The preapproved suppliers’ database contained over 1,000 names of suppliers. The audit was unable to determine the criteria or process from NPHCDA for selection of these pre-approved suppliers – those that are considered as the most qualified suppliers from a pool of potential suppliers. There were no minutes of Tender Board meetings approving the use of these suppliers.
- i) The audit noted inflated costs of assets/goods. An example is the purchase of motor vehicles where third parties purchased Toyota cars from a licensed Toyota dealer and sold the same cars to NPHCDA at double the price. The audit reviewed contracts for four such cars, even though ultimately only one car was charged to Gavi; we understand that the other three vehicles were charged to other donor-funded programmes. See section 3.3.10 for more details.

### **Tax payments on goods and services**

Total tax remitted to the Federal Internal Revenues Services (FIRS) for the period 2011 – 2013 according to the bank mandates was N62m (US\$390,000) for Value Added Tax (VAT)

and N89m (US\$560,000) for Withholding Tax (WHT). The audit was unable to verify that payments were correctly made to the relevant tax authorities:

- a) Specific accounts are not maintained in the accounting system for VAT and WHT to record and monitor the taxes paid.
- b) NPHCDA did not provide a statement or receipts from FIRS confirming how much has been paid to the tax authorities and if indeed the payments were received by FIRS – it was not clear how payments to FIRS for VAT and WHT could be made on behalf of companies whose existence was questionable.
- c) Both VAT and WHT are paid on questionable payments for which:
  - I. procurement was made but for which no evidence was provided that deliveries were made, or
  - II. Verification carried out during the audit confirmed that deliveries were not made.

Subsequent to the completion of the in-country audit fieldwork, and since the contradictory meetings with NPHCDA, Gavi carried out additional work to verify payments reported by NPHCDA as having been paid to FIRS, being VAT and WHT deducted from supplier payments. Based on a sample of 184 companies with which NPHCDA transacted, the registration of 97 of them with FIRS could not be confirmed. In addition, NPHCDA records indicated that they had made VAT and WHT payments of approximately US\$950,000 to FIRS in the period 2011 - 2013; independent validation of amounts received by FIRS indicates that only approximately US\$70,000 is recognised as being received by them from NPHCDA. This should be further investigated.

In addition to the above, an amount of N39m was identified by the external auditors in the 2009 – 2011 audit reports as unsupported expenditure (and indicated by NPHCDA to be a tax payment to FIRS for which reimbursement was expected). Subsequent to the completion of the in-country audit fieldwork, and since the contradictory meetings with NPHCDA, further work was undertaken by the audit team to validate this amount. However, the team did not identify any such reimbursement to the accounts of NPHCDA, and this amount is still treated as unsupported expenditure.

### **Advances to states**

The audit noted significant weaknesses on the management of advances at all levels: at the NPHCDA, weaknesses were noted in the management of disbursements to states, and the monitoring and management of their retirement; at the states level, weaknesses were identified on the delay or non-retirement of advances.

- a) Delayed disbursements of advances to states: in 2012, the total amount disbursed to the states was US\$2m, against an approved budget of US\$3.2m. Similarly, at the end of December 2013, the total amount of advances disbursed was US\$1.4m against an approved budget of US\$6.4m.
- b) In some cases, disbursements are made to states without informing them. For example, for certain disbursements made to states in October 2013, Lagos state

was not aware that a disbursement had been made as they had not submitted a request for it.

- c) At the states, zones and LGA level, the audit noted delayed liquidation of advances and in many instances, no liquidation at all. For several states, advances remain outstanding for months or years. As at 31 December 2013, N157m (US\$1m) was outstanding with N125m (US\$935k) outstanding for more than 12 months. At the zone level, as at 31 December 2013, N37m (US\$239k) was outstanding for more than six months.
- d) The audit noted cases where further advances are disbursed to states already with long outstanding advances. In some cases, states have retired the advances, but the retirements are not reflected in the accounting system of NPHCDA.

### **Advances to staff**

Cash advances to pay for per diem allowances and related allowances for monitoring and training activities are transferred into the personal bank accounts of NPHCDA accountants. The audit established that amounts as high as N91m (US\$600k) were transferred to individual staff before any liquidation of advances took place. As bank statements to these bank accounts are not submitted with the liquidation documents, it was not possible to establish whether the full amount of money transferred was used for the intended, programmatic purposes. The audit noted instances of discrepancies between the cash advance transferred to the accountants' bank accounts and the amounts withdrawn by the accountants for planned programme activity.

### **Oversight and coordination**

The audit noted a lack of preparation of annual grant work plans, budgets and endorsement by the Inter-Agency Coordinating Committee (ICC) before programme implementation as stipulated in the Aide Memoire. Furthermore, there was no evidence that quarterly reports were prepared and submitted to the ICC for review, and copies of the reports shared with Gavi.

### **Accounting and reporting**

The following key issues were noted:

- a) Audited financial statements for 2012 and 2011 did not reconcile to the ledger listings presented for audit because adjustments recommended by the external auditors, for this period were not processed in the accounts.
- b) Annual and quarterly finance reports produced by NPHCDA do not show income and expenditure against approved budgets for all grants. This is an indication that NPHCDA does not monitor implementation of programme activities by approved budgets. It is likely that this is one of the reasons for slow programme implementation and frequent requests for re-programming of budgets/activities.

There are unsupported entries in the accounting system. We noted several entries/adjustments made to the accounts without approved journal vouchers or any supporting documents.

Fixed assets management. Neither the head office of NPHCDA nor the states maintain Fixed Assets Registers (FAR) for assets purchased with Gavi funds. Assets purchased and distributed to the states during the period audited include: motor vehicles; computers; motorcycles; solar refrigerators; incinerators; and medical equipment.

With the exception of the asset/goods distribution list (of which several copies provided for the audit, were inaccurate and inconsistent), there was no system for maintaining and tracking assets at the national and at the state level. For example, it took several weeks to establish and identify which motor vehicles had been purchased with Gavi funds.

### ***1.3 Conclusion on expenditure and audit opinion***

Of the total expenditure reported in the period 2011-2013 of US\$29m, 32 per cent or US\$9m was examined in this audit of which 87% or US\$8.1m was determined to be questionable.

The remaining US\$20m reported expenditure for the period 2011 – 2013 could not be verified because of a number of limitations that included outstanding/unobtainable returns/advance liquidations from states, and poor security levels in some states, which could not be visited.

Following the submission of the draft CPA report to the NPHCDA, Gavi received their comments on the report. After consideration of these, further work was undertaken on additional documents provided by NPHCDA, and contradictory discussions held with NPHCDA management.

**Gavi will now seek re-imburement of US\$2.2m from the GoN.** This represents expenditure which is classified as irregular and/or ineligible, and is regarded as misuse. Due to the limitations experienced during the audit, a full scale audit will be conducted. This will include expenditure covered in this CPA on which significant concerns were identified but on which there was insufficient clarity to determine the extent of any misuse, and other expenditure considered to be high risk in the period 2009-2011 which was not covered in this audit. The full scale audit will also cover expenditure for periods not covered in this audit. The scope of this further audit has yet to be determined.

The audit work performed revealed that NPHCDA has not established the key controls necessary to ensure that the management of Gavi grants complies with the Gavi Transparency and Accountability Policy as set out in the programme's proposal, the Aide-Memoire, GoN and NPHCDA guidelines, and policies and procedures documents. The audit has established that weaknesses in the accounting processes have led to significant questionable expenditure and misuse.

The overall level of risk for the Gavi programmes in Nigeria is **high**, and a fundamental overhaul of the controls in place and additional safeguards will be necessary to ensure that cash support to Nigeria results in meaningful and effective programme execution.

#### ***1.4 Overall CPA recommendations***

The draft CPA report was submitted to the FMoH and the NPHCDA who provided their feedback and comments to Gavi. These comments were taken into consideration in concluding the CPA. The overall conclusions are as follows:

- a) Gavi should suspend disbursements to NPHCDA until prudent management of Gavi grants by the NPHCDA is in place. This was done following the completion of audit fieldwork and funds are currently transmitted to Nigeria only on a case-by-case basis through UNICEF.
- b) Gavi should seek re-imburement of US\$2.2 m from the Government of Nigeria being expenditure classified as irregular and/or ineligible and deemed misuse.
- c) Gavi should request the Economic and Financial Crimes Commission (EFCC) to carry out a thorough and detailed investigation of the Gavi grants disbursed to Nigeria. As EFCC has subpoena powers, they will be able to access key information which the Gavi audit team could not access, to establish the full extent of the irregularities identified in the audit.
- d) Through the EFCC, Gavi should request that the tax authorities/FIRS in Nigeria investigate and establish whether taxes paid from Gavi funds were effectively remitted to FIRS, recognising that some of the taxes were retained from payments to suppliers not filing returns with FIRS which could not be validated as operating businesses.
- e) Because of the identified weaknesses in controls and indications of misuse, Gavi will undertake a full-scale audit to cover both select, high-risk expenditures in prior years, and other expenditure from the period 2011-2013 not examined in the course of this audit.
- f) Gavi should appoint a Fiduciary Agent (FA) to oversee the implementation of cash-based support that addresses the major fiduciary risks identified at NPHCDA. The mandate of the FA will include a detailed review of procurement processes within thresholds established in the revised Donor Procurement Manual.
- g) The Donor Projects Procurement Manual has a number of weaknesses which have facilitated the perpetuation of procurement irregularities. As such, its utilisation as the main source document to guide procurement activities should be discontinued until a revised version is produced and approved by Gavi (recognising that fund disbursement to NPHCDA is currently suspended as mentioned above).

The audit findings are presented in detail in the report and include descriptions of the existing arrangements, issues identified, a risk rating (using the scale low, moderate, substantial and high), and recommendations to mitigate the identified risks. The

findings are presented in sequence according to the severity of the issues identified and the ascribed risk rating.

## **2 INTRODUCTION, CONTEXT, AUDIT OBJECTIVES**

### ***2.1 Introduction***

The Government of Nigeria through the Federal Ministry of Health (FMoH) and the National Primary Health Care Development Agency (NPHCDA) has received both vaccines and cash based support from the Gavi Alliance since 2002. As at 31 March 2014, a total amount of US\$165m had been disbursed for vaccines and US\$ 143.5m as cash support. The cash support was disbursed for a number of purposes: Health Systems Strengthening (HSS) is aimed at supporting countries to deliver effective, efficient and sustainable health services; Immunisation System Support (ISS) is provided to catalyse and improve immunisation coverage in the country; and other cash support is provided for operational costs and Vaccine Introduction Grants (VIG) for campaigns and the launch of new vaccines.

Below is a summary of cash disbursements to Nigeria from 2002 – December 2013.

- a) HSS - US\$35.0m
- b) ISS – US\$47.3m
- c) Measles SIA operational support – US\$19.3m
- d) Meningitis A operational costs – US\$ 26.5m
- e) Yellow Fever operational costs – US\$11.0m
- f) VIG – US\$4.4m

According to Gavi's Transparency and Accountability Policy (TAP), all countries receiving cash support from Gavi Alliance should be subject to Financial Management Assessment (FMA) and Cash Programme Audits (CPA) during the life cycle of the grants.

Gavi carried out an FMA in Nigeria in 2009 and an Aide-memoire (AM) which established the terms and procedures for financial management of the cash grants to Nigeria was signed in July 2012. In December 2013, Nigeria also signed the Partnership Framework Agreement (PFA) which sets out the terms and conditions governing Gavi support.

In reference to the TAP policy, Gavi carried out a CPA for Nigeria from 17 November to 6 December 2013. Due to limitations which were largely attributed to the non-availability of support documents for transactions to be reviewed (particularly liquidation of advances and procurement files), Gavi agreed with NPHCDA to extend the CPA to a second phase. Phase 2 of the CPA included verification of expenditure and assets at the state level and was carried out from 17 February to 25 March 2014.

## **2.2 Audit objectives**

The primary objective of a CPA is to ensure that the funds are spent in accordance with the terms and conditions agreed with Gavi in line with the requirements of the TAP Policy and that the resources are being used for intended purposes.

### **2.2.1 Specific objectives of the CPA**

The CPA helps both Gavi and the GoN/NPHCDA to ensure that:

- a) There is an appropriate and satisfactory level of oversight of the Gavi grants,
- b) Records of grant accounts/expenditures are properly maintained are up to date and accurately reported in accordance with applicable accounting standards.
- c) Information in the financial reports submitted in the Annual Progress Reports (APR) reconciles to the accounting systems and records and that there is a clear audit trail from the financial report to the accounting records.
- d) The reported expenditures in the financial statements presented by the country have occurred, are accurately presented, and are eligible expenditures, and that valid supporting documentation is adequately maintained to substantiate all expenditures incurred.
- e) The funds provided were spent in accordance with the approved proposal budgets and work plans and terms and conditions of the Aide-memoire (AM) signed with Gavi in July 2012 and relevant Decision Letters (DL).
- f) Designated bank accounts as described in the signed AM have been maintained in accordance with the provisions in the AM and disbursements out of the accounts were used only for the purpose intended in the approved budgeted proposal and workplan.
- g) Adequate internal controls are in place and the financial and accounting procedures as assessed in the FMA and highlighted in the AM are in operation and are followed.
- h) Procurement policies in place are strictly followed, that procurement incurred has been undertaken in the most transparent, competitive, fair and efficient manner, and that value for money is obtained.
- i) Assets procured from the grant funds exist, have been recorded in an asset register, and have been provided to the intended beneficiaries, and that there is verifiable ownership by the country in line with the proposal and AM.
- j) There is an appropriate coverage of risk by an internal audit function and that action plans from both internal and external audit are duly implemented and followed up at an appropriate level.

## **2.3 Audit scope**

The CPA covered all cash support to Nigeria (i.e. HSS, ISS, VIG and Operational Support Campaigns). However, the scope of review of the CPA was limited to the expenditure incurred and procurement activities conducted at FMOH, NPHCDA and states level during the fiscal years 2011, 2012 and 2013.

Table 1 below illustrates the disbursements for the period under review.

**Table 1: Disbursements made by Gavi to Nigeria 2011 – 2013 (US\$)**

Programme	GoN	UNICEF	WHO	McKinsey	TOTAL
HSS	12,402,449			500,000	<b>12,902,449</b>
ISS	16,687,000				<b>16,687,000</b>
Measles SIA - Operational costs	19,290,000				<b>19,290,000</b>
Meningitis A - Operational costs	4,507,660	6,331,550	15,621,938		<b>26,461,148</b>
Vaccine Introduction Grant	4,311,474				<b>4,311,474</b>
Yellow Fever - Operational costs	11,065,000				<b>11,065,000</b>
<b>TOTAL</b>	<b>68,263,583</b>	<b>6,331,550</b>	<b>15,621,938</b>	<b>500,000</b>	<b>90,717,071</b>

Source: Gavi consolidated approvals and disbursements 31 March 2014

The expenditure reported by NPHCDA for the period 2011- 2013 is illustrated in the table below:

**Table 2: Expenditure all grants 2011 – 2013**

	HSS		ISS		Total	Total	%
Year	Naira	USD	Naira	USD	Naira	USD	
2011	384,678,000	2,481,794	146,248,000	<b>943,535</b>	<b>530,926,000</b>	<b>3,425,329</b>	<b>12%</b>
2012	745,305,000	4,792,958	619,442,000	<b>3,983,550</b>	<b>1,364,747,000</b>	<b>8,776,508</b>	<b>30%</b>
2013	574,753,770	3,592,211	2,071,089,739	<b>12,944,311</b>	<b>2,645,843,509</b>	<b>16,536,522</b>	<b>58%</b>
<b>Total expenditure</b>	<b>1,704,736,770</b>	<b>10,866,963</b>	<b>2,836,779,739</b>	<b>17,871,396</b>	<b>4,541,516,509</b>	<b>28,738,359</b>	<b>100%</b>

Source: NPHCDA - 2011, 2012 audited accounts, 2013 Trial Balance

**Note:**

All other cash grants (VIG, Measles, YF, MenA SIA operational costs) are shown under ISS expenditures

Using a risk-based approach, the Gavi audit team selected a sample of transactions covering income and expenditure from 2011 - 2013 for all grants. While income was covered 100 per cent, expenditure sampled represented 33 per cent of reported expenditure of Naira 4.5Billion (US\$ 28.7m) for all cash grants.

### 2.3.1 CPA Phase 2 – Scope of work

Phase 2 of the CPA covered all cash support to Nigeria disbursed to 31 December 2013 with a focus on income and expenditure for the years 2011, 2012 and 2013, and involved



a more detailed review/verification of the areas that were identified to be of high risk in Phase 1. This included:

- a) Procurement.
- b) Advances to staff, states and partners.
- c) Asset management and asset verification.
- d) Cash and bank.

### **2.3.2 External audits**

The Gavi CPA was to rely, to the extent possible, on the work carried out by the external auditors of Gavi grants to Nigeria. The external auditors carried out financial audits of financial years 2009 to 2012 and according to the terms of reference for their audit, should have also carried out a procurement audit of 2011 and 2012. However, the one page opinion report on Procurement issued by auditors and the information available on this external audit at the NPHCDA and reviewed by the CPA did not provide substantial evidence that a thorough review of procurement as required by the provisions of the external audit ToRs had been effectively carried out. This will be followed up further with the auditors.

## **2.4 Audit methodology**

The audit was performed in accordance with Gavi CPA guidelines which involved:

- Reviewing the programme documents at national and state levels.
- Discussions with NPHCDA staff.
- Performing detailed transaction/audit tests.
- Evaluating the accounting and internal controls.
- Obtaining direct confirmations from the bank and third parties/suppliers/partners.
- Undertaking delivery and fixed assets verification at subnational level, on a sample basis.

### **2.4.1 Procedures performed**

Using tailor-made audit procedures, the Gavi audit team carried out verifications that included:

- a) Analysis of reported expenditure (in the APRs or any other periodic financial reports), inquiry/discussions, computation, accuracy checks, comparison, inspection of records/accounting documents, and physical inspection of assets purchased with grants funds.
- b) Review of the Financial Management (FM) arrangements for the programmes, focusing on the control procedures e.g., appropriation and approval procedures, segregation of duties, roles and responsibilities, reconciliation procedures, procedures for verifying delivery of goods and services, invoice verification procedures, payroll controls, retirement of advances controls and imprest procedures.
- c) Review of the arrangements for managing the bank accounts, including tracing all withdrawals and transfers from the Programme and Designated Accounts to

- determine that they are used for eligible expenditures for the programmes.
- d) Review of the bank accounts where interest on Designated and Programme Accounts balances are credited to ensure that the inflows and outflows are appropriate.
  - e) Verification on a sample basis of the procurement undertaken to ensure that the applicable policies and procedures are strictly adhered to and that transparency and value for money is maintained.
  - f) Performance of physical verifications, on a sample basis, to check the actual delivery of goods, assets, works and services purchased as per the source documents.
  - g) Assessment of the adequacy of relevant fixed assets policies and procedures, and determine whether an adequate fixed asset register is maintained.
  - h) Identification of all expenditures that have been made but may not be eligible for funding from programme funds.
  - i) Identification of any specific matter of concern that may impede the achievement of the intended objectives of the programs.
  - j) Make appropriate recommendations and discuss these with NPHCDA and Gavi in-country partners - WHO and UNICEF.

## **2.5 Reporting**

At the end of both phases of the CPA fieldwork, key findings were discussed with the senior management team of the NPHCDA with the participation of Gavi Alliance partner (WHO and UNICEF) representatives. This CPA report is structured to:

- a) Provide observations and findings in the areas below which are prioritised by level of risk as assessed by the CPA:
  - Procurement
  - Accounting for advances
  - Accounting and financial reporting
  - Grant coordination and oversight (including internal and external audits)
  - Budget execution including fund flow and banking arrangements.
- b) Provide a risk rating of the issues identified by the audit and their severity according to the following scale: High- Substantial- Medium- Low.
- c) Present recommendations to address the issues, identify the parties responsible for their implementation, the suggested deadlines and the priority requirements: Mandatory- Essential- Desirable.
- d) Report any expenditure deemed questionable. A table attached as Annex E provides a summary of questionable expenditure reviewed by the audit. Annex D also attached provides the definitions of classification of questioned expenditure.
- e) Classify categories as irregular and ineligible, regarded as misuse. The CPA will also quantify the amount of misuse for which Gavi will seek re-imburement from the Government of Nigeria.
- f) Classify categories as undocumented and partially documented which Gavi will refer to be covered in the full scale audit which is to be carried out. Such amounts

could have been regarded as misused but in this instance will be subject to further substantiation before that determination can be finalised.

- g) Identify matters/issues for follow up and advise the Government of Nigeria of further follow-up investigation which should be carried out.

## **3 AUDIT FINDINGS - PROCUREMENT**

### **3.1 Description of existing arrangements**

Between 2003 and 2007, the Federal Government of Nigeria embarked upon institutional, legal and regulatory reforms. In public procurement, the reforms included legal and regulatory issues, harmonisation of standards and practices that aimed to achieve transparency, competitiveness and value for money. The Procurement Act which came into effect in 2007 established the Bureau for Public Procurement (BPP).

#### **3.1.1 BPP**

BPP is the agency charged with the implementation of the Public Procurement Act and the regulation of public procurement involving the federal government and its agencies, as well as all projects where not less than 35% of project costs are proposed to come from the Federal Budget. The BPP is responsible for establishing and maintaining the policies, guidelines and other relevant documentation relating to public procurement as well as for supervising procurement implementation.

The Procurement Procedures Manual (PPM) for Public Procurement second edition issued January 2011 by the BPP provides procurement guidance or direction to all Federal Ministries, extra-ministerial offices, departments, agencies, parastatals, corporations and all other public entities set up by the Constitution or Act of the National Assembly.

The BPP carries out an annual review of the procurement processes and awards of tenders carried out by all GoN Ministries and Agencies including the NPHCDA Procurement Unit responsible for procurement funded by Gavi.

#### **3.1.2 Public Procurement Act – Section 16**

According to the Act, all public procurement shall be conducted:

- a) Subject to the prior review thresholds which may from time to time be set by the BPP.
- b) Based only on Procurement Plans (PP) supported by prior budgetary appropriations; and no procurement proceedings shall be formalised until the procuring entity has ensured that funds are available to meet the obligations and has obtained a “Certificate of ‘No Objection’ to Contract Award” from the Bureau (subject to approval threshold).
- c) By open competitive bidding, except as otherwise exempted.

- d) In a manner which is transparent, timely, and equitable for ensuring accountability and conformity with the Public Procurement Act and regulations deriving therefrom.
- e) With the aim of achieving value for money and fitness for purpose.
- f) In a manner which promotes competition, economy and efficiency.
- g) In accordance with the laid-down procedures and timelines.

### **3.1.3 NPHCDA – Procurement Unit**

The Procurement Unit (PU) of the NPHCDA is responsible for the procurement and distribution of all assets/goods/services financed from Gavi cash grants to the Government of Nigeria. Of the total reported expenditure of N4.5bn (US\$29m), for the period reviewed 2011 – 2013, over 40 per cent has been spent on procurement.

The procurement procedures applied by the NPHCDA PU are derived from the Procurement Act of 2007 and the PPM (Version 2011). From October 2013, the Procurement Procedures for Donor Funded Projects (PPDF) drafted by the NPHCDA, which lays out the governance structures and procurement processes to be used for donor funded procurement.

The Head of Procurement explained the eligibility status for suppliers as follows:

- a) All suppliers, contractors and consultants are entitled to a fair opportunity to bid for provision of goods, civil works and services in public entities.
- b) Any bidder that fails to submit a statement of conflict of interest(s) with respect to other parties to the bid proceedings and/or persons acting on behalf of the procuring entity shall be debarred, disqualified or excluded from the award of subsequent procurements.
- c) Any individual or firm or its affiliates that provided consulting services for the preparation and implementation of a project, and in order to prevent a conflict of interest, they and their affiliates are disqualified from subsequently providing goods and works for the same project.

### **3.1.4 NPHCDA Tender Board**

The NPHCDA established the Donor Fund Procurement Committee (DFPC) and a Tender Board (TB) as required by the PPM. The Executive Director (ED) chairs the TB and when he is not able to attend a meeting, he appoints a representative.

The Head of Procurement is the Secretary of the TB and all Department Directors are members. The main role of the TB is to consider and approve the awards of procurement contracts (goods, works and services) of above 2.5m Naira. Awards below N2.5m are approved by the ED, while awards in excess of N50m must be presented to the donor for “no objection” approval before contracts are issued.

The membership of the NPHCDA TB is determined in accordance with the PPM and Section 22 of the Procurement Act. For NPHCDA donor-funded projects, the TB shall consist of the ED/CEO who is the chair and relevant Heads and Directors of the NPHCDA.

Once the bids are received, the DFPC evaluates them and makes recommendations on which suppliers should be awarded contracts. These recommendations are forwarded to the TB which meets to review and approve submissions (or if necessary, reject them with an explanation). In the case of rejection, the DFPC re-evaluates the bids or if necessary, reissues bids and makes a new recommendation to the TB. The decision of the NPHCDA TB is final for all awards under N50m and is final for all awards over N50m once the donor has given “no objection” approval. Once finalised, each award is communicated to the FMOH.

### **3.1.5 Procurement thresholds**

The audit team understands that the following threshold amounts are applicable for Gavi Cash Funding activities:

- N2.5m and below is subject to ED approval.
- Between N2.5m and N50m, goes to the NPHCDA Tender Board.
- Between N50m and N100m, goes to the Ministerial Tender Board for Goods.
- Over N100m, goes to the Federal Executive Council Board.

The Head of Procurement confirmed that the procurement methods below are used for Gavi funded programmes:

- a) Shopping: Procurement for goods of low value (N2.5m and below); three quotations are required to be obtained from prequalified vendors.
- b) National Competitive Bid (NCB): (between N2.5m and N50m); expression of interest required to be advertised in two national newspapers; it takes 4-6 weeks from inception to completion and only domestic suppliers are allowed to bid.
- c) International Competitive Bid (ICB): (between N5m and N100m); solicitation of bids from both domestic and international suppliers. This is the same as NCB but requires a global advertisement e.g. the United Nations Market, the largest global portal for tender opportunities with international donors.
- d) Limited Competitive Bid (LCB): Contracts such as patented medicines for which only a limited number of qualified suppliers exist.
- e) Direct Procurement (or sole source): Contracts for emergency circumstances, subject to approval from the ED.

## **3.2 Audit findings on general procurement issues**

### **3.2.2 Procurement regulations and guidelines**

3.2.1 The audit established that procurement regulations and procedures are well documented and articulated by the Head of the PU, as illustrated above. However, the PU of NPHCDA in the most part does not effectively enforce the regulations or follow best practice when carrying out procurement funded by Gavi. The processes followed resulted in awards of contracts to questionable companies to whom payments were made even for goods/assets non- delivery or delivery of substandard goods/assets.

The audit team was informed that the BPP carries out annual reviews of all the procurement carried out by NPHCDA. The reports of such reviews were not provided to the auditors although they were requested. The audit team questions the effectiveness

of these reviews if the irregularities observed in procurement processes had not been identified and brought to the attention of the FMOH or the Economic and Financial Crimes Commission (EFCC).

### **3.2.3 Procurement Plans (PP)**

Of the total reported expenditure for the period of N4.5bn (US\$29m), over 40 per cent has been spent on procurement. Prior to 2013, the NPHCDA did not prepare PP for Gavi grants. The 2013 PP was not implemented for the most part of 2013 as it was produced and approved in October/November 2013. PPs are not developed for short term grants for operational costs for which US\$38m was disbursed in 2013, of which a significant proportion was used for procurement.

For 2013 PP, in the majority of the cases, the procurement method prescribed in the PP was not followed. The PPM allows for variation upon approval by the ED or TB as per the thresholds. However, the audit noted that the reasons for variation as approved by the ED were not justified and enabled a lack of competition, transparency and accountability to occur, leading to questionable procurement processes.

### **3.2.4 Procurement methods used**

The CPA noted several cases of non-competitive procurement with non-competitive prices, especially in the procurement relating to printing, incinerators, boreholes, medical equipment, drugs, and renovations of health facilities and motor vehicles.

In most cases, the method of procurement planned in the PP is not used. LCB and Direct Procurement methods are used most of the time for Gavi funded procurement. For both LCB and Direct method, suppliers are selected from the supplier database for pre-approved suppliers. The main reasons provided for using these two methods, was that either goods are required urgently and there is no time to launch ICB or NCB, or the procurement has taken a long time to carry out and must be completed within a short period as goods are required urgently.

The “Shopping” method is intended to be used for low value goods (below N2.5m). However, the audit team noted several cases where goods above N2.5m were purchased through the shopping method with an explanation that the purchases were required on an emergency basis.

### **3.2.5 Prequalification of suppliers**

The objective of prequalification is to identify the most qualified suppliers from a pool of potential suppliers to compete for future contracts. Potential candidates for a prequalified database are normally evaluated based on eligibility, financial capability, past relevant experience and technical capability. According to the Procurement Act 2007 and international best practice, potential candidates to a prequalified list shall provide the following:

- a) A valid copy of certificate of incorporation.
- b) The latest certified financial statements (balance sheet, income statement, or signed copy of income tax return).

- c) A minimum of three written recommendations/references for services rendered within the last three years.

The auditors received a database with over 1000 pre-selected suppliers. However, it was not possible to establish the process of prequalifying suppliers. Minutes of the TB provided do not cover or provide criteria for prequalification of suppliers. The Head of PU informed the audit team that suppliers are selected based on good performance. The audit found that in the majority of the cases, this is not the case as suppliers who have either not delivered the goods they were contracted to deliver, or who have delivered substandard goods, are nonetheless awarded additional contracts worth millions of US dollars.

### **3.2.6 Splitting of procurement into lots**

Most of the procurement carried out by the PU of NPHCDA is split into several lots. It appears that there was an attempt to reduce the thresholds so as to avoid using the prescribed procurement method. For example, for procurement less than Naira 2.5m, the Agency ED can approve. Many of the items were divided into lots below Naira 2.5m.

### **3.2.7 Procurement Committee/ Tender Board**

The ED of the NPHCDA chairs the Procurement Committee and the Tender Board and also approves all payments for the Agency. Having these different roles vest in one person creates a lack of segregation of duties – even if the Tender Board composition is provided for in the procurement regulations. As the Chair to the TB, the ED approves the PU to change procurement methods from those prescribed on the PP. Even though there is a provision for variation of procurement methods in the procurement procedures, the lack of segregation of duties has created a situation in which there is a lack of checks and balances necessary to ensure appropriate standards of control are in place.

### **3.2.8 Procurement contracts**

In many cases, technical specifications of products were poorly developed and/or modified for the benefit of a specific supplier, penalties for delay in delivery were not taken into account in specifications (in particular with the procurement of incinerators), and suppliers have been paid in full before delivery, without a bank guarantee from the supplier.

In some cases, it is not possible to certify whether what was delivered is the same as what was ordered. Some states issue Good Received Notes (which include specification details of what is delivered) while some states simply sign on supplier's delivery note. For example, for the delivery of solar refrigerators, a signature without name or title of an official indicates that the item was delivered in a satisfactory state without any indication of the specification of what was delivered.

### **3.3 Audit findings on suppliers - general**

#### **3.3.1 Connected companies**

The audit established that several suppliers are controlled by the same party and frequently submit separate quotations/bids in order to create the appearance of competition. These suppliers compete for the same contracts and share the same addresses and/or telephone numbers. Multiple companies registered to one individual are used to augment the chances of obtaining contracts. The majority of the companies identified in this case are owned by three persons.

The audit team met with one of those three people (Mr A) who admitted that he represents several different companies. He informed the audit team that he uses these companies to submit competing bids to ensure he wins contracts. The review of acceptance letters, letter heads and signatories of these companies revealed that the same template is used for the same companies. On one letter, the name of the signatory is identical to the name of the Head of Procurement of NPHCDA.

#### **3.3.2 Companies with fictitious addresses**

Many of the companies to whom procurement contracts are awarded by NPHDCA do not have an identifiable place of business, have a false address or the address was traced to a residential area, the business does not exist or the business provides goods and services unrelated to the contracts they are awarded. The reason given by PU for selecting these suppliers was "good performance". It appears no verification is carried out to establish the authenticity of the companies included in the database.

#### **3.3.3 Audit findings suppliers for printing services**

**For the period under review, the total expenditure for printing was N919m (US\$5.8.m)**

The majority of the businesses to whom printing contracts were awarded are not members of the Chartered Institute of Professional Printers (CIPP). According to the guidelines issued by CIPP, membership is mandatory for established and legitimate printers. In prequalifying and/or selecting suppliers for printing services, to whom contracts for millions of Naira are awarded, The PU would be expected to verify whether the suppliers have such membership.

The audit noted the following in relation to the procurement of printing:

- a) Contracts were awarded to different companies with the same owner.
- b) Asset registers or inventory/stock records are not maintained at either national or states levels.
- c) There is frequent lack of proof of delivery.
- d) Suppliers could not be located at addresses provided on the contracts and company letter heads.
- e) Certain verification undertaken in FCT and Bauchi states established that the people who were indicated to have received the goods confirmed did not actually



receive them, suggesting that the delivery notes attached to payment documentation were fabricated.

Examples of irregularities in which contracts were awarded to prequalified suppliers without competitive bidding are described below:

- a) A contract was awarded to one printing company for the supply of printing of penta tools for penta 3 plus to FCT (Gavi/EXP/120/2013) in the amount of N17,831,302 (or approximately US\$ 107k). According to the beneficiary, the FCT Cold Chain Store, the goods indicated on the delivery note were not delivered to the facility.
- b) A contract was awarded to one printer for the printing and supply of vaccination cards to Kaduna State (Gavi/EXP/168/2013) in the amount of Naira 22 million (or US\$134k). According to the beneficiary, the Kaduna State Primary Health Care Development Agency, this specific delivery did not occur in 2013 and goods of this nature were never received.
- c) A contract was awarded to a third printing company for the printing and supply of vaccination cards to Kaduna State (Gavi/EXP/137/2013) in the amount of N22 million (US\$134k) Kaduna State Agency. The beneficiary confirmed that this delivery was not received in 2013.

On 2 May 2013, the PU by use of LCB awarded three contracts to one company. Four months later, on 17 September 2013, six additional contracts were awarded, also using LCB, with four of these being awarded to the same company.

### **3.3.4 Printing suppliers**

On 28 February 2014, the audit team travelled to KADUNA State to meet with officials of two printing companies. It was established that the office address given by one of them did not exist while the address of the other company was a vacant store that according to local witnesses had been empty for months. In connection with these suppliers, the audit identified two bank transactions, being payments from the NPHCDA bank account of N22,491,875 (or approximately US\$ 135,000), paid to the bank account of each company. VAT and WHT were paid for each of these transactions.

On 1 March 2014, the auditors visited the business address for another printing company as indicated in the documents in the contract file and supplier's database. The address was indicated was a one room office in a very run-down location. Based on the audit's findings it is questionable whether this company has the financial and technical capability to deliver on multimillion dollar contracts awarded by NPHCDA.

### **3.3.5 Audit findings – incinerators**

Contracts for incinerators signed in 2012/2013 totaled N462m (US\$3m). The total amount paid on these contracts by year-end December 2013 was N184m (US\$1.2m). According to the bid documents and supplier contracts, the suppliers were to deliver goods and related support as follows:

- a) Deliver and install incinerator as per specifications.
- b) 'Test run' the incinerator for three weeks.

- c) Train at least two persons for each unit procured.
- d) Construct an ash pit behind or beside the incinerator house covered with manhole.
- e) Install a housing unit which must include:
  - Changing room
  - Storage space
  - Toilet facilityIt should be sufficiently high (at least three meters) to allow proper ventilation with a tiled floor to ensure easy cleaning.

Initially, the cost paid to the suppliers (the majority of which were owned by the same person) for purchase and installation of incinerators was N12m (US\$77k) regardless of the location of delivery and installation. This cost was later reduced to N8.4m. The costs were: incinerator – N4.5m; infrastructure – N1m; training N.75m; mark-up for profit N2.1m.

The audit obtained a quotation from the UK for the same specification installed at Sokoto and Kebi (Gwadabawa) states and the cost was US\$15k delivered to Lagos. Assuming the cost to the supplier was therefore also US\$15k, the balance of the US\$62k would be assumed to cover the profit margin and installation and the remaining items. However, given the cost of infrastructure, the fact that in the few cases where incinerators are delivered, the other items are not provided, the suppliers overcharge can be estimated to range from US\$30–40k. By the end of the audit fieldwork, most of the incinerators that had been paid for and due to have been delivered by December 2013,, had not been delivered.

One of the more than seven companies owned by the same person (Mr A) to whom contracts for over N213m (US1.4m) were awarded, was also awarded a contract to supply two incinerators to Sokoto State and one to Kebi State. Payment to the company for these incinerators has been made in full. The audit team visited these two states and made the following observations:

- a) Wamako: The incinerator is not working and no-one has been trained. There is no toilet facility built as per contract.
- b) Yabo: The incinerator is apparently installed but not functioning, at the time of the visit..
- c) Gwadabawa: The incinerator is not working and no-one has been trained. There is no toilet facility built as per contract.

### **3.3.6 Other noted irregularities - incinerators**

In Phase 1 of this tender, contracts were awarded (without competitive bidding) to six companies, with the first four being controlled by the same person. The contracts

awarded to these companies were for a total value of N213m (US\$1.4m). The audit found that while full or majority payments were made, over 80% of the incinerators were not installed according to the specifications. The audit also noted many other problems and issues with the incinerators supplied and their installation.

### **3.3.7 Audit findings on construction of boreholes**

The total amount contracted for boreholes for the period 2011-2013 was N56m (US\$ 361,000); borehole supervision contracts totaled N5.5m (US\$ 36,000).

The audit team visited selected states to verify the construction of boreholes and observed the following:

- a) On many occasions boreholes paid for by Gavi funds are not functional:  
Health Centre Amachi and Abakaliki - Ebonyi State; Birnin Yari Jega - Kebbi State. Borehole has not been constructed at MCH Clinic in PWD Afikpo, Ebonyi State.
- a) Birnin Yari Hospital Kebbi State. The borehole has never worked since it was constructed.
- b) Kashin Zama Kebbi State, Mr N. indicated that one of the boreholes was repaired with Gavi funds (the head of the borehole was replaced). Then, Mr N. changed his mind and said that a new borehole had been drilled.
- c) Health Centre Amachi, Abakaliki - Ebonyi State, the borehole was constructed on the site of an abandoned clinic (which was closed four years ago).
- d) Construction of new borehole instead of repairing existing boreholes, Kashin Zama - Kebbi State.
- e) Island Maternity located at Fiberesima, Okrika- Rivers State, the borehole was drilled too close to refinery – the water has a very bad smell and is not safe for human consumption. Construction of the borehole was not fully completed. According to Mr C. the contractor left a bag of cement in order for Mr C. to complete the job.
- f) Island Maternity located in Fiberesima, Okrika, Rivers Comp Health Centre Amachi, Abakaliki, Ebonyi State. Photos of the same borehole in order to identify two different installations at different locations.
- g) The photos of the boreholes attached to payment documents for Leru Umuchieze are the same photos as those used for Amachi.
- h) Ohaisu Community Health Centre - Ebonyi State, the borehole paid for could not be located at locations specified in the contracts, Argungu Women - Child Clinic, Kebbi State. Argungu Women Clinic Borehole was not installed, they already have a mechanical borehole paid for by another donor.  
Aleiro Upgraded Clinic Kashin Zama Hospital confirmed that they have two boreholes located 30 meters apart. The borehole at Dambatta which was installed in 2012 stopped working one year after it was completed. This cost N 800,000 plus consultant fees of N100, 000.
- i) Comp Health Centre Amachi, Abakaliki, Ebonyi State. According to the people living in the area, this borehole has never worked. The clinic has not been operating for the past 4–5 years. The audit team noted that there was already a borehole located 30 meters from the new borehole, both boreholes are not

functioning. It is believed that the existing borehole should have been repaired instead of building a new one.

- j) Comp Health Centre Amachi, Abakaliki, Ebonyi State Island Maternity located Fiberesima, Okrika, Rivers State Contractor damaged the existent mechanical Borehole and did not fix it upon his departure, the auditors confirmed that the water coming from this borehole smells very bad and tastes like oil.

### **3.3.8 Audit findings on procurement of motor-vehicles**

During Phase 1 of the audit, contract files for six motor vehicles were presented to the auditors as Gavi-funded motor vehicles. The first file was for the purchase of a Toyota Prado at a cost of N23m (US\$150,000). This file was later withdrawn (it was explained that this car was paid for by GoN funds). Later, four vehicles were presented (two Toyota Prado and two double cabin Hilux). By the end of the audit, the audit team was informed that only one car was paid for by Gavi funds. None of the grant budgets provided for the purchase of motor vehicles.

The contracts for the purchase of the four motor vehicles was awarded to a business (whose office could not be traced at the address provided to the auditors) who bought the cars from a licensed Toyota dealer and sold them to the NPHCDA. The NPHCDA paid N17.8m (US\$ 112,000) when the cost of Toyota Prado with the same specification purchased from a licensed Toyota dealer in Abuja would have cost N9.5m (60k). For the Toyota double cabin, the NPHCDA paid N8m (US\$51k) each when the cost at a Toyota dealer would have been N5m (US\$32,500).

The total paid for the four motor vehicles was N52m (US\$327,000) when the cost could reasonably have been N29m (US\$185,000). The purchase of these four motor vehicles was inflated by N23m (US\$142,000).

Given the weaknesses noted in accounting and that donor expenditure is not coded and tracked by donor, the audit team could not establish which cars were paid for from Gavi funds. A further investigation is required to establish their true status.

## **3.4 Risk rating**

### **PROCUREMENT – HIGH**

## **3.5 Recommendations**

Based on the document reviewed, the records of interviews with key persons met, and evidence provided to date, the auditors found that:

- Inappropriate procurement processes were used to award contracts to groups of connected companies owned by the same people, which under the relevant rules should not be possible.

### **3.5.1 Recommendations for the short term**

- Ensure a PP is developed and approved for all grants. Within a given threshold, Gavi should review bid documents and provide a 'no objection' approval before the award of contracts.
- The Donor Procurement manual should be revised in consultation with Gavi.
- The NPHCDA PA should review and enhance its internal controls to mitigate the risk of the occurrence of misuse.
- The NPHCDA should introduce a new transparent and accountable process of pre-selection of suppliers. Once the validated list of suppliers is produced, all suppliers in the database should be vetted to ensure that they are properly-established, authentic companies.
- Companies identified in subsequent investigations as inappropriately interrelated and which have been engaged in non-transparent procurement, should be debarred from undertaking Gavi-funded business with the NPHCDA for the duration of the current program, at a minimum.
- Any amount that would be deemed to have been misused as a result of this audit and in any subsequent investigation should be reimbursed to Gavi.

### **3.5.2 Recommendations for the long term**

- NPHCDA should ensure compliance with all terms and conditions specified in the Aide Memoire and Partnership Framework Agreement (PFA) and seek specific approval from Gavi for any deviations from agreed process.
- A Fixed Asset Register (FAR) and system of inventory control should be set up and physical verification of assets/stock carried out on a periodic basis. The physical verification report should be reviewed and approved by an appropriate relevant authority. Any missing assets should be investigated, and the FAR should be reconciled with the books of account on a regular basis.
- NPHCDA should establish logbook records to document the issue and use of vehicles for programme purposes. Vehicle expenses should be monitored by the NPHCDA on a regular basis.

## **4 AUDIT FINDINGS – ADVANCES**

### **4.1 Advances to states**

#### **4.1.1 Description of existing arrangements**

NPHCDA disburses advances to states from ISS funds to support immunisation activities (cold chain maintenance, supervision, social mobilisation etc.) at state, LGA and health facilities levels. The amounts disbursed are to be based on annual work plans and budgets as approved by the ICC. According to the 2012 Reprogramming, the budget of advances to the states was US\$3.2m in 2012 and US\$6.4m in 2013.

*Of the expenditure reported for 2011- 2013 – liquidated advances to states total N688m – 24 per cent of total expenditure.*

#### **4.1.2 Procedures for advances to states**

Initially, a six month grant is released to each state. This is followed by quarterly disbursements when states account for the advance from the previous quarter. At any time, the total amount of unretired funds sent to a state should not be higher than the total of the initial six months grant. Funds are sent to states upon request. Once retirement documents are received for the previous grant and cleared by the Internal Audit Unit (IAU), the Desk Officer responsible for the administration of the Gavi grant submits a written request memorandum which is approved by the ED/CEO. The memorandum goes to the Expenditure Unit which raises an Advance Voucher which is sent to the Chief Accountant and then to the IAU which instructs the preparation of a mandate, to be signed by authorised signatories. NPHCDA sends the mandate to the bank with the split of amounts to be paid to each state.

According to the Financial Guidelines, quarterly state returns in a prescribed format should be submitted to NPHCDA Headquarters within 15 working days after the end of each quarter through the relevant zonal office. A copy of the returns should be sent to NPHCDA headquarters to help monitor the returns from zonal offices. Support documents for the retirement are defined in the guidelines. If state does not have any outstanding advance, a memorandum is sent to the Gavi Desk Officer to prepare a new request of advances to the state. The documents are passed on to the Account Division which records the amounts retired by states into an Excel monitoring file before posting to the accounting system.

According to the updated Financial Guidelines the full set of original retirement documents should not be sent to NPHCDA but should be kept at state level and made available when monitoring reviews are carried out by a NPHCDA team (IAU with a representative from the zonal office).

#### **4.1.3 Weaknesses in accounting for advances**

The audit noted significant weaknesses at federal level in the process of making advances to states both at the disbursement stage and at the retirement stage as indicated below.

#### **4.1.4 Slow disbursement advances to the states**

In 2012, the total amount disbursed to states of US\$2m, was far below the approved re-programmed budget of US\$3.2m. Similarly, at the end of December 2013, the total amount of advances disbursed to states in 2013 was US\$ 1.4m which is far below the 2013 budgeted amount of US\$ 6.4m.

The audit noted instances where disbursements are made to the states without informing them suggesting that there is weak coordination between central and state levels. For example, on disbursements made to states in October 2013, Lagos State was not aware that a disbursement had been made as they had not submitted a request for it. .

#### 4.1.5 Advances not surrendered/slow liquidation of advances

For several states, advances remain outstanding for months and/or years. Based on the ISS trial balance, the summary of outstanding advances as of 31 December 2013 is as follows:

**Table 3: Outstanding advances by states**

Description	7-11 months	12-36 months	Above 36 months	Total outstanding
Number of states	1	32	9	N/A
Amounts in Millions Naira	12	125	20	157

- a) Of 35 states with the longest outstanding advances, we requested bank statements to help establish the reason that they were outstanding for so long. Bank statements were provided for only 12 states. Of these 12 states, the cash-at-bank figure is significantly lower than the amount of outstanding advances reported at NPHCDA Head office. It means that these funds have been spent at the state level but not accounted for/retired.
- b) In some cases, advances have been disbursed to states even when previous advances remain outstanding for long periods of time. In other cases, states have retired the advances but their retirement is not reflected in the books of NPHCDA. Below are some detailed examples for 2013:
  - Kogi: advance received on 7 October 2013. Previous advance sent on May 2012 (N6,828,000) was still outstanding according to the accounting system and to the Excel monitoring file maintained by the Final Account Unit.
  - Ebonyi: advance received on 8 February 2013. At that time, an advance of N3,121,720 was outstanding for more than 25 months.
  - Anambra: advance of N14,781,000 received in two tranches in October 2013 whereas an advance was outstanding for an amount of N10,149,000 (since 2012).
  - Bauchi: advance of N15,540,000 received in two tranches in October 2013 whereas there was an outstanding amount of N7,067,615 (since 2012).
- c) NPHCDA requested retirement documents from the states when the states had already submitted these documents and receipts had already been issued by NPHCDA staff. At the time of the Gavi audit, these advances were still shown as outstanding in the accounting system e.g. copies of FCT retirement documents submitted to NPHCDA for the first time on 26 July 2012 and again on 17 September 2012 - as at the end of 2013, these were still reflected as outstanding.
- d) We noted that advance retirements from states are often recorded in the NPHCDA system with significant delays. In other cases, some advances are still recorded as outstanding whereas documents have been received – for example voucher number NPHCDA/ADV/Gavi/8/2013 for an amount of N5.8m,
- e) The processes/procedures of retirement are not consistent among states although they are intended to be consistent across states. Some states (e.g. Niger) zonal

office is involved in the process of retirement, but it is not the case for other states (e.g. Lagos.) where the state submits the documents directly to NPHCDA.

- f) There is no single focal point for receipt of retirement documents at NPHCDA level some of them are received at the Gavi desk office while others are sent directly to IAU.

Likely reasons for slow/non retirement of advances include:

- There is slow programme implementation at state level. In this case, the funds should be seen in the state bank accounts,
- States do not submit retirements/accounting documents as required,
- There are weak controls to ensure previous advance have been retired before sending a new one.

#### 4.1.6 Advances to zones

Advances to zones for the period 2011–2013 were N763m representing 20% of the total expenditure for the period.

Table 4: Outstanding advances by zones

Description	7-11 Months	12-24 Months	Above 24 months	Total
Amounts in Millions Naira	21m	3m	13m	37m

#### 4.1.7 Risk rating

##### ADVANCES TO STATES AND ZONES - HIGH

#### 4.2 Advances to staff

Advances to staff for the period under review was N918m – representing 24 per cent of total expenditure for the period. The table below shows outstanding advances as at 31 December 2013.

Table 5: Outstanding advances with staff

Description	1-3 months	3-6 months	6 - 12 months	Over 12 months	Total
Amounts in Millions Naira	45	9	141	39	234

#### 4.2.1 Findings on advances to staff

Cash advances to support programme activities such as training, workshops both at national and state level are transferred to the personal bank accounts of the Accounts staff who are supposed to withdraw it and then pay the beneficiaries. Bank statements for the personal bank accounts of staff are not submitted with the retirement of advances, and as such, it is not possible for either NPHCDA staff or auditors to establish whether all funds transferred to these accounts are utilised for planned programme activities. It was noted in the returns that there are cases where the total amount



transferred is not withdrawn. The use of personal bank accounts exposes Gavi funds to risk of loss. Examples of payment made into staff personal bank accounts in 2013 include:

- a) Staff A received five advances for various activities from February to May totalling N40,726,280 (US\$267,000) before any of the previous ones have been retired.
- b) Staff B received three advances from January to August totalling N35,709,000 (US\$250,000) prior to the first retirement or previously received allowances.
- c) Staff C received three advances totalling N33,081,560 (US\$218,000) before any retirement took place.
- d) Staff D received 12 advances from April to June 2013 totalling N91,109,101 (US\$600,000) before the first retirement took place.

In terms of the surrender of advances, numerous significant irregularities were observed as follows:

- a) There are discrepancies between the cash advanced and amount of expenditure reported. In some cases the amount of expenditure is more than the cash advanced, in other cases the total expenditures is less than the amount that the accountant received with no evidence that the difference was refunded to the relevant NPHCDA bank account.
- b) There are discrepancies between the cash advance transferred to the accountant's bank account and the amount withdrawn by the accountant for the activity concerned,
- c) There are altered invoices/receipts, and fake invoices/receipts (confirmed with the vendors).
- d) Individuals collected and signed for money on behalf of others without explanation or evidence that the amount collected was further paid to the real beneficiaries.
- e) The number of participants who collected the per diem is higher than those shown in the attendance sheet.
- f) Almost 30 per cent of the expenditures was insufficiently supported (there was an absence of attendance sheet in the seminars, workshop or training, an absence of mission orders or deployment letter, and an absence of activity or training reports).
- g) Attendance sheets and per diem vouchers are not dated in some cases, and the same photocopied attendance list is used in more than one claim in different months/years.
- h) The supporting documents for advances contained numerous irregularities. In particular: the per diem voucher and the attendance sheet in the training or workshops are not dated, are altered, and the amounts of the presumed per diems paid to the beneficiaries are inflated and sometimes have no relationship with the budget approved by the CEO; photocopies have been used as supporting documentation for the expenses.

- i) During the field visits to the states, the audit team established that some beneficiaries of per diem allowances did not receive the per diems reported as having been paid to them. They have provided written testimonies that their signatures were faked.
- j) The audit team also noted that certain restaurant invoices issued in justification of the use of the advances are fake (confirmed with the restaurants) and are inflated in some cases by as much as 200 %.
- k) The audit team noted discrepancies between the activity reports issued by states and submitted to the head office of NPHCDA and the same activity reports presented to the auditors by NPHCDA as being from the states. For example, a report on Post Introduction Evaluation of Pentavalent (PIE) submitted by Abia State which was different from the report observed by the audit team when they visited Abia State. Some figures, particularly dates, had been altered.

As part of the review, the audit team analysed the advances reviewed (32 per cent of the total expenditure presented) into different categories of irregularity (undocumented, insufficiently documented, irregular, ineligible).

Other key issues observed with advances are summarised in the paragraphs below:

- a) The manual advance register maintained for Gavi grants is not accurate:
  - Transactions not related to Gavi are recorded in the register.
  - The 2012 closing balance is not carried forward to 2013 and hence individual outstanding balances as at December 2013 are not accurate.
- b) The audit noted inaccuracies in the accounting system:
  - Retirements of advances booked into the ledger before booking of the advances.
  - An absence of records in the accounting system.
- c) The 2012 adjustment recommended by the external auditors and recorded into the ledger (retirement of advances for N19m) is recorded as a lump sum with the following narrative: 'BEING ADJUSTMENT TO EXPENSE RETIRED ADVANCES'. This does not enable proper monitoring of advances by individual staff members to whom the advances were paid.
- d) Supporting documentation was not provided for significant amounts.

#### **4.2.2 Risk rating**

**ADVANCES TO STAFF - VERY HIGH**

### **4.3 Advances to Partners**

Outstanding advances (disbursements to partners) include balances brought forward from 2012 as

follows:

**Table 6: Advances to partners/Debtors at Dec 2013**

	<b>Naira</b>	<b>USD</b>
DUE FROM PARTNERS-UNICEF	1,250,765,700	8,043,509
DUE FROM PARTNERS-WHO	1,816,169,945	11,679,549
<b>TOTAL</b>	<b>3,066,935,645</b>	<b>19,723,058</b>

The above transfers were made to WHO and UNICEF by the NPHCDA to facilitate the implementation of some programme activities following in-country discussions and approval from Gavi. Our review of transfers to partners revealed the following:

- a) The audit team was informed that reports were expected from the partners to liquidate the advances. However, a one page agreement signed with the partners indicated that UNICEF is not expected to submit such a report. There was lack of clarity on how these transfers should be accounted for and treated in the accounts of NPHCDA.
- b) Funds are disbursed to UNICEF in Naira. In line with UNICEF accounting procedures, they have to convert these funds to US\$, remit to their Head Office which deducts seven per cent management fees then sends the money back to Nigeria. The funds are then converted to Naira again and disbursed to the states on behalf of the NPHCDA. Given that the amounts are in millions of US\$, significant losses due the multiple currency exchanges are incurred.
- c) In some cases, the same states that the partners transfer funds to on behalf of NPHCDA, have long outstanding advances disbursed by the NPHCDA that have not been liquidated,
- d) In our discussions with the partners, they expressed strong concerns about funds being transferred to them from NPHCDA as it creates additional administration and a strain on their resources/capacity as planning is not done in advance.
- e) In line with the Memoranda of Understanding (MoU) signed by Gavi, the GoN and the partners, for all funds channelled through the partners, seven per cent management fees have to be levied. As agreements for in-country transfers to partners are made late in the year (just before implementation of planned activities), such fees will not have been budgeted or provided for in the approved budgets.

#### **4.3.1 Risk rating**

**ADVANCES TO PARTNERS - MODERATE**

#### ***4.4 Recommendations on the management of advances***

According to Gavi internal audit guidelines, advances outstanding for extended periods of time beyond what is stipulated in the Country's financial guidelines should be treated as undocumented expenditure and the country required to reimburse Gavi these amounts. In this regard, advances to states as summarised in Table 5 that of N145m that are over

12 months old (the financial procedures stipulate 15 working days after end of the quarter), should be included in the table of irregularities. These are currently not included in the reimbursement request, but will be included in the scope of the further audit for validation.

In order to improve the controls on the management of advances, the audit presents the recommendations below:

- a) MoH and NPHCDA should review the procedures in place and implement strengthened internal controls around the management of advances at the national, state and LGA wards/health facilities levels.
- b) Staff who have submitted irregular claims should be held accountable and amounts recovered from them.
- c) The Internal Audit role should be reviewed and revised. The IAU should review processes, internal controls and carry out field visits and not just review Payment Vouchers and support documents at the head office.
- d) The practice of transferring funds to Accounts' staff personal bank accounts should be reviewed and alternative mechanisms determined. Bank statements should be attached to the documentation supporting the justification of the advances.
- e) Advances should be made to specific activities (for example, seminars, training or workshops, supervision or monitoring) and liquidation should be supported by activity reports approved by relevant senior officials.
- f) Expenditure for transport (by air or road), and fuel, should be supported by invoices and/or tickets.
- g) For official travel for staff from the central level to states and from states to central level, a mission order and/or deployment letter should be issued and approved by supervisors.
- h) The Financial Guidelines of Gavi Funds should be revised to include the requirement that documentation is required for the justification or retirement of expenditure on seminars, training or workshop, activity of monitoring or supervision as well as travel by air or fuel expenditure.
- i) The 2012 adjustment requested by the external auditors and recorded in the ledger as a lump sum should be split by staff (nine staff members received these advances).
- j) GoN to coordinate with Gavi so that funds to be channelled through UNICEF are included in UNICEF budgets and these funds disbursed directly to them.

The referral to EFCC should determine the extent of any anomalies and any cases in which staff are found to have misused funds should be addressed by the appropriate national jurisdiction.

## **5 AUDIT FINDINGS – GRANT OVERSIGHT**

### **5.1 Existing arrangements**

The overall management of the Gavi programmes in Nigeria is the responsibility of NPHCDA which is governed by a management board and headed by an Executive Director (ED). The ED is responsible for the execution of the policies of the Agency as formulated by the Board and directed by the Minister of Health.

#### **5.1.1 Interagency Coordinating Committee**

The Interagency Coordinating Committee (ICC) was established to coordinate the work of NPHCDA and donors supporting immunisation and vaccination activities in Nigeria. The Project Implementation Coordination Committee (PICC) was also established to oversee the Gavi HSS programme. According to the Aide Memoire (AM) signed in 2012, the NPHCDA was to ensure that appropriate arrangements are in place for the ICC to play its oversight role, which included holding quarterly meetings to review and approve work plans and quarterly programme and financial reports. To improve coordination and supervision of immunisation activities, the NPHCDA also created six zonal offices which are supported by one or more Routine Immunisation (RI) Consultants funded by Gavi grants.

According to the AM, work plans and budgets for HSS, ISS and activities for other cash grants are supposed to be prepared by NPHCDA annually and submitted to the ICC and PICC, respectively, for review and approval prior to the start of the Nigerian financial year. The work plans should indicate key activities; outputs, indicators and budgets should be endorsed by the ICC and PICC and final copies shared with Gavi Alliance Secretariat.

#### **5.1.2 Internal audit and external audits**

The Internal Audit Unit (IAU) of the NPHCDA is supposed to carry out audits at both national and sub-national levels, audit disbursements to states and local governments and visit each state at least once every year. Using a risk-based approach, the IAU is supposed to prepare an audit plan at the start of the financial year and share the plan with the ICC and PICC prior to commencement of the audit programme. The IAU is also supposed to share its recommendations through its reports, with NPHCDA and submit the reports to the ICC and PICC.

According to the AM, from 2011 onwards, the external audit of NPHCDA annual accounts was to include Gavi grants administered by the NPHCDA. Copies of the audit report are to be presented to the ICC, PICC and Gavi Secretariat within 6 months of the financial year end. External audits of Gavi grants to Nigeria have been carried out for the financial audits of financial years 2008 – 2011, and 2012. The auditors were also contracted to carry out a procurement audit for the period 2011/2012.

## **5.2 Detailed findings and risks**

### **5.2.1 Annual work plans and budgets not produced**

The audit noted a lack of preparation of grant work plans, budgets and endorsement by ICC before programme implementation. Furthermore, there was no evidence that quarterly reports are prepared and submitted to the ICC for review and copies shared with Gavi.

### **5.2.2 Role of internal audit**

The Internal Audit Unit (IAU) is an internal control system put in place by management to ensure that guidelines and procedures are adhered to, and to analyse and evaluate the efficiency and effectiveness of the controls established by management. The audit noted that the IAU reviews all payment vouchers and marks them with a red line when all documents are in order. As much as the documents may appropriately be in place, the irregularities noted by the audit were not identified and reported by the IAU. The Head of IAU has responded that IAU relies on documents submitted by users to confirm that goods have been received. Due to limitation of resources including staffing, frequent visits are not made to the field to verify the authenticity of the documents and to confirm that goods/assets paid for by Gavi funds have been delivered, to specification, as stipulated in the contracts.

### **5.2.3 Risk rating**

**GRANT OVERSIGHT AND MONITORING – HIGH**

### **5.2.4 Recommendations**

NPHCDA should prepare work plans, budgets and quarterly financial and programmatic reports. Such reports should be used by the management of NPHCDA and states to monitor implementation and performance of the programmes. The reports should be presented to the ICC for review and copies submitted to Gavi Alliance. The details of financial reports required are discussed below.

The role of the IAU should be reviewed to include the conduct of risk-based audit, the review of internal controls including regular visits to states, zones and health facilities. The current role played by the IAU of checking accounting documents for accuracy needs to be re-considered given that the findings of this audit revealed significant gaps in control. It is evident that their current role is not adding value to the financial management processes at NPHCDA.

## **6 AUDIT FINDINGS – ACCOUNTING, FINANCIAL REPORTING**

### **6.1 Description of existing arrangements**

NPHCDA expenditure is accounted for on a modified cash basis and is classified under headings that aggregate all costs of a similar nature. Income is recognised when received, while expenditure is recognised when:

- a) Goods or services are received and cash paid.
- b) Advances to project partners are retired.
- c) Accruals are made for unpaid expenses at year end.

#### **6.1.1 Preparation of Payment Vouchers (PV)**

In addition to identifying the person authorising the expenditure, the PV should explain the nature of the transaction and the names and the accounts affected by the transaction. The procedure at NPHCDA on voucher preparation includes:

- PV must be prepared in duplicate and recorded serially in the PV Register.
- All PVs must be supported by relevant documents.
- The analysis cashbook must be balanced off for each transaction.
- All PVs must be completed using an indelible ink.

#### **6.1.2 Financial reporting**

The NPHCDA financial statements are prepared in compliance with the Nigerian Statements of Accounting Standards (SAS). The financial statements are presented in the national currency, Nigerian Naira (N), and prepared on a modified cash basis under the historical cost convention.

### **6.2 Detailed findings and risks**

- The PVs for Gavi funded grants are not pre-numbered for control purposes.
- The initial numbers indicated on the payment vouchers are often modified giving the impression that controls around preparation of PVs is weak.
- The PVs issued by the NPHCDA do not indicate clearly the accounts to be credited and debited, or the donor or project codes.
- The agency internal control policy requiring the use of indelible ink is not followed.
- Significant delays were noted in updating the accounting records after payments have been made or advances surrendered.

When PVs are not pre-numbered, particularly where controls are weak, the risk of double counting the same transaction is high. When PVs are not coded with programme and donor codes upfront, expenses can be charged to the wrong or several programmes/donors. For example, at the beginning of the audit, the audit team was presented with six different PVs for cars purchased by Gavi funds: at the end of the audit,

these PVs have been changed and only one vehicle is now reported to have been funded by Gavi. None of the PVs had codes for the donor or project on them. The audit team was informed that the decision on which donor to charge was made after the cars had been purchased. **See section 3.1.8 on motor vehicles.**

The NPHCDA's accounts are not regularly updated. The audit noted that there were differences between the total expenditures shown in the NPHCDA Trial Balance (TB) submitted for audit, and those shown in the audited accounts for 2011 and 2012, Table 3 below. Hence the risk of reporting incorrect and incomplete financial statements (income statement, balance sheet and cash flow statements) is substantial.

**Table 7: 2011/2012 Interim Financial statements compared to audited financial statements**

Description	2011 in Naira		2012 in Naira	
	ISS	HSS	ISS	HSS
Audited financial statements	146,248,000	384,678,000	619,442,000	745,305,000
Trial balance	145,835,857	384,187,589	715,843,106	672,484,961
Variance	412,143	490,411	(96,401,106)	72,820,039

### **6.3 Risk rating**

**ACCOUNTING AND FINANCIAL REPORTING - HIGH**

### **6.4 Recommendations**

- a) All PVs used by the NPHCDA, at all levels, national, state, zonal or LGA, including general journal vouchers should be pre-numbered. The completed PV should be clear, clean without too many additional unnecessary items being written on them.
- b) Accounts should be updated regularly and if possible, closed monthly after review and approval of monthly reconciliations.
- c) The coding structure should be reviewed to introduce codes for donor, project, grant and program activities.

## **7 AUDIT FINDINGS – BUDGET EXECUTION**

### **7.1 Description of existing arrangements**

#### **7.1.1 Analysis by grant/budget category/activity**

Financial reports are not analysed by grant, budget category or activity as per the budgets approved by Gavi Alliance. Because of this, it is not possible to monitor the status of implementation of grants or programme activity. Furthermore, income and expenditure for all short term grants, VIG, grants for operational costs (Measles, YF, and MenA) are all posted to the ISS grant accounts. The chart of accounts is not structured in an appropriate way to allow for the tracking of transactions by grant and approved budget categories/objectives/activities.



### **7.1.2 Variance analysis**

Reports do not show income and expenditure against approved budgets for all grants. This demonstrates that NPHCDA does not monitor the implementation of programme activities by approved budgets. It is highly likely that this is one of the reasons for slow programme implementation and frequent requests for the re-programming of budgets/activities.

### **7.1.3 Weak oversight programme execution and financial management at Zonal offices**

At the state level, there is a lack of segregation of duties in the functions performed by Gavi RI consultants, zonal accountants, Local and State Immunization Officers (LIO, SIO). In some states, LIO and SIOs receive programme funds, disburse them to implementing units, coordinate programme activities, monitor and evaluate programme activities, retire advances to LGAs and the state, and then report on programme activities implementation.

### **7.1.4 Weaknesses in monitoring state and LGA level expenditure**

There are weaknesses in the budget monitoring at federal, state, and LGA levels. As expenses related to advances are reported up to three years after they were incurred, it is not possible to monitor expenditure against approved budgets and to identify budget overruns or underspends.

Overall, the audit team noted significant weaknesses at federal level in the processing of advances to states both at the disbursement stage and at the retirement stage. In 2012, the total amount disbursed to states was approximately US\$2m, below plan according to the reprogrammed budget (US\$ 3.2m). Similarly, at the end of October 2013, the total amount of advances disbursed to states in 2013 was N220,950,000 (about US\$ 1.4m) which is significantly below the budgeted amount for 2013 (US\$ 6.4m).

### **7.1.5 Risk rating**

#### **BUDGET EXECUTION – HIGH**

### **7.1.6 Recommendations**

At the state level, roles of RIs, Zonal Accountants, SIO and LIO, should be reviewed and revised to ensure there is adequate segregation of duties.

## ***7.2 Cash and bank balances, accounting and management***

### **7.2.1 Bank accounts**

For three states (Lagos, FCT and Niger) sampled, the audit team noted that dedicated bank accounts have been opened for ISS funds provided by Gavi.

Per FCT State financial guidelines, the WHO State Representative should be a signatory to the bank accounts opened to receive Gavi-provided funding in the states. Four states

(FCT, Adamawa, Kebbi, and Kaduna) do not have WHO staff as signatories to the bank accounts.

In FCT, we noted that the cash book is not up to date: the only disbursement made from the account since January 2011 (N2,157,000) is not recorded and the current balance is not reflected in the cash book. The last bank reconciliation is dated July 2009. The bank account at state level is dormant (the last disbursement from the account is dated 12 September 2011 and the last funds received in November 2012).

### **7.2.2 Bank reconciliation**

The bank reconciliation for bank accounts holding Gavi-provided funds are supposed to be prepared on a monthly basis by the Bank Reconciliation Officer Unit within the Treasury/Budget department. The reconciliation is then reviewed by the Head of Checking Unit (Chief Accountant-Budget under the Deputy Director Account). The audit team noted the following issues:

- a) For the HSS Union Bank USD and Naira accounts, bank reconciliations have not been prepared for some time with the last ones having been completed in March 2013,
- b) We noted delays in signing off on bank reconciliation by the Chief Accountant (CA): all bank reconciliation from October to December 2013 were approved by the CA in mid-February 2013.
- c) Bank reconciliation are prepared using manual cash books and bank statements. The amount per the manual cash book is different from the one recorded in the system (N7,449,892.40 Vs N9,898,892.94) for the First Bank HSS Naira bank account as at 31 December 2013 as some transactions are not recorded in the system.

### **7.2.3 Risk rating**

#### **CASH AND BANK - MODERATE**

### **7.2.4 Recommendations**

- a) Bank reconciliations should be carried out monthly for all accounts operated for Gavi and the reconciliation reviewed and signed off by a senior official at NPHCDA.
- b) A signed copy of the cash book and relevant bank statement should be attached to the bank reconciliation statement.

### **7.2.5 Interest earned on Gavi funds**

During the review, we established that US\$22m had been deposited in fixed deposit accounts with UBA Bank in 2012. We question the 1 -1.50% interest paid by the banks on this income. The audit team questioned the low interest paid given the significant balances, whether UBA was earning significant amounts of income on this money elsewhere and paying insignificant amounts to the NPHCDA.

Interest is earned on USD bank accounts which are *deposit accounts*, and not on Naira accounts which are *current accounts*. When interest is paid by the bank, NPHCDA does not receive credit advice from banks showing the amount of interest earned for the

period. On a sample basis, the audit reviewed bank statements for interest income and checked them against the general ledger to establish their accuracy and reasonableness and noted the following:

- a) Interest income is not accurately accounted for in the accounts.
- b) Entries are passed in the accounting system without supporting documents/approved general vouchers.
- c) ISS: according to bank statements (Union Bank), the total amount of earned interest in 2013 is N292,172 (1,849 US\$) whereas the amount recorded in the ledger in 2013 was N438,191.
- d) HSS: according to bank statements (First Bank, UBA, Union Bank), the total amount of earned interest in 2013 is N3,760,391 (23,800 US\$) whereas the amount recorded in the ledger was N4,824,838.
- e) The trial balance includes earned interest from previous periods and does not correctly reflect the earned interest of the period. In 2012, interest income according to the bank statements is as follows:
  - ISS: N462,203 (US\$2,118).
  - HSS: N2,083,083 (US\$17,026) for UBA, First Bank and Union Bank accounts.

These amounts do not reconcile with what is recorded in the accounting system:

- ISS: 0
  - HSS: N31,413,765 (US\$198,821)
- f) An adjustment entry for N30,200,648 of income was posted for HSS. No authorised general journal was provided to the audit team to support this entry. In another example relating to exchange differences, adjustment entries (one credit for N10.6m and one debit for N0.3m), were passed in the ledger without supporting documents.
  - g) The audit team noted that the ISS First Bank account does not generate any interest whereas the US\$ HSS account opened in the same bank does.

## **7.2.6 Risk rating**

### **ACCOUNTING FOR INTEREST INCOME - HIGH**

#### **7.2.7 Recommendations**

- a) Earned interest as per bank statements should be recorded into the ledger in a timely manner.
- b) All entries in the accounting system should be satisfactorily documented and a system put in place to ensure they are approved by responsible officials.
- c) Income should be recognised in the correct accounting period.
- d) Interest earned should be reported to Gavi in the accounts and approval sought to utilise the income for programme activities.

## 7.2.8 VAT and Withholding Tax paid on goods purchased for by Gavi funds

Value Added Tax (VAT) and Withholding Tax (WHT) are determined on the basis of the prices charged by the suppliers and then paid to the Federal Internal Revenues Services (FIRS) by the Agency. While VAT is charged at 5% on goods and services, WHT is calculated at 10 % on invoices for goods and services from suppliers.

The total VAT paid by the NPHCDA as indicated on the payment mandates in 2011, 2012 and 2013 amounts to Naira 61 844 696, split as follows:

**Table 8: Taxes paid from Gavi grants 2011 – 2013**

	VAT	WHT	TOTAL	TOTAL
Year	Naira	Naira	Naira	US\$
2011	7,492,634	20,167,634	27,660,268	178,453
2012	6,377,932	7,808,484	14,186,416	91,231
2013	47,974,130	60,645,744	108,619,874	678,874
<b>Total taxes paid to FIRS</b>	<b>61,844,696</b>	<b>88,621,862</b>	<b>150,466,558</b>	<b>948,559</b>

## 7.2.9 Detailed findings and risks

- Although the payments made for VAT and WHT are indicated on the payment vouchers, bank mandates and bank statements, specific accounts are not maintained in the accounting system for VAT and WHT to record and monitor the taxes paid.
- NPHCDA could not provide a statement from FIRS confirming how much has been paid and if indeed the payments are received by FIRS. We were asked to request this information from the banks which was not provided by the end of the audit.
- Both VAT and WHT are paid on payments for which procurement was questionable, and withheld from suppliers who are unknown to the Registration Commission.

## 7.2.10 Recommendations

In order to follow up the nature and amount of taxes paid to the FIRS, the NPHCDA should maintain in their accounting system/ledger, specific accounts for VAT and WHT. These accounts must be debited accordingly for any payment made to FIRS and Statements from the FIRS should be obtained and reconciled to the amounts paid to FIRS through the banks.

## 7.3 Fixed assets accounting and management

During the period under audit, over 70 per cent of Gavi grants to Nigeria have been used for procurement of assets that include motor vehicles, solar refrigerators, incinerators, medical equipment. However, a Fixed Assets Register (FAR) is not maintained at either

the national or state levels. Different schedules (list indicating the location of delivery) produced for the audit, were inaccurate and inconsistent with the accounting records. As such, it was not possible to use these schedules to carry out asset verification. It was also not possible to trace the medical equipment purchased using the procurement plans and delivery notes from the NPHCDA. We used the transaction/ledger listing and delivery notes from the contractor files to compile a schedule to guide the process of verification.

In addition fixed asset verification is not carried out periodically.

### **7.3.1 Risk rating**

#### **FIXED ASSETS ACCOUNTING AND MANAGEMENT - HIGH**

### **7.3.2 Recommendation**

Because significant amounts of Gavi grants to Nigeria are used to purchase fixed assets, a FAR should be maintained at all levels where assets are delivered. NPHCDA should ensure that a proper fixed asset tracking mechanism is in place. A physical inventory should be conducted every year to validate the proper accounting of the assets.

## **8 OPINION AND CONCLUSION**

The audit work performed revealed that NPHCDA has not established the key controls set out in the programme's proposal, the Aide-memoire, GoN and NPHCDA guidelines, policies and procedures documents to ensure that the management of Gavi grants complies with the Gavi Transparency and Accountability Policy. The audit has established that the weaknesses in the procurement processes have led to significant expenditure being questioned.

The overall level of risk for the Gavi programmes in Nigeria is **high**, and in the long term, an overhaul of the controls in place and the introduction of additional safeguards will be necessary to ensure that cash support to Nigeria results in meaningful and effective programme execution.

Gavi proposes to implement the overall CPA recommendations:

- a) Gavi should suspend disbursements to NPHCDA until prudent management of Gavi grants by the NPHCDA is in place. This was done following the completion of audit fieldwork and funds are currently transmitted to Nigeria only on a case-by-case basis through UNICEF.
- b) Gavi should seek re-imburement of US\$2.2 m from the Government of Nigeria being expenditure classified as irregular and/or ineligible and deemed misuse.
- c) Gavi should request the Economic and Financial Crimes Commission (EFCC) to carry out a thorough and detailed investigation of the Gavi grants disbursed to Nigeria. As EFCC has subpoena powers, they will be able to access key information

which the Gavi audit team could not access, to establish the full extent of the irregularities identified in the audit.

- d) Through the EFCC, Gavi should request that the tax authorities/FIRS in Nigeria investigate and establish whether taxes paid from Gavi funds were effectively remitted to FIRS, recognising that some of the taxes were retained from payments to suppliers not filing returns with FIRS which could not be validated as operating businesses.
- e) Because of the identified weaknesses in controls and indications of misuse, Gavi will undertake a full-scale audit to cover both select, high-risk expenditures in prior years, and other expenditure from the period 2011-2013 not examined in the course of this audit.
- f) Gavi should appoint a Fiduciary Agent (FA) to oversee the implementation of cash-based support that addresses the major fiduciary risks identified at NPHCDA. The mandate of the FA will include a detailed review of procurement processes within thresholds established in the revised Donor Procurement Manual.
- g) The Donor Projects Procurement Manual has a number of weaknesses which have facilitated the perpetuation of procurement irregularities. As such, its utilisation as the main source document to guide procurement activities should be discontinued until a revised version is produced and approved by Gavi (recognising that fund disbursement to NPHCDA is currently suspended as mentioned above).