

Memorandum on Republic of Chad

Programme Audit report

The attached audit report sets out the conclusions on the programme audit of Gavi's support to the Government of the Republic of Chad's Ministry of Health (MOH). The audit was conducted by Gavi's Programme Audit team between May and October 2017. It reviewed the period 1 January 2013 to 31 December 2016. The scope of the audit covered the Ministry of Health's management of grants supporting its Health System Strengthening (HSS), various Expanded Programme on Immunisation programmes and select vaccine management processes. The final audit report was issued to the Chad MOH on 28 August 2018.

The audit report's Executive Summary (pages 4 to 8) sets out the key conclusions, the details of which are set out in the body of the report:

1. There was an overall rating of unsatisfactory (page 5) which means that "internal controls and risk management practices were either not established or not functioning well. The majority of issues identified were high risk. Hence, the overall entity's objectives are not likely to be achieved".
2. Twenty-five issues were identified relating to: (a) Governance and Organisation; (b) Budget Management; (c) Financial Management; (d) Asset Management; (e) Procurement; and (f) Vaccine Supply Management.
3. The key findings were:
 - a) Questionable expenditures totalling US \$962,142 relating to unsupported, inadequately supported, irregular or ineligible transactions (table 3, page 7);
 - b) Absence of complete and accurate books of accounts at both central and regional levels, inadequate budget follow-up and insufficient programme execution reporting;
 - c) Procurement practices which were non-compliant with applicable laws and regulations; and
 - d) Unreliable vaccine data management, as well as gaps and errors in the vaccine stock registers across several levels of the supply chain.
4. The results of the programme audit have been discussed and agreed with the Minister of Health, with a commitment to remediate the identified issues and to reimburse the full amount of questioned expenditures. Specifically, in a letter of 30 November 2018, the MoH committed to reimburse US \$962,142 as determined by Gavi, in several instalments to be paid during 2019 and 2020.

Geneva, March 2019

THE REPUBLIC OF CHAD

Gavi Secretariat, Geneva, Switzerland
(hereinafter Gavi)

Draft audit report – March 2018

1. Executive Summary

Gavi's Programme Audit team (hereinafter "the audit team") conducted an audit of Gavi's cash and vaccine support to Chad between May and October 2017.

This audit focused on the operational expenditures of: Health System Strengthening (HSS) and the Inactivated Polio Vaccine (IPV) Vaccine Introduction Grant (VIG) programmes over the period 1 January 2013 to 31 December 2016 (the audit period); operational expenditures incurred on both the 2014 and 2016 measles campaigns; and the management of vaccine supplies by the Ministry of Public Health of Chad (MPH).

The table below summarizes Gavi's cash support provided to the MPH and the amounts tested by the audit team over the audit period.

Table 1 - Summary of cash support and expenditures tested from 1 January 2013 to 31 December 2016, in Central African CFA francs (CFA) and converted to US dollars (USD) (according to section 2.3 of the report):

Grant type	Managed by ¹	Gavi cash support	Expenditures incurred ²	Expenditures tested ³	% Audit coverage
Health System Strengthening	DVSE	948 483 650 <i>2 071 010</i>	911 822 003	155 661 290	17%
	DP	1 079 329 822 <i>2 200 000</i>	1 063 909 595	340 690 275	32%
Measles Campaign 2014	DVSE (via WHO)	365 661 758 <i>1 147 531</i>	365 656 258	235 684 007	64%
Measles Campaign 2016	DVSE (via UNICEF)	843 752 160 <i>1 775 500</i>	694 185 015	423 999 959	61%
Vaccine Introduction Grant (IPV)	DVSE	282 586 512 <i>489 000</i>	205 663 500	132 186 700	64%
Total	CFA <i>USD</i>	3 519 813 902 <i>7 683 041</i>	3 241 236 371	1 288 222 231	40%

Opinion

For the period under review, the audit team assessed that the management of Gavi's support by the Ministry of Public Health was overall **unsatisfactory**, which means that "Internal controls, and risk management processes were either not established or not functioning properly. The majority of issues or anomalies identified represent a critical level of risk. Hence, the overall objectives of the entity were not likely to be achieved."

Table 2 below summarizes the audit ratings assigned to the various management processes covered within the audit scope. The definitions of audit ratings, as well as the level of priority for recommendations, are detailed in Annex 2 of this report.

¹ Section 3.2 below sets out the structures responsible for administering Gavi grants including: DVSE: Department of Immunization and Epidemiological Surveillance, in charge of the Expanded Programme of Immunization (EPI); and DP: the Directorate of Planning;

² Expenditures incurred by the respective MPH business units according to the financial summaries reconstituted and prepared by them, as communicated to the audit team.

³ The audit team did not test Health System Strengthening programme expenditures, which related to the procurement of any equipment or supplies executed by Gavi Alliance partners (WHO and UNICEF). These HSS procurement expenditures represented a total of 738 million CFA as implemented by DVSE, and 532 million CFA as implemented by the DP. The programme funds associated with these transactions were transferred by the DVSE and DP to the Gavi Alliance partners.

Table 2: Audit ratings by category:

Category	Audit Rating	Report section
Governance and programmatic arrangements	Unsatisfactory	4.1
Budgetary management	Unsatisfactory	4.2
Financial Management	Unsatisfactory	4.3
Asset management	Unsatisfactory	4.4
Procurement	Unsatisfactory	4.5
Expenditures	Unsatisfactory	4.6
Vaccine Supply Management	Unsatisfactory	4.7
Overall opinion	Unsatisfactory	

Key issues

For the two business units audited (DVSE and DP), the main audit findings relate to various aspects of how Gavi's support – both cash and vaccines – was managed, as follows:

Governance and programmatic arrangements The current Financial Management Procedures Manual did not sufficiently articulate the internal control procedures at each respective health structure level, to ensure that programme resources were managed adequately. This resulted in ineffective control activities, without a clear delineation of the roles and responsibilities for respective administrative and financial functions. In addition to the lack of a robust framework, the audit team noted the absence of proper accounting procedures being applied, both in accordance to generally accepted standards, as well to the contractual agreement between the MPH and Gavi. In parallel, the independent oversight activities from both internal and external audits –intermittently carried out by the Ministry's Inspector General and audit firms – were insufficient to adequately compensate for these institutional deficiencies. Finally, shortcomings in the collation, filing and archiving of supporting documentation prevented the establishment of an effective internal control environment and accounting system. (Refer to Section 4.1)

Budgetary Management As noted by the team during its planning mission in May 2017, there was no formal budgetary monitoring review in place. This prevented the audit from going ahead according to schedule. As a result over four months, the MPH business units affected had to undertake significant work in order to collate the supporting documentation and reconstitute the budget monitoring related to the Gavi programmes. This so as to enable the audit execution to be able to proceed based on a credible and reliable basis. Based on the work, the audit team was able to identify unused fund balances amounting to CFA 224 million (about USD 379,000) for the respective programmes, and several unauthorized budget overruns. It was due to the lack of monitoring tools being in place during the programme execution, that such unused funds and overspending were not identified in real time. (Refer to section 4.2)

Financial Management In contrast with the Financial Management Procedures Manual provisions, the audit noted the absence of the necessary treasury management tools to monitor the completeness of transactions in real time. This impacted upon the traceability of cash flows across the various bank accounts, both at the central level as well as at the Regional and Health District levels. It also undermined the oversight of the funds advanced to the sub-national levels (and the identification of any residual fund balances) a process which was deficient and was not formalised. As a result, the financial execution reports prepared by the respective MPH business units on

the various programmes were not sufficiently reliable to provide the necessary accountability. (Refer to section 4.3)

Asset management

There was no reliable fixed asset register in place for the two MPH business units audited, so as to manage assets purchased with Gavi's funds. The audit team noted positively that in mid-2017 a detailed inventory of the national cold chain equipment was completed. However the results of this inventory were not consolidated into an overall asset register, so as to include other significant vehicles and equipment. During the period audited, the necessary, routine physical asset verification checks – as required by the Manual of Procedures – were not undertaken across all levels of the health system. Finally, there was a shortfall in both the preventative and curative maintenance and the update and replacement of equipment, due to formal monitoring systems not being in place, nor the budgeting for sufficient funds. (Refer to Section 4.4)

Procurement

The audit work identified nine (9) contracts totalling CFA 191.6 million (approximately USD 329,000) which were not conducted in compliance with the provisions of the national Code on Public Contracts. Specifically thresholds were disregarded, and the sole-sourcing of suppliers or limited bids procedures were undertaken, rather than open tenders as required. Overall, the audit team identified several gaps in the documentation of the procurement process, which prevented from obtaining assurance upon whether the fundamental principles of public procurement and transparency were respected. (Refer to Section 4.5)

Expenditures

A sample of expenditures across the various programmes representing 1,034 transactions and totalling CFA 1,288,222,231 (USD 2.3 million) were tested. The audit team questioned amounts totalling CFA 540,248,505 (approximately USD 962,000) as a result of expenses which were determined as being inadequately supported, irregular, ineligible or unsupported. These amounts are illustrated below in Table 3. (Refer to section 4.6)

Furthermore, other internal control audit weaknesses and failures were identified in the supporting documentation for a significant amount of expenditures tested. (Refer to section 4.1.1)

Table 3 - Summary of expenditures questioned by the audit team, in CFA francs and USD equivalent (according to section 3.2 of this report):

Programme	Managed by	Expenditures tested	Expenditures questioned	% share of expenditures questioned
Health System Strengthening	DP	340 690 275	60 743 035 <i>111 392</i>	18%
Health System Strengthening	DVSE	155 661 290	82 171 705 <i>138 567</i>	53%
Measles Campaign 2014	DVSE (via OMS)	235 684 007	124 506 847 <i>251 829</i>	53%
Measles Campaign 2016	DVSE (via UNICEF)	423 999 959	209 294 418 <i>352 936</i>	49%
VIG (IPV)	DVSE	132 186 700	63 532 500 <i>107 418</i>	48%
TOTAL	CFA USD	1 288 222 231	540 248 505 <i>962 142</i>	42%

Vaccine supply management The audit team’s analysis of the pentavalent stock data determined that there were inconsistencies between the number of vaccine doses supplied and the immunisation coverage reported. These inconsistencies, also relate to the known differences between coverage rates as per administrative data compared to the survey data (the issue has been recurrently illustrated by the latest studies which identified differences in data of approximately 50 percentage points). These inconsistencies also bring into doubt the quality of immunization data, versus the effectiveness of vaccine consumption, as supported by Gavi. The vaccine supply chain lacked resilience due to the lack of functioning cold chain equipment, lack of preventative maintenance and to the shortages of qualified personnel in those subnational hubs designated as vanguard of the national distribution strategy. Finally, the audit team’s visits to select sites identified dysfunctions in the physical management of vaccines and the stock records at all levels of the health service. Table 4 below summarizes unexplained discrepancies in the vaccines, based on audit team’s analysis of the central-level stock records for the period audited. (Refer to section 4.7)

Table 4 - Unexplained stock differences at the central vaccine store 2014 – 2017

Vaccine :	Unexplained differences
Pentavalent	- 728 630
Yellow Fever	322 490
Meningitis A	- 100 500
Inactivated Polio (IPV)	- 1 015

The programme audit identified 25 issues, resulting from non-compliance with Gavi's Transparency and Accountability Policy as well as from various operational and programmatic weaknesses that could affect the sustainability of the programme.

To address these issues, the audit team made 23 recommendations, of which 13 (57%) were rated as essential, which means, “action is required to ensure that the programme is not exposed to significant or material incidents. Failure to take action could potentially result in major consequences, affecting the programme’s overall activities and outputs.” Table 5.a below summarizes the expenses questioned by the audit team.

Table 5.a - Summary of questioned expenses by category, in CFA and USD equivalent (refer to section 3.2 for applicable exchange rates):

Questioned expenditure classification	Amounts questioned	% share of tested	Details (report section)
Unsupported expenditures	150 404 552 275 163	12%	4.6.2.a (Table 12)
Irregular expenditures	88 711 270 159 227	7%	4.6.2.b (Table 13)
Ineligible expenditures	840 000 1 699	0%	4.6.2.c
Inadequately supported expenditures	300 292 683 526 053	23%	4.6.2.d (Table 14)
Total expenditures questioned	FCFA USD	42%	
	540 248 505 962 142		

In addition, the audit team identified balances of unused Gavi programme funds which, unless otherwise agreed with Gavi, should be returned. Table 5.b below summarizes these outstanding repayable amounts, as identified at the time of the audit.

Table 5.b - Summary of unspent balances by programme, expressed in CFA and USD equivalent⁴:

Programme	Managed by	Balance (CFA)	Balance (USD)
HSS	DP	5 971 739	11 059
HSS	DVSE ⁵	109 125 767	184 334
VIG (IPV)			
Measles Campaign 2014	DVSE (via OMS)	5 500	11
Measles Campaign 2016	DVSE (via UNICEF)	108 988 255	183 788
Total		224 091 261	379 192

⁴ The unspent balances were recalculated by the audit team based on the difference between the amounts received by the MPH and the encumbrances plus expenditures it reported incurring. These balances may not match the actual balances held at bank by the business units responsible for the execution of the programmes.

⁵ The DVSE administered both the HSS and VIG (IPV) programmes from a single bank account, making the reconciliation of the respective fund balances more problematic (for example with respect to the allocation of bank charges).