

Memorandum on Ethiopia Programme Audit report

The attached Gavi Audit report sets out the conclusions of the programme audit of Gavi's support to Ethiopia's Expanded Programme of Immunisation. The audit was conducted by Gavi's Programme Audit unit, from 9 May to 3 June 2016. The audit covered the Federal Ministry of Health's (FMOH) management of campaign and vaccine introduction grants between 2013 and 2015, namely: HPV Demonstration, Measles and Meningitis A campaigns, as well as introductions for: Pentavalent; Pneumococcal; Rotavirus, and Inactivated Polio (IPV) vaccines.

The report Executive Summary (pages 2 to 5) sets out the key conclusions (the details of which are set out in the body of the report):

1. There is an overall rating of Partially Satisfactory (page 3) which means that "Internal controls, financial and budgetary management processes were generally established and functioning, but needed improvement. Several issues were identified that may negatively affect the achievement of the objectives of the audited entity".
2. Ten issues were identified relating to: vaccine supply management; budget management, and financial management. These issues were largely due to non-compliance with the FMOH Grants Management Manual and Gavi's Partnership Framework Agreement.
3. Key findings were that:
 - a) There were questioned expenditures totalling US\$ 212,502, for activities not related to Gavi grants and outside of the approved period;
 - b) Expenditures totalling US\$ 65,568 were incurred at the central level for activities not related to the approved Gavi programmes; and
 - c) Measles campaign funds of US\$ 99,479 advanced to the states were still not accounted for even though funds were disbursed more than 3 years earlier.
4. In their comments to the audit report, the FMOH committed to make improvements to the Ministry's internal control system in response to the audit findings, including to:
 - a) Implement an Integrated Financial Management Information System at the Pharmaceutical Fund and Supply Agency;
 - b) Reorganise the accounting system so that expenditures recorded were readily aligned with the work plan budgets.
 - c) Ensure that future plans are realistic and that any material changes are approved before disbursement.
 - d) Improve the financial management capacity at the sub-national level by increasing the number of staff and providing additional training and tools.
5. The results of the programme audit have been discussed and agreed with the Minister of Health, with a commitment to remediate the identified issues. Specifically in a letter of 6 October 2017, the FMOH committed to reimburse by May 2018 the full amount requested of US\$ 378,011, as determined by Gavi.

Geneva, January 2018

ETHIOPIA

GAVI Secretariat, Geneva, Switzerland

Audit Report – 17 March 2017



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1. Executive summary

Between 9 May 2016 and 4 June 2016, the Audit and Investigations team (the Audit Team) conducted a programme audit of Gavi funding that contributed towards the Federal Government of Ethiopia's Expanded Programme of Immunisation (EPI).

The audit covered the Ethiopian Federal Ministry of Health's (FMOH) management of funds for: Meningitis A preventive campaign; operational support for Measles Supplementary Immunisation Activities (SIA); two Vaccine Introduction Grants (VIG) for both Rotavirus and Inactivated Polio Vaccine (IPV); Human Papilloma Virus (HPV); and funding support for Civil Society Organisations (CSO);

During the three-year period reviewed, Gavi disbursed USD 101,148,731 to the country. Of this USD 54,338,028 for Health Systems Strengthening (HSS) activities was paid into a pooled-funding mechanism with common audit arrangements. Earmarked cash grants totalling USD 46,810,703 were disbursed as follows: (i) USD 34,508,203 transferred directly to the FMOH and (iii) USD 12,302,500 transferred to WHO and UNICEF. The amounts disbursed to the pooled-funding arrangement and to the UN agencies were determined as being out of audit scope. In addition, the audit scope also included review of USD 1,336,500 that was transferred to Civil Society Organisations (CSOs) via the FMOH in August 2012.

Ethiopia is a federal state with extensive devolution of power from the central government to eleven regions. The Regions comprise 103 Zones sub-divided into 835 administrative woredas (districts).

Table 1 below shows a summary of the FMOH expenditure reported as well as amounts reviewed for the 3-year period covered by the audit: 01 January 2013 to 31 December 2015. The expenditure figures presented in this report were translated from the Ethiopian Birr (ETB) to United States Dollar (USD) at a rate of USD 1.00 USD to ETB 21.00. The Programme Audit achieved a total overall coverage of 16% of the FMOH's expenditure reported for the period, as follows:

Table 1: Summary of total disbursements and corresponding expenditure reviewed during the audit.

Gavi cash grant:	Amounts disbursed to the FMOH (USD)	Amounts disbursed to UNICEF/ WHO (USD)	Total Gavi ear-marked disbursements (USD)	FMOH/ CSO expenditure during period (USD)	FMOH/ CSO expenditure reviewed (USD)
Human Papilloma Virus	170,000	-	170,000	215	215
Measles SIA	7,606,000	-	7,606,000	5,896,469	2,021,653
Meningitis A - campaign	21,726,703	12,302,500	34,029,203	8,862,062	487,645
VIG – Rotavirus	2,469,000	-	2,469,000	1,250,399	50,331
VIG – IPV	2,536,500	-	2,536,500	638	638
Sub-total FMOH	34,508,203	12,302,500	46,810,703	16,009,783	2,560,482
Civil Society Organisations	1,336,500	-	1,336,500¹	983,428	195,486
Total	35,844,703	12,302,500	48,147,203	16,993,211	2,755,968

¹ In August 2012, Gavi transferred USD 1,336,500 via the FMOH for onward disbursement to Civil Society Organisations (CSOs). This amount of USD 1,336,500 and USD 46,810,703 transferred by Gavi from 2013 to 2015 totals to the Gavi earmarked funds of USD 48,147,203.

Audit rating

The Audit Team assessed the Ethiopian Federal Ministry of Health’s (FMOH) management of Gavi funds as **partially satisfactory**, which means, “Internal controls and risk management practices were generally established and functioning, but needed improvement. One or more high- and medium-risk areas were identified that may impact on the achievement of the entity’s objectives”.

The table below summarises the Audit Team’s ratings for each of the areas reviewed:

Table 2: Summary of audit focus areas rated by programme audit.

Area	Audit Rating
Vaccine Supply Management	Partially satisfactory
Budget planning and development	Unsatisfactory
Budget execution	Partially satisfactory
Expenditure and disbursements	Partially satisfactory
Programme management	Partially satisfactory
Overall rating	Partially satisfactory

Key issues

The Audit Team raised 10 issues from the programme audit, most of the issues related to non-compliance with the Federal Ministry of Health Grants Management Manual, Gavi’s Transparency and Accountability Policy (TAP) and the signed Partnership Framework Agreement, dated 6 February 2013, with between Gavi and Ethiopia, as represented by the FMOH and Ministry of Finance (PFA).

To address these issues, the Audit Team made 11 recommendations, of which 7 (or 63%) were rated as of critical priority, 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 output.”

The most significant are high priority issues in this report are presented below:

Vaccine Supply Management	The FMOH is transferring its vaccine logistics management from regional health bureaux to the Pharmaceutical Fund and Supply Agency (PFSA). However, a comprehensive plan setting out how the transition will be done, including key milestones was not yet in place. PFSA did not conduct cyclic counts as required by its procedures, resulting in errors in its vaccine records. Vaccines held in Addis Ababa were not properly stored and labelled, nor was there due regard for their expiry date or Vaccine Vial Monitor (VVM) status.
Budget Management	The FMOH, and at the various level of implementation, the regions, zones and woredas, did not adhere to budgets as developed through the micro-planning process. Instead, upon receiving funds from Gavi, each level of implementation developed another budget that was the basis for apportioning disbursements further down the line as well as incurring their own costs. Further, with these lapses in budgeting, there was a failure to monitor and report expenditure against budget.

Financial Management	<p>Contrary to the PFA, the FMOH used VIG funds beyond the approved period and on other activities not contained in the approved Rotavirus budget. In addition, FMOH did not effectively address weaknesses reported by internal and external auditors in 2014 and 2015. The Gavi Audit Team observed similar issues in 2016.</p> <p>The FMOH continued to spend balances on grants that Gavi provided for vaccine introduction activities beyond approved parameters. For instance, FMOH disbursed ETB 6,430,874 (USD 306,232) from the Rotavirus grant to PFSA two years after introducing the vaccine into the routine programme.</p> <p>The FMOH did not effectively address weaknesses reported by internal and external auditors in 2014 and 2015.</p>
Disbursements - Advance management	<p>As at June 2016, approximately ETB 2,089,067 (USD 99,479), equivalent to 4% of the total Measles campaigns funds advanced to Oromia and SNNPR regions were still not accounted for, even though funds were disbursed between April 2013 and May 2013.</p> <p>Similarly, as at June 2016, approximately ETB 3,364,295 (USD 160,205) equivalent to 3% of the Meningitis A campaign funds advanced to the same two regions were still not accounted for, even though funds were disbursed between October 2014 and January 2015. Other overdue advances relating to disbursements made in October 2015 were also linked to this second campaign.</p>
Expenditure – indirect funds usage	<p>From a sample of expenditure reviewed by the Audit Team, Gavi funds totalling USD 65,568 incurred at the FMOH central level were spent on activities which did not directly relate to the approved programme. In addition, USD 388,253 of expenditure was incurred at sub-national levels which was not supported with adequate documentation to enable the Audit Team to validate that it related to Gavi activities.</p>

The recommendations raised by this audit were prioritised as either critical, essential or desirable, and definitions of the three-levels of prioritisations are summarised in Annex 3.

The table below summarises amounts questioned by the Audit Team because adequate documentation accounting for how the funds were used was not on file:

Table 3: Summary of amounts questioned by the Audit Team.

Issue:	Amount (USD)	Reference:
Measles campaign		
Overdue, unjustified advances for three regions (Afar, Oromia and SNNP) for which no accountability was provided after two years.	99,479	4.3.1 - sub-national level
Measles campaign funds to repair the FMOH vehicle fleet and purchase spare parts.	65,568	4.3.1 – FMOH Central. Measles campaign
Sub-total (A)	165,047	
Rotavirus Vaccine Introduction Grant (VIG)		
Amount paid by FMOH to PFSA for distribution of vaccines and IEC materials, two years after the campaign was	212,502	4.2.3 – Rotavirus VIG

Issue:	Amount (USD)	Reference:
undertaken and in absence of adequate supporting documentation.		
Sub-total (B)	212,502	
Meningitis Campaign		
Per diem expenses for intestinal worm prevention activities charged to Gavi's funded Meningitis programme	462	4.3.3
Sub-total (C)	462	
Total (A + B +C)	378,011	

2. Objectives and scope of the Audit

Objectives

In line with Partnership Framework Agreement and Gavi's Transparency and Accountability Policy, the main objective of a programme audit is to ensure that the funds were spent in accordance with the agreed terms and conditions, and that resources are used for the intended purposes.

In addition, the programme audit also assessed the adequacy of the control processes regarding the reliability and integrity of financial, managerial and operational information, the effectiveness of operations, the safeguard of assets, and compliance with respective national policies and procedures.

Scope

The scope of review under this audit was the period 1 January 2013 until 31 December 2015, and covered income received, expenditures incurred and vaccine supply management at Federal, regional, zonal and woreda/district level. The review included visits to 12 woredas in seven zones and three regions.

Gavi disbursed cash grants totalling USD 101,148,731 to Ethiopia over the past 3 years within the period of audit scope i.e. 1 January 2013 to 31 December 2015. However as Gavi disbursed the Health Systems Strengthening (HSS) component of USD 54,338,028 into a donor pooled funding mechanism with common audit arrangements, this amount was excluded from the audit scope. Also, transfers to UNICEF and WHO of USD 12,302,500 were not in scope. Thus, the amount in scope for the programme audit was USD 48,147,203, of which Gavi transferred USD 46,810,703 to the FMOH between 2013 and 2015, and USD 1,336,500 transferred by FMOH to CSOs.

The table below illustrates Gavi's cash disbursements to the FMOH over the past 3 years, as well as cumulative disbursements since the beginning of Gavi funding.

Table 4: Gavi total cash grant disbursements to Ethiopia

Cash Grant	Year disbursed/ (USD)	2002 – 2012 (USD)	2013 (USD)	2014 (USD)	2015 (USD)	Total (USD)
HPV Demo - cash support					170,000	170,000
INS		2,696,697				2,696,697
ISS		17,813,320				17,813,320
Measles SIA - operational costs			7,606,000			7,606,000
Meningitis A - operational costs				15,879,282	5,847,421	21,726,703
Vaccine Introduction Grants		981,500	2,469,000		2,536,500	5,987,000
Sub-Total FMOH		21,491,517	10,075,000	15,879,282	8,553,921	55,999,720
CSO Type A		100,000				100,000
CSO Type B		3,320,000				3,320,000
Sub-Total CSO		3,420,000				3,420,000
UNICEF – Meningitis A; op. costs			3,075,625			3,075,625
WHO – Meningitis A; op. costs			9,226,875			9,226,875
Sub-Total partners			12,302,500			12,302,500
HSS (not in audit scope)		76,493,935	6,255,481	32,352,293	15,730,254	130,831,963
Sub-Total HSS		76,493,935	6,255,481	32,352,293	15,730,254	130,831,963
Grand Total		101,405,452	28,632,981	48,231,575	24,284,175	202,554,183

3. Background

3.1. Introduction

Ethiopia is located in the North Eastern part of Africa, within an area colloquially known as the Horn of Africa. Based on the latest population and housing census from 2007, projections estimate the total population for 2015 as approximately 90 million².

The Ethiopian federal government structure is composed of nine Regional States: Tigray, Afar, Amhara, Oromia, Somali, Southern Nation Nationalities and Peoples Region (SNNPR), Benishangul-Gumuz, Gambella, and Harari; as well as two city administration councils of Dire Dawa and Addis Ababa. The regional states and city administrations are divided into woredas (districts) and Kebeles (sub-districts). Each woreda/district is the basic decentralised administrative unit and has an administrative council composed of elected members. Zonal administrations are also in place in some populous regions above woredas as an extended arm of the regional states¹.

Gavi provided significant financial and in-kind support to the immunisation programme in Ethiopia and for the period 1 January 2013 to 31 December 2015, the Government of Ethiopia and immunisation partners received USD 101,148,731 of cash support and USD 238,891,703 as vaccine support.

Table 5: Total vaccine financing provided by GAVI to its procurement agent to the benefit of the FMOH

Year disbursed/ Vaccine Grant	2013 (USD)	2014 (USD)	2015 (USD)	Total (USD)
HPV Demo			79,602	79,602
Measles SIA	1,898,454	-717,438		1,181,016
Meningitis A - campaign	14,532,964	17,973,622	12,510,947	45,017,533
Penta	10,841,975	13,677,660	18,186,567	37,706,202
Pneumococcal	43,517,686	22,651,096	53,626,005	119,794,787
Rotavirus	8,621,901	12,636,905	12,825,350	34,084,156
IPV			1,028,407	1,028,407
Total	79,412,980	66,221,845	93,256,878	238,891,703

3.2. Achievements

Ethiopia is currently providing ten vaccines targeting major childhood diseases. Since 2007 and with Gavi's support, the FMOH introduced four new vaccines into its routine schedule of immunisation, namely Pentavalent, Pneumococcal, Rotavirus, and Meningitis A, in addition to six existing traditional vaccines against polio, diphtheria, tuberculosis, tetanus, Yellow Fever, and Measles. FMOH reported that the coverage of Pentavalent 3rd dose, PCV and Measles vaccines coverage are 91.1%, 85.7% and 86.5% respectively. In the "Ethiopian Financial Year 2006" (circa 2015), the FMOH reported that the proportion of fully immunised children of one year of age among the general population was 82.9%.

² The Health Sector Transformation Plan (HSTP) published by the Ethiopia Federal Ministry of Health in August 2015

3.3. Key challenges

The country still faces several challenges in executing immunisation programmes and healthcare including:

- The state of its health Infrastructure and wide geographical coverage affecting ability to reach all;
- Country borders are porous with high movements making it difficult to sustain vaccine achievement;
- High turnover in medical personnel at its health facilities as well as within health-care as a whole;
- Poor health data quality being produced by the four regions³ requiring special attention; and
- Low cold chain capacity combined with frequent power cuts across many of its 16,000 health posts and 3,600 health centres.

3.4. FMOH's Stated Priorities for 2015 to 2016

The FMOH's Annual Progress Report for 2014 submitted to Gavi on 27 May 2015 states the following short-term priority actions for the EPI programme:

- i) Routine immunisation - System strengthening through a Routine Immunisation Improvement Plan (RIIP): this plan, to be monitored by the technical Inter-agency Coordination Committee (ICC), seeks to improve the quality of routine immunisation.
- ii) Measles elimination - Measles elimination activities to be implemented as per the Measles elimination strategic document 2012 – 2020. For the next two years, priority will be given to conducting wide age range campaigns and hasten Measles elimination.
- iii) Cold chain rehabilitation – To implement the rehabilitation plan.
- iv) Monitoring and evaluation – It has been more than three years since the last immunisation coverage survey so it is critical to conduct coverage survey by the year 2016.
- v) Maternal and Neonatal Tetanus (MNT) elimination – The FMOH has prepared guidelines on sustaining the MNT elimination and endorsed by the ICC.

³ Afar, Benishangul, Gambella and Somali as stated in the HSTP published in August 2015.

4. Detailed findings

4.1. Vaccine Supply Management

<p>The FMOH is transferring its vaccine logistics management from regional health bureaux to the Pharmaceutical Fund and Supply Agency (PFSA). However, the plan to implement this transfer is delayed by five years. In addition, PFSA did not conduct cyclic counts as required by its procedures, resulting in errors in its vaccine records. Vaccines held in Addis Ababa were not properly stored and labelled, nor was there due regard for their expiry date or Vaccine Vial Monitor (VVM) status.</p>	<table border="1"> <tr> <th data-bbox="1203 387 1453 427">Audit Rating</th> </tr> <tr> <td data-bbox="1203 427 1453 696" style="text-align: center;"> <p>Partially satisfactory</p> </td> </tr> </table>	Audit Rating	<p>Partially satisfactory</p>
Audit Rating			
<p>Partially satisfactory</p>			

4.1.1 Reportable Issue – Fire at vaccine warehouse

On 04 April 2015 a fire burnt down a warehouse of Pharmaceutical Fund and Supply Agency (PFSA), the government agency responsible for storage and distribution of medicines. At the time of this fire incident at Adama, the insurance that PFSA had in place was not sufficient to cover the loss. The fire damaged pharmaceuticals, reagents, chemicals and equipment worth USD 6.2 million, inclusive of about 2 million doses of Gavi-supported vaccines worth USD 5.2 million.

Section 10 of the PFA provides that, “Unless otherwise agreed with GAVI, the Government shall maintain, where available at a reasonable cost, all risk property insurance on the Programme assets (including vaccines and vaccine related supplies) and comprehensive general liability insurance with financially sound and reputable insurance companies. The insurance coverage shall be consistent with that held by similar entities engaged in comparable activities.”

PFSA, has now obtained sufficient insurance cover for the programme assets as required by the PFA. At the time of this Programme Audit, Gavi has requested the Government of Ethiopia to replace the vaccine destroyed in the fire.

Management Response

Following the fire accident in Adam cold room, the ministry has taken strict measures to improve vaccine safety including insurance policy. As of May 2016, PFSA has secured an insurance policy that cover all cold rooms worth of 4.3 Billion ETB (approximately USD 188m).

4.1.2 Good Practices

EVM Conducted and Improvement Plan developed, and acted upon

WHO recommends that countries regularly conduct an Effective Vaccine Management (EVM) review. An EVM is a structured assessment of the vaccine supply management that includes an analysis of results and a system wide improvement plan. The FMOH together with its principal immunisation partners namely, WHO, UNICEF, CHAI and JSI-Deliver, conducted the latest EVM assessment for Ethiopia and published the report in September 2013. Subsequently in February 2016, they jointly developed an EVM improvement plan containing 41 actions. The table below summarises the

February 2016 status, which shows that: 28 (68%) of the recommendations were achieved; nine (21%) partially achieved, and four (10%) without status.

Table 6: The status of EVM implementation at February 2016.

EVM recommendations		Status at Feb 2016		
Priority Rating	#	Achieved	Partially Achieved	No Status
High	7	5	0	2
Medium	27	18	7	2
Low	4	2	2	0
Not Rated	3	3	0	0
Total	41	28	9	4

The Audit Team commends the FMOH for conducting the EVM and following up recommendations of the improvement plan.

4.1.3 Delays in implementing the plan to transition vaccine distribution to PFSA

Between 20 October and 29 November 2011, the Ethiopia FMOH with the support of partners conducted a cold chain desk review that covered vaccine management, logistics and cold chain. This desk review considered information from various assessments that had taken place between 2008 and 2011, and identified several gaps. To address these gaps, the review proposed several actions for the Pharmaceutical Fund and Supply Agency (PFSA), including:

- Take over overall management and responsibility of the eight regional and six zonal level cold rooms;
- Take over the distribution of vaccines by 2016, thus taking over functions previously undertaken by regions, zones and facilities;
- Construct up to 960.56 m³ (240.14 cubic metres) of cold rooms at the national level and 96.77m³ at sub-national level;
- Acquire an additional 8 eight refrigerated trucks, 28 delivery vans, and 2680 cold boxes, to enhance the capacity to deliver vaccines, and
- Recruit and train additional staff including 10 cold room technicians, 23 store managers, and 17 immunisation and logistics officers.

PFSA developed an initial transition plan in 2011. This plan stated that PFSA would take over vaccine logistics up to facility level in a phased manner between 2012 and 2016. In April 2014, PFSA approved a revised transition plan that changed the handover period to between 2015 and 2018. At the time of the audit in May 2016, regions still managed vaccine logistics, not the PFSA. The FMOH explained that the pace of transition was affected by delays in procuring and installing cold rooms at the regional hubs as well as challenges with sensitising the regional health administrators on the need and process to transfer vaccine logistics to PFSA. The Audit Team noted that although the plan outlined tasks, activities, responsibilities and timelines for the transition, it did not include risks together with appropriate mitigation measures.

In addition, the FMOH did not closely monitor the transition plan to remediate unforeseen hindrances in a timely manner. At the time of the audit, the FMOH represented to the auditors that PFSA had taken over vaccine distribution in SNNPR and Oromia regions. However during the Audit Team's visit

to the PFSA regional hubs in Oromia and SNNPR, at Jimma and Hawassa respectively, vaccine logistics were still managed by regional and zonal health officers. Thus, the observation of the Audit Team at the sub-national level was inconsistent with the view held by the FMOH.

In addition, the February 2016 EVM implementation status report indicated that two recommendations associated with the transition were 'achieved', although improvements were still in process and not completed. The two recommendations were: (i) to ensure that all dry goods stores are organised, with shelves with facility pallets; and (ii) to renovate cold rooms. The justification for the achievement of these recommendations was that PFSA was taking over the vaccine logistics, previously the responsibility of regional and zonal health offices. The status report also referenced that PFSA had adequate cold chain arrangements in place including shelving and equipment for dry goods. In contrast, at the time of the audit in May 2016, PFSA had not yet taken over the distribution of vaccines at the sub-national level and thus the stated gaps identified in the EVM were still outstanding.

Cause

Implementation of the transition of vaccine management to PFSA was bigger and more complex than envisaged in the original transition plan. However, the PFSA did not dedicate sufficient dedicated persons to manage the project and to provide continuous risk management over the life of this project.

Risk

The FMOH may not be able to coordinate the scheduling of the transition and address challenges as they emerge. Because of the delays in implementing critical actions proposed in 2011, the weaknesses identified by the vaccine management review in 2011 remained un-addressed for five years.

Recommendation 1 (Critical)

The FMOH should prepare regular formal progress reviews for the transition plan with updates to Gavi on a bi-annual basis. These updates should include information on achievements versus plan on such aspects as the:

- Construction of cold rooms at the national and sub-national levels;
- Handover of the management regional and sub-regional cold rooms to PFSA;
- Acquisition of refrigerated trucks, delivery vans, and cold boxes
- Recruitment and training of additional cold room technicians, store managers, and immunisation and logistics officers.

Management comments

Management agrees with this recommendation

During the audit team visit, Mekelle, Bahirdar, Dessie, Gondar and Jimma PFSA hubs have had fully taken over the distribution of vaccines to Zonal and Woreda level. Hawassa and Arbaminch hubs in SNNPR have also recently started to do distribution of vaccines on their own. Hubs in Oromia region namely Nekemttee, Negele Borena hubs have also started the distribution to Zonal and district level

respectively. Hence, currently, the EVM improvement plan regarding the transition is completed more than 50%. As per the recommendation by the audit team, The Ministry of Health will continuously monitor implementation of the transition plan and modify accordingly during ailments. The logistics management officer of the Ministry of Health will regularly (bi-annually) update GAVI on the transition plan implementation.

4.1.4 Inaccurate data records

PFSA's Standard Operating Procedures (SOPs) stipulate that movements in supply commodities should be timely recorded in HCMIS, the Agency's inventory management system. Prior to posting to HCMIS, warehouse managers record commodity receipts and issues on store receipt and issue vouchers accordingly.

The SOPs also require warehouse managers to conduct and document detailed cyclic counts of all commodities, including vaccines. Cyclic counting refers to regularly counting all stocks, at least every month.

On 12 May 2016, the Audit Team performed a physical stock count of vaccines at both of PFSA's central-level warehouses – one at Urael and one at PFSA head office, both in Addis Ababa. The count identified an unexplained difference of 101,128 additional doses of pentavalent vaccine than the HCMIS stock records. The additional physical stock was equivalent of 3% of the total balance of this vaccine.

The Audit Team also established that at a central level PFSA only conducted annual stock counts instead of the required cyclic counts. Furthermore, the corresponding documentation on file did not demonstrate that important information such as expiry date or batch numbers was being checked at the time that such counts were undertaken.

In addition, the counting process followed was not adequate or properly authorised, as officers did not investigate any discrepancies identified, or sign off the count sheets, as mandated. For example, on 12 January 2015 a PFSA stock count of the vaccines at Urael warehouse identified significant variances between the physical stores and records. However, these differences were not subsequently investigated, as required. The table below illustrates this:

Table 7: Summary of findings from the Urael warehouse stock count completed 12 January 2015.

Vaccine	Quantity by HCMIS data (Doses)	Quantity per inventory count (Doses)	Variance HCMIS to physical (Doses)	Variance (%)
Pentavalent	5,096,942	4,769,455	327,487	8.3
Rotavirus	175,032	175,032	-	0
PCV	891,367	873,154	18,213	1.4

Cause

PFSA did not conduct adequate, regular cyclic counts as stipulated in its SOPs.

Existing internal review mechanisms (such as supervision or internal audit) failed to identify weaknesses in the counting process, in order to investigate and undertake remediation.

Risks/ Effects

In the absence of regular cyclic counts, errors in vaccine records may remain undetected. Unless PFSA management identifies and addresses stock count differences promptly, the resolution of any variances will be time consuming and losses may go undetected if counts take place only at yearend.

Recommendation 2 (Essential)

PFSA should undertake cyclic counts as mandated in its SOPs. Staff conducting cyclic counts of vaccines should review and document the necessary information on expiry date, batch number, product description, units, and manufacturer. Further, the warehouse manager, supervisor, and stock and distribution officer should check and sign the count documentation. All records related to the cyclic counts should be filed. The PFSA internal audit team should investigate any differences between stock count figures and vaccine records.

Management comments

Management agrees with the recommendation.

According to the SOP manual for vaccine and dry supplies, a cyclic count is recommended and PFSA management is responsible for its execution. Though the SOP dictates the monthly count of vaccine and dry supplies, and proper reconciliation to be done, PFSA has not been able to do so; due to shortage of human resources and large size and frequency of transactions.

Although it is not done as frequent as the SOP dictates, there exists an accurate data recording system. A regular physical inventory has been conducted as of July 2016. The inventory made the count considering the batch and expiry date of vaccines and supplies. The count has shown reconciliation of physical count (annual inventory) and HCMIS stock recording report.

PFSA internal audit team has already incorporated it in its annual work plan to follow up and review the existing internal control system.

We accept the recommendation to practice a cyclic count as stipulated in PFSA SOP manual and strengthen the promising start of engaging the audit team in ensuring the proper and timely documentation and confirmation of counts. Moreover, warehouse managers and supervisors will be supported to properly confirm cyclic counts and ensure discrepancies are documented and reported timely (Inventory and HCMIS Inventory attached).

4.1.5 Inadequate storage space with poorly arranged cold rooms

PFSA's SOPs stipulate that designated warehouse operatives arrange commodities on pallets according to batch number and expiry date. In addition, a warehouse manager is supposed to ensure that pallets are labelled with the name of the product, pack size, total quantity and expiry date for each item wrapped.

Consolidated vaccine stock records were maintained at a single central point but because the stock was spread across two locations in Addis Ababa, vaccines could not be adequately tracked by their batch number as the stock records were not disaggregated to reflect the two warehouse sites.

Similarly, the Audit Team visited vaccine cold rooms at both central-level warehouses and noted that vaccines were not appropriately arranged and stored. For example, at Urael warehouse pentavalent

vaccine was loosely piled into cartons rather than placed on shelves. The Audit Team observed that the warehouse managers did not arrange vaccines by batch number and expiry date, nor did they label the shelves with name of vaccine, pack size, quantity and expiry date.

As a result, warehouse managers at both central-level warehouses were unable to assure that vaccines were issued in sequence with their expiry dates.

The FMOH commented that PFSA is currently constructing a central vaccine warehouse as part of the Agency's expansion plan. As stated in the cMYP, by 2020 the FMOH aims to increase its central cold room capacity by 2,000m³. In addition, by 2018 PFSA plans to provide regional-level cold chain hubs which will deliver vaccines to immunisation sites across the country.

Cause

PFSA did not have adequate storage space for the storage of vaccines, and warehouse managers did not follow guidelines for storing immunisation commodities.

A failure to design and implement suitable vaccine management processes designed in accordance with Earliest Expired First Out principles increases the likelihood of shelf-expired wastage.

Risks/ Effects

A failure to store vaccines by batch number and expiry date undermines PFSA's conformance with "earliest expired first out" principles. This could result in some vaccines shelf expiring.

Recommendation 3 (Critical)

The FMOH and PFSA should ensure that adequate storage space for vaccines is available in the interim until the warehouses under construction are completed. PFSA should store and arrange its vaccines by: name of the product, pack size, total quantity, batch and expiry date. Vaccines should be placed on clearly labelled shelves.

Management comments

Management agrees with the recommendation.

At the time the audit team's visit to the PFSA warehouse, the five cold rooms damaged with fire accident in Adama were under reconstruction. In addition, all the 17 newly installed cold rooms were not yet in use as electricity power at each of the locations required upgrading. As this cold room capacity was not available, the available store at PFSA central was congested. The congestion in turn significantly contributed for the disarrangement of vaccines, including consideration for batch number and expiry dates.

Country regulatory authority (FMHACA) as well as WHO guidelines require that dry supplies be placed on pallets. PFSA will implement SOP for labelling that require modern racking and a computerised tools to register product name, size, quantity and expiry date, as is the practice for PFSA new warehouses. PFSA will expand these practices to all the other warehouses.

To address the shortcoming observed, government has prioritised implementation of an Integrated Financial Management Information System (IFMIS) at PFSA with a special module for logistics management and distribution. The logistics team will properly plan the import, acquisition, and distribution of vaccines taking into consideration the available storage space. In addition, as the

construction of the Adama cold room is now completed, the challenge of space is likely to be resolved. As of January 2017, 12 of the 17 cold rooms have secured an upgraded and adequate power source from the central grid.

4.2. Budgeting and Financial Management

	Audit Rating
<p>The FMOH, and at the various levels of implementation, the regions, zones and woredas, did not adhere to budgets as developed through the micro-planning process. Instead, upon receiving funds from Gavi, each level of implementation developed another budget that was the basis for apportioning disbursements further down the line as well as incurring their own costs. Further, with these lapses in budgeting, there was no overall programme budget and thus a failure to report expenditure against budget.</p> <p>The FMOH continued to spend balances on grants that Gavi provided for vaccine introduction activities beyond approved parameters. For instance, on 3 May 2016 FMOH disbursed ETB 6,430,874 (USD 306,232) from the Rotavirus grant to PFSA two years after introducing the vaccine into the routine programme. In addition, the FMOH did not put in place suitable mechanisms to follow-up and formally close weaknesses reported by internal and external auditors in 2014 and 2015.</p>	<p>Unsatisfactory</p>

4.2.1 Execution mismatch between budgets and micro plans

Measles-Rubella campaign

The “WHO AFRO Measles SIAs Planning and Implementation Field Guide”⁴ recommends that clear operational plans and budgets be developed using a micro-planning process, so as to direct and manage the implementation of an effective campaign. These respective operational plans and budgets are key tools, effectively earmarking and approving the delegation of specific resources to each operational unit.

In September 2012, the FMOH prepared micro-plans with inputs from partners and implementers at the sub-national level i.e. regions, zones and woredas. The micro-plan was the basis for a campaign budget that was included in the request for funding that the FMOH sent to Gavi. However, upon receiving funds from Gavi, the FMOH developed and transferred funds to regions against a different top-down budget. This budget showed allocations to respective regions with a breakdown of activities at the zone and woreda level, but without detailed costing of these activities. Upon receipt of funds, the regions did not follow the FMOH top-down budget attached to payment documents but prepared a different basis for allocating these funds to zones. Equally, the zones developed a different formula for allocating funds to woredas. Consequentially, by ignoring the micro-plan budgets, the FMOH, regions, zones and woredas did not ensure that implementation of programmes followed the clear work plans as laid out during micro-planning.

In October 2012, Ethiopia submitted to Gavi a proposal to conduct Measles SIAs for a target group of children from 9 months up to 5 years of age. The proposal included a budget of ETB 141,126,239 (USD 7,606,000) for operational support, including ETB 96m (68% of total budget) for activities that regions, zones and woredas would implement. In March 2013, Gavi approved the FMOH’s proposal and disbursed the corresponding funding in April 2013. Thereafter in May and June 2013, the FMOH

⁴ Guide issued in April 2011. <http://www.measlesrubellainitiative.org/wp-content/uploads/2013/06/WHO-AFRO-Measles-Fieldguide-April-2011.pdf>

disbursed ETB 83m to regions instead of the ETB 96m that was earmarked in the budget and which was supported by micro-plans developed through a consultative process with partners, as well as officers from regions, zones, and woredas.

The Audit Team reviewed the process to assess how the determination was made that ETB 83m was to be disbursed to the regions. The FMOH explained that it considered the region's needs, each in turn, resulting in the transfer of an estimated level of SIA funds, which was considered to be sufficient for the purposes of the corresponding zones. However, in deciding on the level of disbursements called for, the FMOH did not follow the regions/zones completed micro-plans for the "Measles Rubella campaign". Furthermore, the resources available to implement the programme were less than those approved by the ICC.

Table 8 below illustrates that, except for the Afar region, the actual amounts disbursed to regions for the campaign were less than those determined by the micro-planning process.

Table 8: Variances in Measles-Rubella campaign disbursements compared to micro-plan requirements

Region:	Requirements per micro plan (ETB)	Actual amount disbursed (ETB)	Micro-plan funding gap (ETB)	Funding shortfall (%)
	A	B	C = A-B	D = C/A
Addis Ababa	5,266,404	2,765,032	2,501,372	47%
Afar	2,917,675	3,040,917	(123,242)	(4%)
Benishangul Gumuz	1,869,137	1,670,410	198,727	11%
Dire Dawa	541,282	431,253	110,029	20%
Amhara	17,710,695	16,757,732	952,963	5%
Harari	487,600	315,088	172,512	35%
Gambella	1,263,726	930,520	333,206	26%
SNNPR	18,518,845	16,141,351	2,377,495	13%
Tigray	6,752,970	4,621,110	2,131,860	32%
Oromia	30,443,234	28,454,600	1,988,634	7%
Somali	10,791,602	7,903,186	2,888,416	27%
Total	96,563,171	83,031,199	13,531,971	14%

Meningitis A vaccination campaign

Similarly, in August 2012, Ethiopia submitted to Gavi a proposal to conduct Meningitis A SIAs, with a budget of USD 37,977,792 for operational support. The proposal was to cover campaign activities in 2013 (USD 12,302,454), 2014 (USD 15,879,282) and 2015 (USD 9,796,056).

In March 2013, Gavi approved this proposal for the FMOH to undertake Meningitis A SIA activities. At the time of the audit in May 2016, Gavi had disbursed USD 34,029,203 in three tranches corresponding to the phases of the campaign: USD 12,302,500 to WHO and UNICEF in June 2013, as well as USD 15,879,282 and USD 5,847,421 in August 2014 and October 2015 respectively to the FMOH. Gavi only transferred 60% of the phase III budget, i.e. USD 5,847,421 and not USD 9,796,056, because the FMOH still had ETB 186,115,122 (USD 9,206,925) in the bank in June 2015, after phase II activities.

Out of the USD 15,879,282 (ETB 320,994,757) that was earmarked for phase II campaign activities in 2015, FMOH could only provide a budget breakdown for ETB 130,036,460 (41%) that it transferred to the regions. Correspondingly, there was no budget available for the remaining fund balance of ETB 190,958,296 (59%). In the absence of a detailed budget, the Audit Team could not ascertain the activities planned or how the overall budget amount was arrived at.

Cause

The FMOH elected to allocate funds to the regions differently from budgets that the regions and zones developed by the microplanning process. The FMOH management indicated that assumptions contained in micro-plans resulted in excessive budgets, however the Audit Team was not provided with documents to validate this. Further, the FMOH does not require regions, zones and woredas to adhere to common approaches and work plans allocating funds to programme activities nor were sub-national budgets consolidated into an overall revised budget.

Risk

In the absence of a complete detailed budget, the designated work plan of activities to be implemented at sub-national levels may not be executed in accordance with the micro-planning process. Further, the FMOH will not be able to control the budget i.e. to make sure that use of funds was limited to the activities in the approved work plan.

Recommendation 4 (Critical)

In future the FMOH should:

- a) ensure that micro plans developed through the nation-wide stakeholder consultative process are realistic and are the basis for cash transfers to regions, zones and woredas. The FMOH should formally review and approve all material changes to the approved micro-plans and budgets;
- b) cascade the approved micro-plans and detailed budgets to regions, zones and woredas as the basis for programme implementation.

Management comments

Management agrees with the recommendation.

Since the period of audit, tremendous improvement has been recorded in the exercise of developing quality and realistic micro plan; so that the executed budget and micro plan budget is aligned.

Taking the feedback of the audit team into account, FMOH has already started preparing micro plan template in line with the GAVI VIG template, which is helpful to transfer earmarked budget to Regions and down to the woredas and kebeles. The Ministry will also ensure that micro plans are realistic and any material changes are approved before budget disbursement. The ministry underlines the fact that the reason for not strictly using micro-plans for allocation of budget was due to an excess request that comes from each region, which usually is above budget. However, it will continue to standardise and work closely with regions to improve realistic microplanning. Such microplanning process be in effect by January 2017 from the upcoming Measles campaign. The national and regional EPI teams will be responsible to expedite the recommendation.

4.2.2 FMOH not able to systematically track and report expenditure against budget

The FMOH's Standard operating procedures⁵ for development partner funds requires that, "finance and Grant Management units monitor budget execution by filling monthly budget and actual expenditure figures into a budget-monitoring tool. With the completed budget monitoring tool, the finance department liaises with programme implementation departments to critically analyse root causes for budget variances and agree corrective actions."

The FMOH did not monitor "budget execution" for Gavi's funding or prepare fund utilisation reports as required. The accounting system for Gavi funds (Peachtree) did not capture and track budget figures. Budget codes were different from accounting codes or cost headers, and there was no mapping between these two sets of codes. Furthermore, the budgets for disbursements to regions were disaggregated by activities e.g. HR cost, supervision, training, social mobilisation, fuel & transport and waste management. In contrast accounting records tracked expenditure by cost headings, such as per diem, hall rent, stationary, fuel transportation, office supplies, and local training. Thus, analysis of actual expenditure against budget was not possible for activities undertaken at the central level, regions, zones or woredas.

Because the required budget monitoring was not being performed, there was an absence of documentation on file to explain several significant budget overruns on certain Meningitis A campaign activities. On further enquiry as to the source of the additional funds for these activities, it was noted that the FMOH could not identify from which other activities the necessary savings were obtained.

Table 9: Difference between budget and actual disbursements for Meningitis A campaign

Meningitis A Campaign	Budget (USD)	Disbursed (USD)	Excess disbursement (USD)	Additional disbursement (%)
Routine immunisation	2,278,096	4,429,289	2,151,194	94%
Distribution of vaccines	1,562,734	1,779,682	216,948	14%
Total	3,840,830	6,208,971	2,368,142	

Cause

The FMOH did not record expenses in its general ledger system against budget because; the codes used for classifying budgets were different from those used for reporting expenditure. In addition, the FMOH did not use the same budget at the various levels i.e. central, regions, zones and woredas.

Risk/Effect

Without adequate budget monitoring, the FMOH, regions, zones and woredas cannot effectively track and report expenditure against the work plan that Gavi approved.

The FMOH is not be able to timely identify and address any under-performance, gaps in implementation or cost overruns.

Recommendation 5 (Critical)

⁵ Standard operating procedures for development partner (donor) funded program/projects published in 2013.

The FMOH should:

- a) Develop budget codes aligned with the chart of accounts descriptions used for recording expenses at the FMOH, regions, zones and woredas. Each level should record the use of funds using the aligned codes to generate a fund utilisation report.
- b) Ensure that all implementing entities should submit the required fund utilisation reports timely, in a format which includes detail on expenditure against each specific activity, in accordance with the activity budget/ work plan;
- c) Ensure that the Finance Department consolidates fund utilisation reports for all implementing entities, obtains explanations for material variances against budget and reports onward to senior management at FMOH as well as Gavi.

Management comments

Management agrees with the recommendation.

The Ministry of Health and the government of Ethiopia in general has strong budget monitoring system that follows clear procedures of account and auditing requirements. The entire government and donors budget is managed through this system and it has been perfected over time. However, the capacity limitation on district and zonal level finance officers, augmented with high turnover of such staffs create inconveniences in record keeping and alignment between budget codes and activities during reports. However, the FMOH accepts the need to improve alignment of the charts of accounts and consolidation of regional spending against approved budget. Accordingly, management is determined to strengthen the budget monitoring mechanism, including documentation and timely reporting of budget utilisation. The FMOH will review and reorganise the current (accounting) system of expense coding to align it with the detailed budget as set out in the work plan and micro-plan.

The newly disbursed GAVI funding for Measles SIA 2016 will also be utilised and documented according to this newly aligned accounting system. Grant management unit is responsible to effect the recommended actions in collaboration with regional finance units. Finance and Procurement Directorate of the Ministry will ensure the timely consolidation of fund utilisation reports for all implementing entities in timely manner and provide explanation for actual expenditure variance against micro planned programme budgets if any.

The implementation of the above recommendation including the sensitisation of different government bodies at all levels will start from January 2017. Campaign supervisions will also include proper budgeting, documentation and reporting as one of their primary inspection criteria.

4.2.3 Vaccine Introduction funds used outside of approved parameters

Section 2.4 of the GAVI Vaccine Introduction Grant and Operational Support for Campaigns Policy, Annex 5 to the PFA states that, "The introduction costs covered by the Gavi grant are start-up investment costs, distinct from incremental recurrent costs resulting from the addition of a new vaccine to the immunisation schedule that would occur year after year. This grant is not intended to cover such recurring delivery costs."

In June 2011, Ethiopia submitted to Gavi a proposal to introduce Rotavirus vaccine into routine immunisation. In May 2013, Gavi approved the proposal and committed USD 2,469,000 to pay for introduction activities.

The majority of the grant was budgeted for various workshops and sensitisation activities. However, also included in the budget activities were particular activities such as USD 93,730 for the distribution of vaccines, training and IEC materials.

On 14 August 2013, Gavi disbursed USD 2,469,000 towards the approved activities for the Rotavirus VIG. Vaccine introduction took place in November 2013, with the exception of Somali regions where activities were deferred to August 2014. By 31 December 2015, the FMOH had spent only ETB 26,258,392 equivalent to 56% of the total budget of ETB 46,729,260 leaving an unspent balance of ETB 20,470,868 (44%). This material underspend of 56% brings into question the robustness of the budgeting process.

Thereafter, on 03 May 2016, the FMOH disbursed ETB 6,430,874 (USD 306,232) to the Pharmaceutical Fund and Supply Agency as an advance "for distribution of vaccines". Only USD 93,730 was included in the budget of the Rotavirus VIG for distribution of vaccines, training and IEC materials and thus USD 212,502 was in excess of budget. FMOH provided the Audit Team with two letters to support this payment. In the first letter dated 31 October 2013, the State Minister of FMOH requested PFSA to distribute vaccines for the Rotavirus campaign in 2014. To this letter was attached a Rotavirus vaccine distribution plan. With the second letter dated 5 October 2015, two years after the VIG activities, PFSA sought to recover 10% of the vaccination and related input costs from the FMOH. PFSA stated that they needed to hire additional cold rooms for the Rotavirus campaign. The Audit Team observed that the first letter did not state that FMOH would pay PFSA for the distribution activities. In addition, the 5 October 2015 letter from PFSA did not include the amount nor the basis by which the FMOH could compute this payment.

PFSA did not charge distribution costs to Gavi grants for either of the Measles or Men A campaigns that the FMOH implemented during the period covered by this audit but only for the Rotavirus. Moreover, the FMOH effected the payment in question two years after the Rotavirus activities were completed with the payment document indicating an 'advance'. During a meeting in Addis Ababa in February 2016 the Gavi country support team had advised the FMOH Finance Officer responsible for Gavi support, that such reprogramming was not acceptable. However, in May 2016 FMOH transferred the payment to PFSA.

As at June 2016, funds totalling ETB 9,531,526 (USD 439,366) of the original August 2013 rotavirus introduction grant disbursed were still held on account at the FMOH programme bank account.

Cause

The FMOH did not ensure the use of funds granted to introduce Rotavirus vaccine into the routine immunisation was limited to introductory activities and time.

Risk/Effect

If Gavi funds were not used in accordance with approved budgets and within planned periods, there is a risk that funds may not be used in accordance with the intended purpose.

The Audit Team is questioning whether the **USD 212,502** disbursed to PFSA in excess of the approved budget was used for approved activities on the Rotavirus VIG. Also, the balance on the Rotavirus grant of ETB 9,531,526 (USD 439,366), should be repaid back to Gavi.

Recommendation 6 (Critical)

In future, the FMOH should ensure that vaccine introduction funds are used only for start-up investment costs (i.e. when introducing a new vaccine into the immunisation schedule) and in accordance with the policy, and are not used for recurring or ongoing costs associated with routine vaccination.

The residual balance of any vaccine introduction grant funding or amounts that were not used for approved purposes or in accordance with the policy should be refunded.

Management Comments

Management disagrees with the recommendation and the assertion that funds were used outside the intended purpose.

The Ministry would like to reassure GAVI that vaccine introduction funds have been only used for their purpose despite a variation in time of budget disbursement. Rota vaccine introduction was conducted in November 2013. For the new vaccine introduction into the system, the distribution was made by PFSA up to the lower level. PFSA distributed not only vaccines but also IEC materials and recording formats for the introduction (Distribution plan attached (FMOH and PFSA's; Doc 15 and Doc 13).

As it is known, Adama cold room was constructed to increase the storage capacity in order to accommodate the new volume of rota vaccine. Unfortunately, during the introduction, the cold room was still under construction due to delays by the builder. Hence, PFSA was forced to lease cold room at the airport during import. Moreover, considering the voluminous nature of the vaccine, PFSA was compelled to deliver the vaccine in two rounds to most of the sites, which incurs additional costs on the vaccine distribution. Hence, the budget transferred, though, higher than the allocated budget, is agreed considering the aforementioned factors during the introduction of the vaccine. 10% vaccine distribution cost was agreed with PFSA, which is higher than the conventional 5% as a compromise to the actual cost of distribution. PFSA charges 15-20% distribution costs for sensitive materials such as vaccines, and this has been demonstrated in the cost of vaccine transition plan. However, MOH usually negotiates to lower any rates factoring other circumstances. Such agreements are conventionally established by considering the volume of transaction, quantity of supplies and other unforeseen events. Therefore, the 10% distribution cost was reached after such negotiation and request by PFSA. Though above the allocated budget, the payment was made because it was justified. MOH would like to clarify that No vaccine introduction grant has been used for routine immunisation expenses (there are no such expenses to be paid to PFSA so far as the transition is not fully completed).

However, the physical financial transfer was delayed simply due to late request of the payment by PFSA (PFSA request letter for rota payment appended- Doc 14).

Audit Team's Comment

The recommendation of the Audit Team i.e. that grants for vaccine introduction activities are used solely within parameters and time is derived from Gavi's 'Vaccine Introduction Grant and Operational Support for Campaigns Policy'. The same policy forms part of the partnership framework agreement

that Gavi signed with the Government of Ethiopia. Further, the FMOH did not provide the Audit Team with a computation of how it arrived at amount of USD 306,232 paid to PFSA or why such a payment was made two years after the vaccine introduction activities. For these reasons, the recommendation has remained unchanged.

4.2.4 Recurrent audit issues

The Audit Team reviewed seven auditors' reports covering the 2014 and 2015 expenditure from Gavi's Rotavirus, Measles and CSO grants. The internal audits covered controls within the FMOH at central and regional levels while the FMOH commissioned external audits specifically for Gavi grants. Both the FMOH's internal and external auditors throughout the past three years had systematically identified the control weaknesses and areas for improvement similar to those identified by Gavi's Audit Team in 2016. Table 10 below summarises the recurring audit issues:

Table 10: Recurring audit findings

Occurrence in financial years	Internal Audit		External Audit			Gavi Audit
	2014	2015	2013	2014	2015	2016
Observations						
FMOH						
Material amounts remaining unused at the end of the year (Plan of Work).	√	√		√	√	√
Advances to implementers and Regions remaining unsettled for longer than one year	√	√	√	√	√	√
No work plan for Gavi Programme	√	√				√
No separate bank account for programme funds and consequently no reconciliations are prepared for Gavi fund balances	√	√	√	√	√	√
Regions						
Expenditure outside the purpose of Gavi programme	√	√				√
Poorly described expenses– inadequate narrative accompanying expenditures			√	√	√	√
Difference between SOE and actual expenditure evidenced	√	√				√
No separate bank account maintained for Gavi funds			√	√	√	√

The internal audits covered the use of Gavi grants at the central level in 2014 and 2015, and then the regions of Gambela, Afar, Somali and Benishangul-Gumuz in 2015. The external audit on the other hand reviewed Rotavirus, Measles and civil society grants. In addition to the central level review,

external auditors visited Oromia, SNNPR, Amhara and Tigray in 2014, then Amhara, and SNNPR in 2015. The external audits for 2013 covered the Measles programme at FMOH.

At the time of the Programme Audit in 2016, management of FMOH had fully implemented 27% of the recommendations contained in internal audit reports, while 50% were in progress and 23% were not implemented. Similarly, 31% of the external audit recommendations were implemented, 12% were in progress and 57% not implemented.

The FMOH informed the Audit Team that it had taken actions to strengthen the internal audit function: (i) recruited seven additional staff, one of whom is an experienced chartered accountant; (ii) the internal audit and finance directors travelled to South Africa to attend a course on 'risk-based financial auditing'. In future, the federal government of Ethiopia plans to enhance the independence of the internal audit department with a reporting line to the Ministry of Finance and Economic Development as well as an independently constituted audit committee. However to adequately cover the 9 regions and 2 city administrations, the Internal Audit department needs further strengthening in terms of both staff and training.

The FMOH also stated that in order to address the emerging audit issues:

- (i) All finance managers and officers received training in financial utilisations, liquidation, and Grant Management concepts;
- (ii) During the 2015/2016 financial year, the FMOH has deployed 94 Grant Management officers to regions and zones to alleviate their human resource shortage;
- (iii) The Peachtree accounting system is being rolled out in 8 of the 11 regions.
- (iv) Every 15 days, regions are required to consolidate their zonal and woreda level utilisation and report the figures to the federal level.

These above actions, though commendable had not yet addressed specific weaknesses at the regional and zonal levels.

Cause

The FMOH and auditors did not allocate sufficient human and financial resources to follow up, address and closeout all of these audit recommendations. Such resources would be responsible for making system-wide changes that will prevent recurrence of these audit issues.

Risks/Effects

Audit issues which repeatedly occur on an extended period can be an indication of systematic control weaknesses and a failure by management to address and remediate audit issues.

Recommendation 7 (Essential)

FMOH management should put in place suitable mechanisms to ensure that it follows up and formally closes all valid and accepted audit issues.

Management comments

The management partially agrees with the recommendation.

The FMOH management has been implementing several initiatives and systems to fully address recurrent and non-recurrent audit findings. Through the direction and attention given by the top management, remarkable improvements in strengthening the existing controls have been achieved.

FMOH addresses audit recommendations based on their potential risks and impacts on its operation giving priority to the high impact ones first. Furthermore, the point explained as “recommendations not implemented” was due to a limited explanation given to the programme audit team on the main cause that it was not because recommendations were not implemented but are considered to be so until they were confirmed by the auditors. This couldn’t be addressed in the selected regions because the place of concerns didn’t fall into the categories of regions selected for subsequent audit works. However, the ministry has followed up and addressed majority of the audit findings and took corrective measures.

In the financial year 2017/2018, FMOH management will request both internal and external auditors to validate that recommendations have been acted upon and report accordingly.

4.3. Disbursements and Expenditure

	Audit Rating
<p><u>Disbursements – Advance management</u></p> <p>As at June 2016, approximately ETB 2,089,067 (USD 99,479), equivalent to 4% of the total Measles campaigns funds advanced to Oromia and SNNPR regions were not accounted for, even though funds had been disbursed between April 2013 and May 2013.</p> <p>Similarly, as at June 2016, approximately ETB 3,364,295 (USD 160,205) equivalent to 3% of the Meningitis A campaign funds advanced to the same two regions were not accounted for, even though funds had been disbursed between October 2014 and January 2015.</p> <p>Other overdue advances relating to disbursements made in October 2015 were also linked to this second campaign.</p> <p><u>Expenditure - funds used for indirect purposes</u></p> <p>Gavi funds totalling USD 65,568 incurred at the FMOH central level were spent on activities which did not directly relate to the approved programme. In addition, USD 388,253 of expenditure incurred at the sub-national levels was not supported with adequate documentation to enable the Audit Team to validate that it related to Gavi activities.</p>	<p>Partially satisfactory</p>

Introduction

The regions, zones and woredas were supposed to implement activities supported by Gavi, such as campaigns and vaccine introduction, within a limited time, for instance six months. However, regions settled advances after more than a year from the date when the FMOH transferred the funds.

The Audit Team reviewed a sample of three out of nine regions as follows: Oromia, Southern Nations Nationalities Peoples' (SNNP) and Afar. During the visits, the Audit reviewed supporting documentation for expenditure and assessed the timeliness and compliance with retiring FMOH advances of Gavi immunisation funds.

4.3.1 Long outstanding advances

The FMOH’s Grant Management manual for development donor funds, states that, “Any advances transferred to regions should not stay outstanding for one year. If so management of FMOH should take action to be utilised as quickly as possible.” The same manual also requires:

- If an implementer does not surrender accountability for an advance on time, the FMOH will not transfer funds to this entity for similar activities;
- At least 70% of the total funds transferred to the region are to be cleared within the year they are received; and
- Advances remaining unsettled after one year are outstanding and discussed at the two-monthly senior management meeting of regional heads with the Federal minister of health.

The same manual requires regions to submit Statements of Expenditure (SOEs) to the central FMOH 30 days after end of each quarter. An SOE is a quarterly summary of expenditure by account and programme.

The Ministry of Health has established a Grant Management unit at federal level. This unit and its equivalent at the regions are supposed to ensure timely and proper utilisation of grants based on allocated budget and approved activities. The Grant Management manual provides guidance for the timeliness, content and quality of financial reporting. The FMOH reports that over the last two years, regions have been reporting expenditures with improved timeliness than prior periods. However further improvements are required to ensure that regions comply with the Grant Management manual.

Observations at the Federal level

Between April and June 2013, the FMOH disbursed Gavi funds for the Measles campaign to its 11 regions. The Audit Team reviewed the management of immunisation advances to the three regions of Afar, Oromia and SNNPR. At June 2016, total cumulative advances of ETB 2,089,067 (**USD 99,479**) remained unretired for more than two years. Specifically, (i) Oromia Region had not yet cleared ETB 631,437 (USD 30,068), out of ETB 2,019,066 (USD 96,146) that the FMOH advanced on 29 May 2013 and (ii) SNNPR Region had not cleared ETB 1,457,631 (USD 69,411), out of ETB 16,141,356 (USD 768,636) that FMOH advanced in April and May 2013.

In October 2014, the FMOH disbursed ETB 119,375,692 (USD 5,684,557) to seven regions for a Meningitis A campaign that covered 27 zones and 257 woredas. The campaign activities took place between 25 October and 3 November 2014. At the time of the audit in June 2016, two of the regions sampled, i.e. Oromia and SNNPR regions, had not yet accounted for a further ETB 3,364,295 (USD 160,205) or 3% of these amounts advanced by the FMOH.

Other Regional reporting issues

During its visit to the SNNPR region, the Audit Team noted that the Shebedino woreda in Sidama zone had duly submitted its SOEs to the zone with only one and a half to two months delay. However, the zone failed to turnaround this submission, and only prepared SOEs for the related expenditure with a delay of 20 to 36 months. Similarly, Sudo Zuria and Humbo woredas, in Wolayita zone, submitted reports to the zone within two months, but the zone failed to turn around these submissions requiring a further 7 and 27 months to submit SOEs to the federal level.

The FMOH provided the Audit Team with copies of letters by way of which the Federal Minister of Health reminded heads of regional health bureaus to submit their SOEs on a timely basis.

Cause

Regions did not comply with the Grant Management manual requirements for retiring advances. The FMOH did not enforce requirements of the manual to ensure that regions comply with all provisions.

Risks/ Effect

There is a risk that once approved activities are completed, balances remaining at regions and zones are spent on other activities without the approval of Gavi.

Recommendation 8 (Critical)

The FMOH should actively follow up regions to ensure compliance with provisions of the Grant Management manual. The FMOH should ensure that Regions account for funds advances within the financial year to which funded activities relate. The Regions should then account for activities implemented close to year-end within a period of six months after the financial reporting date.

Management Comments

Management agrees with finding and recommendation.

The FMOH standard is to have all regions submit SOE to the central level by the 15th day of the month following that in which they incur expenditure. Therefore, the recommendation is already in practice.

The Ministry however recognises that some funds have had longer outstanding balances that is expected and the Gavi Measles SIA is an example i.e. more than two years in at Afar, Oromia and SNNP of \$ 99,508 (Birr 2,089,067). This and other long overdue advances at regions are also being followed up by the minister and regional health bureaus on top of meticulous follow up by the JSC (Joint Steering Committee) in order to settle all long overdue advance in short period of time. Such an effort has resulted in a decrease in the total amount of long overdue Gavi advances from 2,089,067 ETB to 834,120.59 ETB after the audit. By advancing this promising process of follow up, the FMOH will ensure that regions complete submission of outstanding SOEs by August 2017.

Recommendation 9 (Essential)

The FMOH should work with development partners and regional governments to increase the capacity and capabilities of accounting departments at the Regions by deploying and training additional staff so that primary responsibilities, such as the turnaround and forwarding of zonal SOEs to the FMOH never takes longer than one month.

Management comments

Management partially agrees with the recommendation

Several capacity-building interventions are being implemented to strengthen the accounting departments at federal and regional level. These capacity building activities include trainings on audit checklist (prepared by the ministry), budget closing and recording, and timely sending of SOEs and their qualities. Particularly, the following actions have been taken to build the capacity of accounting departments at national and regional level.

- *The management has endorsed a proposal to increase the number of existing staff by 60%. This will surely bring significant structural and capacity change and enable to continuously follow-up on recurring and non-recurring audit issues. On-top of the transformational measures taken at Federal level, Intensive sub-national level capacity building and audit system strengthening has been put in place. All finance managers and officers have been given three rounds of training on financial utilisations, liquidation, and Grant Management concepts. These trainings are coupled with successive evaluation of progress made in addressing recurrent audit issues and strength of the financial and budget management. In 2015/2016 only, additional 94 Grant Management officers have been employed to regions and zones to alleviate their human resource shortage.*

- *In order to improve on timely financial utilisation and liquidation, a strong reporting and feedback loop system has also been established whereby regions send such report to federal Grant Management unit every fifteen (15) days by consolidating their zonal and woreda level utilisation. Concurrently, a regular cascade of feedback is given to each level based on their findings. Moreover, a financial transaction accounting system called Peachtree has been put in place in 8 of the 11 regions, in which 2 of them has cascaded to zonal levels. the rest of the zones use excel based accounting system with those in developing regional states using a manual accounting system.*
- *There is a national move to implement a unified financial system named Integrated Financial Management and Information System (IFMIS). The government has procured and distributed two hundred (200) computers to all regions and some zones to facilitate the implementation of the digital platform. An induction training has also been provided to finance officers on IFMIS. For developing regional states with infrastructural difficulty to collect financial utilisation and liquidation reports from lower administrative levels, supports including vehicles is provided to facilitate timely collection of SOEs and provide on-site support.*
- *Monthly supportive supervisions are being provided from federal to regions and in-turn to sub-regional levels. On a related noted, in order to ensure that all audit findings are rectified, followed up and timely feedback is given, In addition to strengthening the capacity of the federal audit team, internal audit units and personnel have been put in place in all regions. Each region's unit is staffed with 3 to 7 auditors and these units are provided with on-site supportive supervision on a quarterly basis from the federal audit directorate. The federal audit unit is strengthened by recruiting a high calibre auditor with an ACCA certification and recruitment of 6 new accountants.*
- *The audit director and finance director have attended training on risk based financial auditing in international training institution in South Africa. Some regions such as Tigray have even employed auditors at woreda level while other regions are doing so at zonal level. In addition to such technical capacity building, status of improvement on major audit findings is presented regularly to the political leadership on the joint steering committee meeting, which resulted in to recording considerable improvements in audit findings. Currently, the federal audit team is capacitated enough that its audit universe covers all regions.*
- *There is a national level movement by the federal government to fully make audit units independent of their host institution with reporting channel directly to the Ministry of Finance and Economic Cooperation. An independent audit committee is also planned to be established with a separate set of accountability and reporting channels. On top of the already addressed recurring and non-recurring findings, the aforementioned financial system strengthening endeavours and audit capacity building efforts will enable the ministry to further address and eradicate the outstanding audit findings.*

While we appreciate the feedback of the Gavi audit team, the Ministry believes that it is implementing what it takes to improve these limitations, and assures Gavi that the above narrated undertakings will continue at scale and depth. Despite remarkable improvements as evidenced and confirmed by the programme audit team

4.3.2 Expenses relating to the use of funds not properly evidenced

Section 20.1(c) of Annex 2 of the PFA states that, “the Government shall ensure that all expenses relating to the use or application of funds are properly evidenced with supporting documentation sufficient to permit GAVI to verify such expenses.” In addition, section 20.1(a) of Annex 2 states that, “the Government shall use the funds and vaccines and related supplies received from GAVI under a Programme for the sole purpose of carrying out the Programme Activities of such Programme.” However, the FMOH failed to comply with these provisions.

FMOH Central level

The FMOH and its implementers charged a total of USD 1,664,746 in central level expenditures to the Gavi-funded Measles grant. ETB 1,376,926 (USD 65,568) of Measles campaign funds was incurred to repair its vehicle fleet and purchase spare parts. The support documents however did not indicate the specific vehicles repaired or how this expenditure related to Gavi activities. Further, the FMOH did not provide the Audit Team with documentation for the basis of charging these repair costs to the Measles grant.

Sub-national level

Over the period 2013-2015, the FMOH disbursed approximately ETB 377,210,400 (USD 17,962,400) for Measles, Rotavirus and Meningitis campaigns in Oromia, Afar and SNNP regions. From the Audit Team’s sample review of ETB 10,785,408 (USD 513,592) of expenses incurred in these three regions, approximately ETB 8,310,969 (USD 388,253) or 77% of the supporting documents provided by the Regions, Zones and woredas did not show a direct link to the campaign activities.

Specifically, the supporting documents did not include details on which activities were undertaken, and instead provided only generic expense descriptions such as fuel, vehicle spare parts and repairs. Moreover, the finance and programme staff were not able to explain to the Audit Team the activities to which the expenses incurred related.

In isolated cases where the supporting documentation did include the necessary additional details, it was possible to identify that activities were undertaken which were not immunisation related. For example in 14 August 2007 and 08 July 2007, Bensa woreda in SNNP region incorrectly charged ETB 9,692 (USD 462) per diem expenses for intestinal worm prevention activities to the Gavi-funded Meningitis programme.

Table 11: Summary of expenses with control lapses

Programme	Expenditure reviewed (USD)	Inadequately Supported Expenditure (USD)	Ineligible (USD)	Expenses with lapses analysed by programme (USD)		
				Meningitis A	Measles	Rotavirus
SNNP Region						
Meningitis A	84,706	22,086	462	22,086		
Measles	49,819	970	-		970	
Rotavirus	6,422	60	-			60

Programme	Expenditure reviewed (USD)	Inadequately Supported Expenditure (USD)	Ineligible (USD)	Expenses with lapses analysed by programme (USD)		
				Meningitis A	Measles	Rotavirus
Sub total	140,947	23,116	462			
Afar Region						
Measles	82,431	82,431	-		82,431	
Rotavirus	952	952	-			952
Meningitis A	62,025	62,025	-	62,025		
Sub total	145,408	145,408	-			
Oromia Region						
Measles	45,435	38,592	-		38,592	
Rotavirus	28,547	30,114	-			30,114
Meningitis A	153,255	151,023	-	151,023		
Sub total	227,237	219,729	-			
Total	513,592	388,253	462	235,134	121,993	31,126

Cause

The FMOH did not put in place sufficient cost controls to ensure that earmarked donor funds were only applied to the purpose set out in the grant work plan.

Risks/ Effect

In the absence of adequate and complete documentation, the FMOH could fail to meet the PFA requirement to ensure that it properly evidences all expenses relating to the use or application of funds.

Recommendation 10 (Critical)

The Federal Ministry of Health through the support and supervision of activities should ensure that all Gavi-related expenditure has the appropriate supporting documentation linking the expense to a Gavi activity. The Ministry should maintain documentation to show how it apportions shared costs such as vehicle maintenance, fairly among the various funding sources.

For training expenditure:

- Attendance sheets containing complete information including details on each participant's: designation and duty station; the location of the event, and an indication of the time and duration of the event;
- Each participant should sign the attendance sheet on his/her own behalf; and
- All major events, including campaigns and training should be supported by suitable activity reports.

For per diem expenditure:

- Each per diem recipient should sign the payment voucher on his/her own behalf; and
- A supervisory checklist or suitable activity report should also be attached

Management Comments

Management partially agrees with recommendation.

FMOH recognises the need for proper documentation for all expenditure (Recommendation is already in practice).

The audit recommendation regarding training related expenditure is the Ministry's modus operandi. However there is a need to rectify per diem and fuel related expense incidents identified where gaps exist in the proper documentation of expenditures with clear indication of budget and source. Such lack of proper documentation to align each expense with programme activity is created due to capacity limitation and turnover of staff at the sub-national level.

In particular, to the FMOH central level expenditure labelled as not properly evidenced, MOH would like to explain as below. The cost of repair of vehicle and purchase of spare parts amounting Birr 1,376,926 (USD 65,568) is spent on vehicles of the ministry that have been used to support the national level Measles campaign. These vehicles have been used during the preparation period, campaign monitoring and post-campaign supportive supervisions. Since these vehicles were used for direct Measles campaign support for a prolonged period of time, their repair amount and related consumables are charged from Measles fund. In fact, we charged only 17% of the total annual vehicle repair and maintenance cost; and this is judged as fair share of vehicle services received by GAVI Measles grant activities. This is considered as a programme management budget, which is allowed in the VIG. Generally, 76% of the total annual vehicle repair cost of Birr 8,022,357.84 was covered by Government operational budget. The remaining was covered from other grants.

The FMOH will enforce compliance to the requirement for proposed accountability of funds through:

- *Increased support supervision to ensure proper utilisation of funds for the destined programme activity, in addition to technical support;*
- *Continue to ensure that participants always fill attendance sheets to confirm their attendance, and these sheets contain the name, region, organisation, contact and signatures of the participants. Moreover, a note requiring activity report and travel reports to be expedited, will be shared with each region for them to communicate their cost centres at subnational level.*

By 2017, series of supportive supervisions will validate that all regions are consistently implementing the modus operandi of the MOH whereby support documents are fully utilised and complete for Gavi funds spent at the sub-national level.

4.3.3 Exemption from duties and taxes

The 2013 Partnership Framework Agreement signed by the Federal Government of Ethiopia and Gavi states that, "funds provided under this Agreement shall not be used to pay any taxes, customs, duties, toll or other charges imposed on the importation of vaccines and related supplies. The Government shall use its reasonable efforts to set up appropriate mechanisms to exempt from duties and taxes all purchases made locally and internationally with GAVI funds."

However, the FMOH did not take specific actions to demonstrate that it exercised “reasonable efforts” to obtain such a tax exemption. As a result, over the past three years since the Framework Agreement was in place, the FMOH paid ETB 591,325 (USD 28,158) of Gavi grant funds to the Government of Ethiopia as Value Added Tax (VAT).

Cause

The Ministries of Finance and Economic Development and Health and Child Care did not follow up on exempting Gavi financial support from Government taxes.

Risk/Effect

Surplus taxes were unnecessarily paid on services and products. As a consequence, significant savings were foregone and less programme resources were available to fund immunisation activities.

Recommendation 11 (Essential)

The FMOH should submit a request to the Federal Ministry of Finance so that programmes funded by Gavi grants receive exemption from taxes.

Management comments

Management agrees with the recommendation.

Management believes that it is the duty of the Ministry to abide by the terms and conditions of the grants. All custom tax and duty taxes is covered from the government allotted budget. We are requesting Ministry of Finance and Economic Cooperation (MOFEC) to get the VAT paid from grants refunded back. Grants Finance case team of Finance and Procurement directorate is in charge to continuously follow up and effect this requirement for all grants.

The FMOH ensures that tax exemption for Gavi grants is in place, and a letter to MOFEC is written yearly to claim for refund. This follow up will continue for this year by June 2017 too.

Annex 1 – Summary of questioned amounts

Table 12: Summary of questioned expenditures.

Issue:	Amount (ETB)	Amount (USD)	Reference:
4.2 Budgeting and Financial Management			
Amount paid by FMOH to PFSA for distribution of vaccines and IEC materials, two years after the campaign was undertaken and in absence of adequate supporting documentation.	4,462,543	212,502	4.2.3 - Rotavirus VIG
Sub-total (A)	4,462,543	212,502	
4.3 Expenditure and disbursements			
Advances to Afar, Oromia and SNNP that regions failed to provide SOEs for longer than two years.	2,089,667	99,479	4.3.1 – Long outstanding advances
Measles campaign funds to repair its vehicle fleet and purchase spare parts.	1,376,926	65,568	4.3.1 – FMOH Central. Measles campaign
Per diem expenses for intestinal worm prevention activities to Gavi's funded Meningitis programme	9,692	462	4.3.3 - Funds not used for the purpose intended. Sub-national level.
Sub-total (B)	3,476,285	165,509	
Total (A + B)	7,938,828	378,011	

Annex 2 –Additional documentation, scope and status of historic recommendations

Table 13: Summary of questioned amounts in detail: Measles Programme

Location	Account ID	Account Description	Date	Reference	Description	Amount	Amount USD
<i>Cost to repair of vehicle fleet charged to Measles programme</i>							
FMOH	6241-G-SI	Vehicle Maintenance	9 Mar 2013	05-EJV 0003/06	Teshsiga Manaye - JV#0044656	455,373	21,684
FMOH	6241-G-SI	Vehicle Maintenance	1 June 2015	EJV#009/07	Tilahun Melaku - JV#201725	477,492	22,738
FMOH	6241-G-SI	Vehicle Maintenance	22 July 2013	05-EJV 0001/05	Buzayhu Menigestu - JV#0044812	444,062	21,146
Sub -Total						1,376,927	65,568

Table 14: List of regions, zones and woredas visited by the Audit Team

State	Zone	woreda(s)
Oromia	East Showa	Ada'a and Boset
	Arsi	Hitosa and Limuna Bilbilo
	Jimma	Gera and Kersa
Southern Nations Nationalities & Peoples	Sidama	Shebedino and Bensa
	Wolayita	Sodo Zuria and Humbo
Afar	Zone 1:Awsi Rasu	Mille
	Zone 3:Gabi Rasu	Awash Fentale

Table 15: Status of implementing audit recommendations

15.1 Status of implementation of FMOH Internal Audit recommendations

Internal Audit scope:	Status of recommendations			Total
	Implemented	In-progress	Not implemented	
Central FMOH 2014	1	4	2	7
Central FMOH 2015	3	4	1	8
Observations at Regions (2014 & 2015)	2	3	2	7
Total	6	11	5	22
Percentage of total	27%	50%	23%	100%

15.2 Status of implementation of FMOH External Audit recommendations

Programmes:	Status of recommendations			Total
	Implemented	In progress	Not implemented	
Rotavirus	10	3	11	24
Measles	13	4	17	34
Civil Society grants	6	4	26	36

Programmes:	Status of recommendations			Total
	Implemented	In progress	Not implemented	
Total	29	11	54	94
Percentage of total	31%	12%	57%	100%

Annex 3 – Definitions of ratings and recommendation priorities

A. AUDIT RATINGS

The Gavi Programme Audit Team's assessment is limited to the specific audit areas under the purview and control of the primary implementing partner administrating and directing the programme of immunisation. The three audit ratings are as follows:

- **Satisfactory** – Internal controls and risk management practices were adequately established and functioning well. No high-risk areas were identified. Overall, the entity's objectives are likely to be achieved.
- **Partially Satisfactory** – Internal controls and risk management practices were generally established and functioning, but needed improvement. One or more high- and medium-risk areas were identified that may impact on the achievement of the entity's objectives.
- **Unsatisfactory** – 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.

B. PRIORITISATION OF RECOMMENDATIONS

The prioritisation of the recommendations included in this report includes proposed deadlines for completion as discussed with the Ministry of Health, and an indication of how soon the recommendation should be implemented. The urgency and priority for addressing recommendations is rated using the following three-point scale, as follows: Critical – Essential – Desirable.

Annex 4 – Classification of expenditure

Adequately supported – Expenditures validated on the basis of convincing evidence (evidence which is sufficient, adequate, relevant and reliable) obtained by the auditors during the carrying out of their mission on the ground.

Inadequately supported – This covers two sub-categories of expenditure:

a) Purchases: This is expenditure for which one or more of the essential items of documentary evidence required by the country's regulations on procurement are missing such as procurement plan, tender committee review, request for quotation, invoice, contract, purchase order, delivery note for goods and equipment, pro-forma invoice, the final invoice, etc.

b) Programme activity: This is expenditure where essential documentation justifying the payment is missing. This includes but is not limited to travel without a travel authorisation, lack of a technical report or an activity report showing completion of the task, signed list by participants. Lack of the same documents to support liquidation of advances/floats given for meetings/trainings/workshops etc.

Irregular Expenditure – This includes any deliberate or unintentional act of commission or omission relating to:

a) The use or presentation of documents which are inaccurate, incomplete/falsified/inconsistent resulting in the undue use or payment of GAVI funds for activities, or the undue, withholding of monies from funds granted by GAVI,

b) The embezzlement or misappropriation of funds to purposes other than those for which they were granted.

Ineligible expenditures – Expenditure which does not comply with the country's programme/grant proposal approved by GAVI or with the intended purpose and relevant approved work plans and budgets.

Annex 5 – Audit procedures and reporting

Audit procedures

Using risk-based audit procedures, the audit included an analysis of reported expenditure (in the Annual Progress Reports or any other periodical financial reports), inquiry/ discussions, computation, accuracy checks, reconciliation and inspection of records/ accounting documents and the physical inspection of assets purchased and works performed using grant funds.

The following procedures were carried out:

Stock management

- Reviewed a selective sample across various vaccines to establish if EEFO was complied with and if VVM is well monitored
- Reviewed Health Commodity Management Information System (HCMIS) data and compared with supporting documents (vaccine arrival and dispatch forms)
- For regions, zones and woreda level, reviewed the records to ascertain that VVM status is recorded and monitored given the long distances over which vaccines are transported i.e. from region, zones and woreda.
- Evaluated, for a selective period, instances of stock-outs across the different vaccines.
- On a sample basis, carried out inventory counts and tie to underlying records.
- Reviewed progress on insurance with PFSA to find out steps taken to increase premiums.
- For regions that have transitioned, visited one of them and understood what transition has taken place and if PFSA roles are clearly defined.

Financial management and budgeting

- Traced flow of funds from GAVI from USD to Birr Account and how balances are accounted for.
- Reviewed the processes around advances. Policies in place, process of disbursing advances and of accounting for advances
- On a sample basis, reviewed aging of specific advances to see how long it took to account for advances;
- Evaluated how the expenditures are controlled vis-à-vis the relevant grant work plan by comparing SoEs to specific advances to ensure that activities accounted for are in line with the approved activities;
- Ensured that each advance and transfer is linked to a GAVI specific activity;
- Ascertained Gavi grant balances across different grants, including ISS and PCV where there was a balance as at the beginning of the audit period of scope
- Reviewed expenditure on a grant by grant basis, for the period 2013-2015.
- Evaluated financial management practices vis-à-vis national Financial Management Act, with consideration for travel related costs, salaries and allowances, and per diems.
- Reviewed absorption of funds and determine reasons for low absorption, if any.
- Evaluated reporting and ensure that this ties to the accounting records and that reporting in the past has been accurate.

- Reviewed budget management processes and how budget monitoring is carried out and the coordination between finance and programme.

Programme Management

- Ascertained whether work plans & detailed budgets exist at the operational level and are applied in programme management
- Reviewed level of budget monitoring

Oversight

- Reviewed frequency and quality of the national and regional level supervision to the lower levels regarding funds disbursed.
- Reviewed internal audit reports and quality of review and status of follow up of recommendations.
- Reviewed the ICC minutes to understand the extent of review on management both on programmatic and financial performance.

Reporting

At the end of the audit, the Audit Team discussed key findings with the senior management team at the Federal Ministry of Health on 3rd June 2016 and shared a presentation that contained a summary of these findings.