

# Developing countries' healthcare systems



Question: Global Fund in the recent past suspended the funding to Uganda government citing gross financial misappropriation especially by Ministry of health officials. As a financial consultant, identify and discuss the practices and policies that could have led to this financial loss and suggest both internal and external controls that should be put in place to minimize the reoccurrence of such scenarios.

## 1. Introduction

Developing countries' healthcare systems are often funded by the donors' grants in addition to public funds from the governmental budgets. But in some cases, these funds may be mismanaged and this could lead to heavy financial losses hence depriving its beneficiaries. The mismanagement of those funds may take different forms: misspending, fraudulent misappropriation or embezzlement (The Global Fund To Fight AIDS, Tuberculosis and Malaria).

In this essay, we review the case of Uganda where The Global Fund To Fight AIDS, Tuberculosis and Malaria in 2005 suspended the country's funding following a release of an audit report that showed gross mismanagement of funds that were supposed to support the government of Uganda in its efforts to tackle AIDS, Tuberculosis and Malaria (Kapiriri & Martin, 2006).

The practices and policies that could have led to this mismanagement and embezzlement are identified and discussed together with the control measures, both internal and external, that should be undertaken to prevent such financial diversion in the future.

## 2. Practices and policies that could have led to financial mismanagement

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The problem of financial resources mismanagement seems to be widespread not only in developing countries but also in developed ones (Food and Agriculture Organization of the United Nations, 1997). Several inadequate practices and policies are reportedly involved in the occurrence of this problem.

#### 2. a. Non-existing clear financial norms and regulations/none compliance to financial norms and regulations

The lack of clear norms and regulations to provide guidance to those involved in the management of financial resources can create a way for them to mismanage the funds that they are supposed to manage.

Taking into consideration the case of Uganda, the lack of clear norms and regulations on how funds would have been used possibly created a financial managerial chaos that facilitated those who were in the positions of funds management, at each level of administrative ladder, to misappropriate or misuse them.

On the other hand, financial norms and regulations might have been in place but probably the management team, at different levels, was not compliant with them.

#### 2. b. Lack of transparency in administrative hierarchy, roles and responsibilities

Undefined organisational and reporting structure, unclear roles and responsibilities among members of various teams involved in funds

management might also have created managerial disorder which led to lack of financial accountability.

#### 2. c. Poor communication

Poor communication among members of different teams might also have been a key factor in funds financial management failure. Possibly, teams did not share key project documents about funds management for reviews before being released as official documents. Further, they might not have coordination forums in which they should have discussed financial issues with key stakeholders in the implementation of the projects.

#### 2. d. Managerial incompetence and unskilled financial/accountant officers

Incompetence in the management of funds and implementing the planned activities might also have led to the above financial loss. Financial procedures might not have been observed, this might have been the results of incompetent managers coupled with unskilled financial officers and accountants.

Further, according to Global Fund's 2009 Office of the Inspector General report on Lessons learnt from the country audits and reviews undertaken, Uganda's case, Principle Recipient' management of Sub-Recipient was poor as was shown by evidences in the report and this was one of the issues that the grant was suspended.

Stating the same source, there were poor internal controls at different levels either at Principle Recipient level or at Sub Recipient level as was evidenced by the report. For example, some amount of money estimated at 4, 939, 497

US dollars were not accounted for, adequate supporting documents for several transactions were missing, work plan and budgets were not abode by which resulted in several expenses not related to the programmatic budget and work plan. In addition, records related to the expenses like books of account were not properly kept. There were also cases of unsupported expenses and when supporting documents were found, they were actually counterfeit.

It is reported that professional financial management necessitates impeccable financial and auditing tools. Deficiency in financial supervision and control mechanisms leads to financial mismanagement like diversion or misappropriation of funds (Mobegi et al, 2012).

#### 2. e. Lack of active involvement of some key stakeholders

According to Kapingiri and Martins (2006), one of the reported possible causes of mismanagement of Global Fund grants in Uganda was low levels of civil society participation. According to Global Fund's requirements for grant eligibility, the participation of various stakeholders in the decision making is of paramount importance. But in Uganda, it was reported that part of key stakeholders, including civil society, who were supposed to be represented in Country Coordinating Mechanisms were not either involved or were lacking the capacity to provide meaningful inputs (Kapingiri & Martins (2006).

#### 3. Internal and external controls that should be put in place to minimize the reoccurrence of such scenarios

It is stated that there is one common thing in all businesses either in public or private businesses: " To be successful, they must control their operations". This means hiring the right people, pay them the right amount of salaries, order and receive the right products and services, etc (Libby et al, 2009).

To achieve this, it is important to establish and comply with specific procedures and policies which describe how the business should be run. These specific procedures and policies are controls which can be either internal or external. This theory is applied to the case under discussion.

### 3. 1. Internal controls

Internal controls are defined as set of methods an organisation puts in place in order to protect the theft of its assets, ensure the accounting information is reliable, boost effective and efficient operations, and ascertain that applicable laws, regulations and codes of ethics are complied with (Libby et al, 2009).

For the case of Uganda, given the shortcomings that were identified, internal control mechanisms should be enhanced and set to target them. The internal measures would include:

- Regular compliance audits: these audits would ascertain that the specific procedures, rules or regulations-set out by Global Fund and as described in grant agreement-to ensure the good management of grants are observed at every level of the management.

- Regular operational audits: these audits would study all operating procedures at all management levels in order to measure their performance in terms of effectiveness and efficiency. According to Hayes et al (2005), operational audits are not only limited to financial issues, they might also put more emphasis on other areas of the organisation ; structure, working approaches alike or other areas where evaluation is needed.
- Regular audits of financial statements: these audits would analyse the financial statements to ensure that they are accurate and in accordance with set criteria.
- Involving stakeholders in decision making process and enhanced communication: The involvement of stakeholders and improved decision making process concerning the implementation of Global Fund programmes could have been a cornerstone in the prevention of grants mismanagement. It is argued that if legitimate and fair decision making process were used, the suspension of grants could have been averted (Kapiriri & Martins (2006)).

Given that the poor communication between members of Country Coordinating Mechanism (CCM) was cited among the causes of grant mismanagement in Uganda, enhanced communication within CCM and with other stakeholders would be equally important in preventing such gross financial loss.

### 3. 2. External controls

To minimise opportunities for grants mismanagement in the future, external control mechanisms should also be enhanced. These include:

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- Global Fund should conduct regular and timely audits and reviews to ensure that the set guidelines for the management of its grants are observed.
- Independent auditors should be appointed and conduct audits on different levels of grants management. It is recommended by the Global Fund' Office of the inspector general that the external audit reports should be submitted to Global Fund not later than six months after the period to be audited ( Global Fund, 2009).
- Global Fund should update its guidelines regarding the management of grants to fill the gaps when they are identified.

#### 4. Conclusion

Proper Global Fund grants management is crucial in fighting against AIDS, Tuberculosis and Malaria whose mortality and morbidity rates are still unacceptably high in developing countries. Government of Global Fund-supported countries have the mandate to ensure that the grants are used in accordance with the set guidelines and the agreements signed between them and the Global Fund. Thus, this will avoid grants mismanagement or embezzlement cases and consequently reduce mortality and morbidity rates due to the above mentioned diseases.