

**INDIA COUNTRY COORDINATING MECHANISM (CCM)**  
**for**  
**The Global Fund - To Fight AIDS, Tuberculosis and Malaria**

**Minutes of the 44th India Country Coordinating Mechanism (CCM) Meeting held on 22<sup>nd</sup> Oct 2010**

The 44th meeting of the India Country Coordinating Mechanism (India CCM) was held at 2.00 p.m. on 22nd Oct 2010 at Ministry of Health & Family Welfare, Nirman Bhawan, New Delhi. A list of India CCM members and invitees present at the meeting is annexed (Annexure-I). The meeting was chaired by Ms. K. Sujatha Rao, Chair CCM and Secretary, Health & Family Welfare. She briefed the members on the agenda items and welcomed them.

**Agenda No. 1:** Presentation on KPMG's audit report on INP+.

Presented by: Anjali Kumar and V Subha, KPMG Forensic Services

KPMG presented a summary of findings and recommendations from the Draft Report on the Fiduciary Review and Institutional Assessment of INP+. Under the first component of KPMG's contract, the Fiduciary Review, KPMG noted that the allegations against INP+ fell into two categories.

The first category pertained to mismanagement of grant funds. The specific allegation was that the 8% of grant funds received by INP+ under the PACT and ACT programs and meant to be used for management or indirect expenses (overheads) related to the program, had been diverted to 'Positive Support Fund' or PSF, a related entity with the same key office bearers as INP+, in violation of grant rules. KPMG found that the funds for management had not followed the work and been passed on to SLNs and DLNs; instead they had been considered as INP+'s own resources. These balances appeared to have been transferred to PSF although the accounts for Global Fund monies were not exclusively used for Global Fund purposes. KPMG noted that there were multiple irregularities and inconsistencies in the way the transactions between INP+ and PSF had been reflected in audited financial statements. The sums involved may have totaled as much as INR 4.9 crores. The transfers made to PSF from Global-Fund related bank accounts appear to be in violation of Articles 4 (restricting use of grant funds to program purposes only) and Article 19 (barring transfer of grant funds to any related

entities) of the Sub-Grant Agreement signed between INP+ and PFI for various phases of the ACT and PACT programs.

The second category of allegations against INP+ pertained to mismanagement of the network of organizations that it represents including 9 SLNs. KPMG found that there appears to have been mismanagement of the network of organizations by INP+. Two organizations in the network, UPNP+ and NMP+ appear to have been discriminated against with respect to receipt of program funds. Funds had been stopped to UPNP+ in November 2008 and to NMP+ in April 2009 on grounds of poor accounting practices. The decision to stop funding was taken several months before the decision to dis-affiliate the two SLNs. Also there was no evidence to show that the decision to stop funds was taken by INP+ board. KPMG's review which was based on interviews with all 9 SLN representatives and review of books of accounts pertaining to the Global Fund grant at all 9 SLNs, found that accounting problems existed across the network, not just at NMP+ and UPNP+. The subsequent dis-affiliation of these 2 SLNs alone on the grounds of financial mismanagement also appears unsupported.

The Institutional Assessment of INP+ found several areas for improvement across three main areas of assessment viz. 1) Finance and Accounting, 2) Governance and 3) Program Management and Monitoring. KPMG's team made detailed recommendations to address these issues including development of a comprehensive and uniform accounting policy to be used across the network, inclusion of a Chartered Accountant in the Finance team at INP+ to improve capacity, measures to improve independence of board members at all levels of the network, development of a strict policy on transactions with related parties etc.

## **Agenda No. 2: Discussion and Decision on the INP+ Audit Report.**

### **Discussion:**

CCM, enquired about the status of the over 4 crores which was the transferred money that is currently in the fixed deposits in accounts of PSF. It was also checked whether the PSF had an FCRA approved account. CCM also enquired about the number of accounts that INP+ had. Typically, one project was required to have only one account. There is also only 1 FCRA account for any organisation.

KPMG clarified that they looked at 6-7 bank accounts which INP + mentioned to them as having GFATM money. INP+ had told KPMG, that only 2.8 crores were transferred but around 4.9 crores were actually transferred. When asked to provide a reason for the discrepancy of 2.1 crores, INP+ had told KPMG that 1.7 crores were transferred to

PSF on account of project work under direct costs. INP+ shows this transfer as their own program costs. KPMG mentioned that it had not verified the legitimacy of those project related transfers with associated donors including UNDP and NACO. When PSF's audited statement was scrutinized, INP+ statement on project –related transfers (1.7 cr) did not tally with the PSF project receipts. PSF accounts show only 93 lakhs which is less than the sum total of all the transfers made to PSF. The money was transferred to Pune account and was mentioned as being used for the construction of a hospital for PLHA community.

CCM mentioned that the management fee has been coming to INP+ as their own fund which should have been spent on grant management but was actually not done.

CCM mentioned that these statements should be verified with the bank statements. It was concluded that the transfer from INP+ to PSF was made from the GFATM –related bank account out of the 8% management fees which appears to be in violation of the GFATM Grant Agreement.

KPMG stated that all the 9 SLNs have accounting problems. There was no clear accounting policy before 31<sup>st</sup> Mar. There was also a high turnover of accounting staff. Many SLNs reported that they were made to write letters under pressure.

CCM mentioned that this was a clear and obvious issue for capacity building. CCM inquired about the mechanism to conduct the audit of SRs. CCM mentioned that if PFI had conducted an audit of INP+, then they would have known about the discrepancies in first couple of years of the grant.

The role of PFI as PR was raised by CCM. KPMG clarified that they had not received any audit report of INP+ from PFI, besides the RGN Price audit conducted in Jan 2010

It was discussed that RGN Price was hired by PFI in Jan 2010 to conduct an audit of INP+ following CCM discussions on the allegations against INP+. It was also stated that for GFATM Grants, SR provides audited utilization certificate to the PR. It was mentioned that the govt programs gets audited by CAG and LFA also audits the govt programs. Hence PFI should have been audited by LFA too.

CCM mentioned that the working group looked at this issue in Mar 2010. The audited reports stated that the management fees went to the corpus account of INP+.

CCM stated that if there was a provision of the 8% management fees, then INP+ must be right in taking it, but it was unclear how they utilised this management fees for the program and also mentioned that this fees cannot be transferred. It was discussed that 8% management fees if used for indirect expenses should flow to SLNs to follow the

work done and budgets for that work. CCM also felt that the management fee of 8 % could be understood but directing the funds to another entity is not right.

KPMG noted that PFI never audited the accounts of INP+ in the last five years. INP+ had their own audit firm-Karpagam and Co. KPMG mentioned that in the mismanagement of funds there were issues with accounting practices, lack of vouchers and bills and supporting documents were tampered with. KPMG recommended that it was a good practice to an internal audit of a grant. It is good practice to have auditors rotate every two to three years. In case of INP+, Karpagam & Co have been the auditors for the last 10 years. Mr. Shah is not an accountant. His son who manages the accounts and administration at PSF with him is an engineer by profession. There should be a qualified CA managing the accounts. KPMG mentioned that most accounting is done manually. Additionally, INP+ did not have a sound investment policy. Since there is livelihood issue it is difficult to separate roles. The INP+ board structure is such that there is inherent conflict of interest. There is also a communication problem within the organization. There are no fund release guidelines either.

It was clear that oversight function of PFI as PR was not in place. CCM felt that these irregularities should have been apparent to PFI, and also LFA. Disquiet about the management of some SLNs started to be publicly aired in early 2009. It was mentioned that the CCM was notified about financial mismanagement in the end of 2009.

The CCM questioned who was responsible for building the capacity of PR and SRs especially when a PR moves from one Grant to another.

CCM also wanted to understand what was meant by hearsay as mentioned in the document. KPMG clarified that hearsay was used to qualify statements that were made during the course of verbal discussions, statements which are not backed by documents. It was discussed that any oral statement can be retracted later; hence any oral statement should have a signature with it. CCM stated that the final report should reflect that oral statements had been made, rather than they were hearsay.

It was discussed that the INP+ would need significant support to improve governance especially if it was to respond to these irregularities and learn lessons. One suggestion was that it should be reconstituted with two independent and neutral observers from CCM to oversee the board. There was lack of accounting procedures hence it was required that competent accounting people should be put on board. There may be few in INP+ at the moment with these skills. Potential for conflict of interest was significant.

The implications of the findings for RCC were discussed. Lessons needed to be learnt. It was suggested that the PFI should ensure that the program funds are used only for running the program. The disaffiliated networks should be brought back. Any board

reconstitution should be acceptable to INP+ and PFI should help INP+ develop their policies. A resolution was needed, where both INP+ and PFI should see the report then be allowed to address shortcomings with a clear plan of action for RCC.

It was mentioned that Office of Inspector General (OIG) of GFATM had seen the draft report. How OIG would deal with the draft report and how the draft report would be released was a concern with OIG. The concern was that if the report was released, it may compromise any attempt for recovery of money, if this was a course of action OIG decided to embark upon. CCM would need to take a decision on how the final report was to be released on the website. The top right hand corner mentions that the report is confidential. This draft report was not disseminated outside the CCM Working Group and OIG will advise how to release a redacted final report. It was suggested that only the executive summary could be released.

It was discussed that CCM should write to The Global Fund to sort this matter and to consider implications for management of RCC . It was also suggested that the report should not be made public till the investigation was over. It would be an embarrassment and would put a question on the affected parties. It was felt that recovery of money would also be difficult. It was reiterated that SLN work should not be suspended. A court case /FIR would be required to recover money which is public money There should be a direction given for the utilization of 8% management fees for all organisations who are utilizing the resources. The direction should be given to PRs, SRs and SSRs and should be common to all. These comments should be shared with GFATM. CCM or PFI does not have any legal powers to freeze the accounts.

KPMG mentioned that the funds were currently available with PSF. PSF board has members from INP+ board. The Grant Agreement would probably be the instrument to take action to safeguard the funds. KPMG noted they were not sure if the recovery could be done unless the accounts were frozen. KPMG clarified that once the report is finalized, then action is beyond their purview.

Ms. Muttreja, Executive Director PFI informed the CCM that the report needs to be finalized by KPMG within 5 working days of CCM comments. GFTAM had asked PFI not to transfer any money to INP+. Hence PFI was funding SLNs directly but it would be impossible for PFI to fund 212 DLNs. Guidance would be needed from GFATM.

**Decision:**

CCM directed that the meeting minutes should be sent to both KPMG and OIG. PFI was requested to work with SLNs and get separate bank accounts opened for SLNs where money can be deposited for the RCC Grant. There should also be an effort to build capacities of SLNs on PFI's part.

CCM directed PFI to put its own audit and financial monitoring systems in order.

It was also suggested that guidelines should be developed and closer oversight of SR should be done. Also periodic check of bank accounts should be done. It was mentioned that PFI had already signed RCC agreement where INP+ was the SR. INP+ is important for the HIV movement. Hence CCM needs to play a supportive role in resolving this issue. In case INP+ does not continue as an SR, PFI should look at some mechanism that can be worked out to engage with PLHAs. It was also mentioned that certain individuals who have misappropriated the grant money, legal case should be against those individuals. Because of a few individuals, the entire organisation should not be put in jeopardy. There should not be a punitive action taken against PFI and INP+, but punitive action should be taken against certain individuals who were responsible for the mismanagement. An oversight plan is required to be put in place by CCM. There is also a clear requirement of building the capacities of the PLHAs.

KPMG was required to clarify the word hearsay as opposed to oral statements. KPMG also needs to give a summary roadmap based on their findings and their analysis.

**Agenda No. 5:** Any other business with the permission of the Chair.

With the permission of the chair, the subject of Round 9 grant signing of Migration component was brought up. GFTAM's requirement that that this grant was required to be signed before 10<sup>th</sup> Nov was mentioned.

Secretary Health & CCM Chair thanked the CCM members for participating in the meeting and the meeting came to an end.



K. Sujatha Rao  
Secretary Health, Chair CCM  
Ministry of Health & Family Welfare  
8th Nov 2010