



**World Health
Organization**

**PROGRAMME, BUDGET AND ADMINISTRATION
COMMITTEE OF THE EXECUTIVE BOARD
Twentieth meeting
Provisional agenda item 3.2**

**EBPBAC20/3
6 May 2014**

Report of the Independent Expert Oversight Advisory Committee

The Director-General has the honour to transmit herewith to the Programme, Budget and Administration Committee of the Executive Board, for the Committee's consideration at its twentieth meeting, the report submitted by the Chairman of the Independent Expert Oversight Advisory Committee (see Annex).

ANNEX

**FOURTH ANNUAL REPORT OF THE
INDEPENDENT EXPERT OVERSIGHT ADVISORY COMMITTEE TO THE
PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE**

MAY 2014

BACKGROUND

1. The Independent Expert Oversight Advisory Committee (IEOAC) was established by the Executive Board in May 2009 under resolution EB125.R1, with terms of reference to advise the Programme, Budget and Administration Committee (PBAC), and through it the Executive Board, on matters within its mandate, which include:

- review of WHO's financial statements, financial reporting and accounting policies
- provision of advice on the adequacy of internal control and risk management
- review of the effectiveness of the Organization's internal and external audit functions, and monitoring of the implementation of audit findings and recommendations.

2. The current members of IEOAC are:

Name	Date of appointment by the Executive Board¹	Decision reference
Mr Farid Lahoud (Chair)	January 2013	EB132(2)
Mr Mukesh Arya	May 2013	EB133(9)
Ms Mary N'Cube	May 2012	EB131(4)
Mr Robert Samels	May 2013	EB133(9)
Mr Steve Tinton	May 2013	EB133(9)

3. Mr Farid Lahoud (Lebanon) was elected by the Committee as its Chair, following the expiry of the two-year term of the outgoing Chair, Ms Marion Cowden (New Zealand). IEOAC expressed its appreciation of the significant contribution to its work of the exiting chair (Ms Marion Cowden) and members of the Committee (Mr John Fox and Mr Veerathai Santiprabhob), whose term expired in January 2014.

4. This report is the fourth annual report of IEOAC to PBAC, and summarizes progress achieved in its work throughout the 12-month period ending April 2014.

¹ Date of adoption of relevant decision by the Executive Board.

IEOAC meetings since the last annual report

5. IEOAC held its tenth, eleventh and twelfth sessions on 2–4 July 2013, 16–18 October 2013, and 1–3 April 2014, respectively, with agendas covering all areas of the Committee’s mandate, including the Organization’s internal controls, risk management systems and processes, the financial statements, accounting policies and disclosure practices, internal oversight matters, budgeting and budgetary control, the Internal Control Framework, accountability issues, the Office of Compliance, Risk Management and Ethics, the Staff Health Insurance Fund, WHO reform, business continuity and disaster recovery, information technology, and partnerships. In accordance with good practice, the Committee met privately, at each session, with the representative of the External Auditor and with the Director of the Office of Internal Oversight Services.
6. All the members of the Committee attended the aforementioned meetings.
7. Throughout its meetings the Committee received a commendable level of support by management and is thankful to the Director-General, personally, and to her team for their openness in sharing information with the Committee and for allocating enough time to listen to the Committee’s concerns and provide the necessary clarifications or answers.
8. IEOAC is scheduled to hold three further meetings before the PBAC meeting of May 2015 (in July 2014, October 2014, and April 2015).

INTEGRITY OF THE FINANCIAL STATEMENTS

9. IEOAC reviewed and discussed with the External Auditor and the Chief Financial Officer the underlying accounting policies, the reasonableness of significant judgements and the clarity of disclosures. It also met the External Auditor with and without management present to discuss the results of their examinations and the overall quality of the Organization’s financial reporting.
10. While the Committee’s discussions were extensive, this report only reproduces some of the most salient remarks for conciseness and convenience.
11. IEOAC reiterated its concern about the large unfunded long-term liabilities in both the Staff Health Insurance Fund and the Terminal Payment Account and recommended that both continue to be monitored closely, with regular reporting on the evolution of the deficit situation over time and any unexpected divergence from the planned deficit reduction path. It further recommended that the implications of the aforementioned liabilities be duly noted by the concerned governing bodies.
12. IEOAC has noted management’s explanations, supported by the External Auditor, regarding their implementation of International Public Sector Accounting Standard 23 on revenue recognition (in particular, pursuant to which WHO recognizes, up front, revenues from voluntary contributions received or pledged, in appropriate circumstances and where there are no payment terms specified by the contributor).

13. IEOAC also noted the explanations given in paragraph 7 of the Director-General's report for 2013,¹ which had been shared with it in final draft form, regarding the annual nature of the financial statements as required by the International Public Sector Accounting Standards and consequent revised Financial Regulation XIII, while the budgetary period remains a biennium, as per Financial Regulation II. IEOAC made no reservations or comments in connection with this practice.

14. In reliance on the reviews and discussions referred to above, and on the reported intention of the External Auditor to issue an unqualified opinion on the financial statements (such opinion not having been finalized in time for the Committee to review it) the Committee expressed no reservations in connection with the submission of the financial statements to PBAC and the World Health Assembly.

15. IEOAC further requested to receive (i) the External Auditor's Long Form report (which was not ready at the time of the IEOAC meeting), expected to encompass the External Auditor's findings and recommendations in connection with the internal control framework of the Organization, and (ii) the management replies thereon, together with action plans as appropriate (or justification for not agreeing with recommendation(s), as the case may be).

GOVERNANCE AND FINANCIAL SITUATION OF THE STAFF HEALTH INSURANCE FUND

16. IEOAC was given a briefing on the current situation of the Staff Health Insurance Fund covering its governance, investment performance, and financial position.

17. IEOAC views the Staff Health Insurance Fund, and its impact on the net asset value of WHO, as a material element of WHO's risk profile. As such, and beyond the remark of the Committee in paragraph 11 above (in connection with the unfunded liabilities), it recommends that the operations and financial statements of the Staff Health Insurance Fund be subjected to a high level of scrutiny and controls, and that the governance and reporting practices of the Staff Health Insurance Fund be revisited to enhance accountability and transparency to the stakeholders. It also recommends that the risk profile of the Staff Health Insurance Fund be closely mapped, managed and monitored.

18. In particular, IEOAC recommends that WHO complements its Staff Health Insurance Fund investment policy with a clearer definition of its risk tolerance (and related actions) with regard to investments and targeted returns.

19. IEOAC recommends consideration of the potential implications of the involvement of other participating entities and asks that future presentations on the funding situation of the Staff Health Insurance Fund encompass such entities, and their own deficit reduction progress, with a view to gain a dynamic sense of the deficit situation at periodic intervals. This should also include funding projections and the situation potentially arising in the event of individual entities ceasing to exist.

20. Given the size of the Staff Health Insurance Fund and WHO's prominent role and responsibilities in its administration, the IEOAC further recommends that the Director-General should henceforth approve the Staff Health Insurance Fund Annual Financial Report

¹ Document A67/43, Financial report and audited financial statements for the year ended 31 December 2013.

WHO REFORM UPDATE

21. Reform continued to be a key recurring item on the agendas of IEOAC's meetings. The Committee noted, with interest, progress in the implementation of the reform process. It noted the PricewaterhouseCoopers' second-stage evaluation report and introduction by WHO of a strengthened "project management approach" for reform delivery. The Committee commended management's initiatives in regard to the implementation of the reform process, and supports its actions in terms of creating a better monitoring framework. The Committee highlights the following risk areas.

22. **Thoroughness of the project management approach:** IEOAC suggests that the project road map should adequately address implementation plans including concrete deliverables, indicators, timelines, plus related monitoring and accountability arrangements.

23. **Effectiveness of the communication strategy:** IEOAC continues to consider the communication strategy, regarding the WHO reform process, as a key success factor. It fears that the communication strategy on reforms may still be inadequately or insufficiently articulated, which in turn may result in significant risks of delays or failures. The Committee has thus resolved to allocate time, in its future meetings, to evaluate, with management, its reform-related communication strategy in order to gain additional comfort regarding its effectiveness in engaging WHO's staff and other stakeholders.

24. **Adequacy of the human resources strategy:** IEOAC also considers both the new human resources strategy and related policies to be critical as main reform drivers but fears that insufficiently articulated policies and strategies will have a negative impact on the success of the reform efforts. The Committee will also seek to obtain additional comfort in its future meetings regarding the new human resources strategy.

25. **Governance of the reform process:** IEOAC also noted that the extent and depth of the change management process is unprecedented and the difficulties of implementing it all across the Organization should not be underestimated. While the Committee recognizes the importance of a core group driving the reform process, it also considers that the regional directors should be the main drivers of the WHO reform in their respective regions, in terms of both required structural and process changes. These need to be monitored and judged as to their adequacy by the overall reform of governance under the Director-General's leadership.

UPDATE ON THE FINALIZATION OF THE INTERNAL CONTROL FRAMEWORK

26. The internal control framework, and planned changes thereto, continued also to be a key item on the agendas of the Committee's meetings. In its meeting of April 2014, the Committee discussed with the External Auditor and the Director of the Office of Internal Oversight Services their observations regarding the control weaknesses. It also listened to management responses thereon and planned actions (which the Committee looks forward to receiving in a formal report). It also noted with great interest the management report on the new internal control framework. As a result of the aforementioned discussions:

- (a) The Committee noted the significant efforts exerted by management and received, with satisfaction, statements on reform-related accountability and control improvements. It also noted the positive trend of “operating effectiveness of internal controls in country audits”, and the accelerating implementation of audit recommendations (though there still is significant potential for enhancement).
- (b) The Committee continues, however, to look at the existing control weaknesses as a key risk affecting the organization’s achievement of objectives and, while recognizing improvements and management engagement, continues to be concerned with the systemic weaknesses and the reported ineffectiveness or underperformance of significant controls.
- (c) The Committee recommends that comprehensive, factual and tangible assessment of the overall control framework be undertaken and reported regularly in order to present a “dynamic view” of the management’s dashboard and in order to quantify progress of key performance indicators.
- (d) In connection with subparagraph (c), IEOAC recognizes the important progress that has been made in establishing a new internal control framework and a new accountability framework (which the Committee looks forward to examining in detail at its July 2014 meeting), which address existing gaps and where managers take responsibility for administration and finance aspects of their work. This represents an important and welcome change in the organizational culture.
- (e) In this regard, IEOAC also notes the recent improvements in monitoring tools for managers, particularly the management dashboard, which provides both financial and non-financial indicators.
- (f) IEOAC requested and received samples of the certification letters from assistant directors-general and regional directors and recommends that WHO further formalizes the certification process, under the auspices of the Office of Internal Oversight Services, to make sure that management as well as the Office can monitor which certification letters have been received and whether they have been duly signed. IEOAC also reiterates its recommendation for the regional committees to be among the guarantors of a well-functioning internal control framework, and its recommendation to broaden the scope of the certification/representation letters signed by assistant directors-general and regional directors beyond purely financial controls.
- (g) IEOAC is encouraged that the Office of Internal Oversight Services is currently recruiting additional staff to meet its mandate, which includes evaluation coverage.
- (h) IEOAC notes the persisting challenges in respect of WHO’s accountability framework in the form of still-missing or blurred reporting lines between headquarters and regional offices and between regional offices and country offices, both of which represent gaps still to be addressed.
- (i) IEOAC further notes that some challenges remain in regard to reporting on WHO’s fixed assets and general operating expenses and encourages the Secretariat to continue the remedial steps already taken in this respect, such as full integration of the inventory management system into the Global Management System in all regions.

27. IEOAC will continue to monitor the adequacy of the Organization’s internal controls.

UPDATE ON PROGRESS AND WORK PLAN OF THE OFFICE OF COMPLIANCE, RISK MANAGEMENT AND ETHICS

28. In continuation of its assessment of the internal control framework and of the accountability framework, IEOAC reviewed, with a keen interest, the functioning of the new Office. It recognized the strategic importance of its function and was pleased to note the ambitious deadlines adopted for the implementation of key improvements, notably the expected introduction of the new risk register in time for the PBAC meeting in January 2015.

29. IEOAC recognizes the value of the work of the Office and renews its support for this initiative. It looks forward to receiving a further update on progress towards the completion of WHO's risk register at its meeting in October 2014. IEOAC supports the suggested timetable for the preparation of the risk register as quickly as possible, despite the inevitable teething and implementation challenges.

30. IEOAC also highlighted the need to reconcile the risk register with the internal control framework.

31. IEOAC would welcome a revision of WHO's whistleblower policy, in particular in order to give more clarity to aspects falling within its broader definition and its normally understood scope, which goes beyond the protection of the whistleblower. Furthermore, IEOAC will require further assurance on the existence and robustness of the reporting process with regard to suspected incidents of fraud and wrong-doing.

32. IEOAC recommends that work on developing the planned new WHO code of ethics should be commenced as a matter of high priority.

UPDATE ON INTERNAL OVERSIGHT SERVICES

33. In the context of the broad scope of the mandate of the Office of Internal Oversight Services and the extent of the required audit, investigation and evaluation coverage throughout the Organization, IEOAC encourages the Secretariat to continue to leverage the Office's existing capacity. It is pleased to note that the Office had been subjected to a quality assurance review of its audit practices by PricewaterhouseCoopers under the practice framework of the Institute of Internal Auditors. The Committee looks forward to seeing the Office's plans for implementing the recommendations of this review. In connection with the IOS findings:

(a) IEOAC notes the high percentage of "significant" audit recommendations in relation to those of middle or low importance and suggests that the methodology and scoring system for arriving at this classification be revised and standardized throughout the Organization. Firmer guidance should be provided to each audit team when applying the criteria with a view to enhance the risk-weighted classification of findings, so as to enable management to apply a more targeted focus and to prioritize actions.

(b) IEOAC further recommends that management adopt a specific plan with firm commitments regarding the implementation results on observed weaknesses in the Office's reports, based on specific targets and indicators for the next year.

(c) IEOAC is concerned about the persisting recurrence of control weaknesses, often in the same areas, in the Office's reports on WHO country offices. It recommends that the regional directors report on this matter regularly to the Director-General, based on a pre-established set of clear criteria and indicators for the materiality and risk posed by these weaknesses. The IEOAC looks forward to be briefed regularly on the related progress.

(d) In the Committee's view, there is a need for a more rationalized cycle regarding the accountability for the implementation of findings of IOS reports. Currently, this starts with the issuance of an audit report from headquarters which ultimately gets reported to the World Health Assembly, while the remedial action mainly lies within the regional offices which report, however, to the respective regional committees.

VIDEOCONFERENCE WITH THE REGIONAL OFFICE FOR AFRICA ON SPECIFIC COMPLIANCE AND INTERNAL CONTROL ISSUES

34. In its meeting of April 2014, the Committee discussed in a videoconference call with the Director Administration and Finance, Budget and Finance Officer and Senior Compliance Officer of the Regional Office for Africa how better to assess the control challenges and the impact of reform in regional offices.

35. The Committee noted with satisfaction the direct involvement of Director Administration and Finance in the WHO reform team and the fact that the Regional Office appears to be aligned with headquarters in terms of the direction of the reform process. The Committee considers the full "buy-in" and commitment of all regional staff members, especially at WHO country office level, to the WHO reform process to be a key factor for its successful implementation in this Region.

36. The Committee was also reassured by the recent improvements made in the internal control system, such as the Regional Office's full integration into Global Management System, as well as its useful efforts to enhance compliance with audit recommendations through a special compliance team reporting directly to the Regional Director.

37. However, the Committee considers that some WHO country offices in the African Region are still struggling with infrastructural, staffing and funding problems that make them vulnerable and error-prone in their daily operations.

38. IEOAC notes that the effectiveness of the intercountry support teams specifically created to help country offices with their technical and administrative programme implementation has so far been mixed when viewed in the context of persistent audit concerns with direct financial cooperation, local procurement and fixed asset management.

OTHER MATTERS

39. Throughout its meetings and discussions, the Committee addressed several other subjects, in particular as follows. It was briefed on the structure of WHO's information technology function, the scope of its services and its funding situation. While the governance structure already exists for important information technology projects such as the Global Management System, the Committee is concerned that an appropriate global information technology governance structure is still missing in WHO and therefore recommends that this gap be addressed as a matter of priority.

- 40. IEOAC also considers that the responsibility for ensuring business continuity in WHO is still dispersed and recommends that a senior executive be given clear responsibility for this area.
- 41. IEOAC recommends that WHO ascertain the present commercial value of its main buildings within the perspective of WHO as a continuing venture.
- 42. IEOAC received, with a keen interest, presentations about the management dashboard, the reform website, and the risk register information technology platform.
- 43. The Committee introduced a number of administrative enhancements to its own functioning in order to improve the timeliness of its access to information, the clarity and relevance of such information, the alignment of its work with its mandate, and its annual planning.

**Farid Lahoud (Chair), Mukesh Arya,
Mary N'Cube, Robert Samels, Steve Tinton.**

= = =