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## **External and internal audit recommendations: progress on implementation**

### **Report by the Secretariat**

1. As requested by members of the Programme, Budget and Administration Committee at the Committee's thirteenth meeting in January 2011,<sup>1</sup> the present document provides an update of actions taken by the Secretariat to ensure full implementation of recommendations made in the reports of the external and internal auditors.

#### **INTERNAL CONTROLS AND COMPLIANCE**

2. The Secretariat appreciates the recommendations made in the internal and external audits, and continues to make steady progress in improving its performance in internal control, risk management and reinforcing a culture of compliance and accountability within the Organization. Access to Organization-wide, up-to-date administrative and managerial information in the Global Management System has enabled the Secretariat and the external and internal auditors to identify, propose and implement control improvements and respond more rapidly to vulnerabilities and risks. It has also facilitated the conduct of operational audits through desk reviews without the need for site visits, as indicated in the current report of the Internal Auditor.<sup>2</sup>

3. A milestone has been the finalization of WHO's updated Internal Control Framework, a summary of which was noted by the Programme, Budget and Administration Committee at its nineteenth meeting in January 2014.<sup>3</sup> In order to ensure, as requested by the Committee,<sup>4</sup> a consistent and comprehensive implementation of the framework, a Steering Committee has been established, consisting of both headquarters and regional staff, to oversee and coordinate its implementation.

4. In support of the implementation of the Internal Control Framework, a managers' guide and a checklist for internal controls are being finalized. These tools build on mechanisms that already exist across the different levels of the Organization. They will help to ensure that managers, within their delegation of authority, are fully aware of the applicable policies and procedures, what controls they are responsible and accountable for, and the related monitoring and reporting requirements.

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<sup>1</sup> See document EB128/3, agenda item 4.3.

<sup>2</sup> Document A67/46.

<sup>3</sup> See document EBPBAC19/3.

<sup>4</sup> Document EB134/3, paragraph 14.

5. The delegations of authority from the Director-General to the regional directors and assistant directors-general have been revised to include the responsibility for upholding the internal control framework in the areas under their responsibility and to make reference to the Letters of Representations that are required to be signed by all regional directors and assistant directors-general in the context of the annual closure and audit of WHO's financial statements. Furthermore, an "accountability compact" between the Director-General and the assistant directors-general has been developed with clear performance objectives, including the effective implementation of internal controls. This new tool will be introduced during 2014.

6. The new Office for Compliance, Risk Management and Ethics, which is now operational, has made progress in developing a harmonized risk management framework and processes for the Organization, to be introduced Organization-wide shortly. A more robust and systematic identification of risks will help to ensure that the right controls have been instituted for mitigation of those risks. The Office also has the important task of enhancing staff awareness and knowledge of compliance and control matters.

7. The Secretariat continues to develop and harmonize standard operating procedures and will introduce further enhancements to staff performance management and skills development at all levels. Correcting control weaknesses will also need further investment in the Global Management System and accompanying monitoring and reporting tools, including improvements to system-based validation and controls.

## **ACTION TAKEN ON AUDITS RECOMMENDATIONS**

8. In the 12 months to March 2014, the Office of the Internal Oversight Services closed 16 audit reports, of which 10 were reports issued before 2012.<sup>1</sup>

9. Progress was made during 2013 in addressing the long-standing audit recommendations for management and oversight of the Staff Health Insurance Fund (IOS 09/808); all but three recommendations are now closed. Issues remain with access to treatment for staff in some field offices and work is ongoing to establish conventions for both evacuation of and improved access to health care for field-based staff, particularly in the African Region.

10. The audit on global insurance coverage at headquarters (IOS 08/779) evaluated whether the management of WHO's business insurance coverage effectively protected the Organization, while providing value for money. Responding to the recommendations of this audit has required extensive consultations with a wide range of stakeholders, and has included a comprehensive review of WHO's insurance policies in multiple areas. Because of the specialized nature of this area, the Organization recruited in 2013 an insurance specialist to lead a small team focusing on insurance risk management. This new team has taken the lead in several cross-cutting initiatives, ensuring a comprehensive approach. The relevant recommendations that remain in progress are expected to be ready for implementation before the end of 2014.

11. Management of leave and absence was identified by the Office of the Internal Oversight Services as an area where the existing controls needed to be tightened (IOS 11/878). Since the

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<sup>1</sup> Since the Report of the Internal Auditor (document A67/46) was finalized, further progress has been made in closing pending audits. An oral update of the situation will be provided by the Internal Auditor as part of his introductory remarks to the governing bodies in May 2014.

issuance of the report, several measures have been taken to address the recommendations of this audit and to institute the required controls at different levels. For example, monitoring of leave and absence has been enhanced and action has been taken in cases of misconduct related to leave. To ensure implementation of all the recommendations, some changes to the Global Management System are necessary.

12. Efforts have also continued to implement the recommendations related to travel management (IOS 10/846). Special attention has been paid to improving documentation and training on travel policy and processes. In some cases, however, work remains outstanding, in particular for those matters that require enhancements to the Global Management System, such as the development and publication of new travel management reports for the System. Furthermore, some recommendations have not yet been fully implemented, pending further consideration of how the Organization wants to manage travel in the future.

13. The Global Service Centre in Kuala Lumpur has been subject to several audit missions since its establishment. As far as the audit on Employee Payables and Receivables (IOS 10/847) is concerned, controls around personal accounts are being further strengthened by the creation of a dedicated team under the Payroll Unit, focusing on monitoring as well as follow-up of any outstanding issues linked to personal accounts. Furthermore, the reporting capabilities are being improved and more robust systems and processes being developed. It is expected that the remaining recommendations under this audit will be closed in 2014.

14. The risk-based approach adopted for all internal payroll processes, recommended by the payroll audit in the Global Service Centre (IOS 12/885), has contributed to the closure of several audit recommendations during the past year. The items that remain open require longer-term solutions as they imply changes in other areas, for example revised payslips and electronic document storage capabilities.

15. In 2013, internal audit reports were issued on human resources (IOS 12/900), procurement (IOS 13/926) and accounts payable (IOS 13/937) in the Global Service Centre, and the External Auditor assessed its control processes. This level of audit scrutiny of the Centre demonstrates the high attention being given to ensuring that risks and controls are being properly managed across all its operations.

16. With regard to country audits, analysis of both internal and external audit recommendations has highlighted the need to tackle recurring control weaknesses more efficiently. Examples of areas where internal controls are not yet operating satisfactorily in some country offices, include the management of direct financial cooperation, procurement of services, asset management and imprest management (a form of a financial accounting system mainly used for small value payments at the country level). Also, observations have been made in several audits on the need to enhance the integrity of managerial information, for example, through a proactive recording and approval of transactions in the Global Management System.

17. The deficiencies in these areas are being rectified through the measures at the global, regional and country levels described in the following paragraphs.

18. Weaknesses in compliance with the reporting requirements for direct financial cooperation are being tackled through the introduction of a reporting tool in Global Management System and improved follow-up with country offices and health ministries, where necessary. Additional guidance and requirements for proposals for direct financial cooperation have been prepared in order to ensure

an adequate breakdown of proposed activities with a sound justification, and a full alignment with WHO country strategies and respective work plans. A global review of relevant policies is being undertaken with the aim of strengthening accountability for the use of direct financial cooperation funds. In 2014, the Office of the Internal Oversight Services will carry out an audit on the use of direct financial cooperation contributions globally, which will further assist in tackling problems related to direct financial cooperation in a comprehensive manner.

19. The global introduction of the new asset management system with bar-coding has been finalized, thereby allowing the Organization to become compliant with the International Public Sector Accounting Standards in this area. Some problems with asset management, however, remain at the country level, especially in the African region. Measures being implemented to strengthen accountability for fixed assets include migration of data on regional office and country office capitalized assets into the Global Management System, capacity-building and training of staff involved in asset management, and systematic implementation of standard operating procedures for asset management.

20. Some of the difficulties with procurement of services, which currently covers some 85% of WHO's procurement activities, can be attributed to its decentralized approach, the challenging operating environment in some locations, and the general complexity of this area. Currently, several different types of service contracts exist, each of which is linked to a defined type of procurement action, depending on the nature of the service provided. Recognizing the need to keep a close relationship between service procurement and programmatic needs, the Secretariat is currently in the process of redefining the policies linked to the use of different service contract types and the related approval flows in order to ensure better management of risks. At the same time, the quality of submissions is being improved through training of and guidance to staff and enhanced compliance measures. As part of the Global Management System transformation project, the control points for the procurement processes will also be reviewed.

21. An important development at the regional level has been the establishment of compliance units in several regions, with a role of both supporting staff as well as conducting compliance checks in high risk areas.

22. The strengthening of monitoring and oversight of imprest accounts in 2013 will continue throughout 2014. A dedicated position at headquarters is now responsible for overseeing the status of the monthly reconciliations and working with the regional offices to maximize the number of accounts whose reconciliations are completed on a timely basis with no old outstanding items. At the end of December 2013, compliance was at 92% for the 625 imprest accounts. Further analysis of the use of imprest accounts across WHO will be completed in 2014 in order further to improve the timeliness of reconciliations, minimize the transactions entered through imprest (to low value, non-recurring items) and further to clarify and enforce policies and procedures.

23. The African Region continues to make progress in closing audit recommendations through a more robust internal mechanism to monitor and support offices in implementing actions that result in the strengthening of the control environment. Of the five audit reports finalized in 2012 (Country offices in Angola – IOS 11/872, Uganda – IOS 12/883, Central African Republic – IOS 12/891, Mozambique – IOS 12/903 and the Regional Office for the African Region – IOS 11/874), the audit report on Uganda is closed and all the others will be closed by mid-2014 with the exception of that on the Central African Republic where the ongoing emergency is the main focus of the country office staff. Good progress is also being made in responding to the more recent audits; the audit on Guinea (IOS 12/904) has recently been closed and those on Liberia (IOS 12/908) and Senegal (IOS 13/921) are expected to be closed soon.

24. In the Eastern Mediterranean Region, two audit reports issued in 2012 remain open: internal control environment at the Regional Office for the Eastern Mediterranean post-GSM go live (IOS 12/893) and the audit on WHO Liaison Office for Somalia (IOS 12/897). The former is about to be closed with only three recommendations remaining, but the latter still has several open observations. In order to strengthen the capacity to address compliance and control issues, as recommended in the audit, a new position has been established in the Regional Office and a new staff member assigned for this work to cover Djibouti, Somalia, Sudan and Yemen in recognition of the challenges faced by these countries as a result of destabilization due to internal conflicts.

25. The External Auditor – the Commission on Audit, Republic of the Philippines – has now completed the first two years of the four-year mandate. Audits have been conducted at headquarters, in the Global Service Centre and five regional offices (Western Pacific in 2012; African, Eastern Mediterranean and European in 2013; and South-East Asia in 2014) and in five country offices (Bangladesh, Ghana, Philippines, Sudan and Turkey).

26. Through these visits, the External Auditor has obtained information from all levels of the Organization as part of his review to certify the financial report for the year ended 31 December 2013. Highlights from the Management Letters and the status of previous recommendations will be presented in the report of the External Auditor to the Sixty-seventh World Health Assembly.<sup>1</sup>

## **THE WAY FORWARD**

27. The Secretariat is committed to reducing the time it takes to bring audits into closure. Nevertheless, a few far-reaching recommendations are complex to implement, requiring major policy changes, financial investments, system changes or consultations with a wide group of interested parties. In such cases it is not always possible to take the required action within short timelines. Especially for country level audits, the difficult circumstances under which WHO sometimes operates in the field may hinder the pace at which audit recommendations can be processed. Moreover, there will inevitably be a period of time between the decision to improve controls, the implementation of the necessary measures, and the impact of these measures being seen.

28. Several areas of internal control, such as compliance with reporting requirements for direct financial cooperation, are a shared responsibility between WHO country offices and respective Member States. Therefore, any non-compliance with the requirements that is noted would require joint efforts in order to be properly corrected. The situation is challenging, particularly for operations in countries in complex emergencies and fragile States, where the operational risks for WHO are inevitably higher, but where there is a special need to support the health needs of the affected populations.

29. The Secretariat recognizes that further measures are still required to ensure that the internal control framework is implemented across the Organization in a comprehensive manner. However, the commitment for improvement is firm, as expressed on several occasions by the Director-General. Many initiatives are under way to confront the challenges faced by all levels and functions, namely, improved follow-up on all audit report recommendations, formalized risk management tools and practices, introduction of the revised Internal Control Framework, transformation of the Global Management System, enhanced communication and training plans, and strengthened standard operating procedures.

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<sup>1</sup> Document A67/45.

**ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE**

30. The Committee is invited to note the report.

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