



WORLD HEALTH ORGANIZATION

EXECUTIVE BOARD
105th Session
Provisional agenda item 7.4

EB105/25
2 December 1999

Financial Regulations and Financial Rules

Report by the Secretariat

BACKGROUND

1. The Fifty-second World Health Assembly, through resolution WHA52.20, requested the Director-General to undertake a study of the Financial Regulations and the Financial Rules of WHO. Particular attention was to be paid to the management of assessed contributions; principles and criteria governing casual income; the exchange rate facility; late payment of, or arrears in, Members' contributions; the Working Capital Fund (including replenishment arrangements); internal borrowing; the financial incentive scheme; and unliquidated obligations.
2. The **Financial Regulations** are the guiding principles that govern the framework within which the financial resources of WHO are managed. The **Financial Rules** supplement these guiding principles and provide a framework within which the Director-General determines specific policies and procedures for the implementation of the activities approved by the Member States. This financial framework must be governed by good practice and modern management.
3. The Director-General, as chief technical and administrative officer of WHO, has authority from the governing bodies to issue policy and procedure that govern the detailed implementation of the Financial Regulations and the Financial Rules. The financial framework must be sufficiently well defined to give clear parameters, yet broad enough to provide the Director-General the flexibility to meet changing circumstances.
4. The process and timeframe for any revision of the Financial Regulations and the Financial Rules to come into effect, after appropriate approval by the governing bodies, is indicated in Annex 1.
5. This report deals with the Financial Regulations only, since the Financial Rules flow from the Regulations. The Financial Rules will be examined in the light of the comments made by the Administration, Budget and Finance Committee and the Executive Board at its 105th session, and a report will be submitted to the Board in May 2000.
6. The following approaches were followed in reviewing the Financial Regulations:
 - the Regulations must provide an incentive to efficient management;
 - the Regulations apply to all sources of income and types of expenditure, allowing for the different way in which the regular budget and other sources of financing are approved and funded;

- the Regulations should reflect the sequence of events that occur in the financial cycle of the Organization, beginning with budget preparation, through financial reporting, to audit;
- the Regulations should not enter into detail, yet must be unambiguous.

7. The opportunity has also been taken to incorporate into the Financial Regulations some matters governed by Health Assembly resolutions. This simplifies and streamlines the financial framework. The proposed revised Financial Regulations are attached as Annex 2. Annex 3 provides details of the changes as compared with the current Financial Regulations.

ISSUES

8. Reform of the Financial Regulations and the Financial Rules must be seen as part of a broader modernization of WHO's financial framework which is aimed at greater efficiency and improved transparency. The other major components of this reform are a streamlining of procedures and processes; replacement of the WHO-designed financial system, now 20 years old, by purchased generic software; agreed Organization-wide business rules; and a planning and monitoring system linked to budget and accounting. None of the components will remain static, so further individual changes to the Financial Regulations and the Financial Rules will be necessary as part of ongoing reform and fine tuning.

9. In carrying out the review that led to the proposed revised Financial Regulations, special attention was given to specific issues identified in resolution WHA52.20, as explained in the following paragraphs.

Casual income

10. The approach to casual income has been completely revised. Several options were considered:
- that the term "casual income" should no longer be used, and should be replaced by "miscellaneous income";
 - that miscellaneous income should be the subject of an annual resolution by the Health Assembly to approve its proposed use; this is broadly similar to the current process for casual income;
 - that there should be no automatic return of funds to the Member States; this mechanism favours Member States in proportion to their assessed contribution, is cumbersome to administer, and does not contribute directly to the delivery of health programmes;
 - that miscellaneous income should be budgeted for; the onus would be on the Secretariat to carry out financial planning. In this way, the resources would be part of the wider budgeting process, and the budget would be more effective since it will be possible to pool resources and to look at the proposals on a strategic basis.
11. Proposed Regulation VIII itemizes the components of miscellaneous income, replacing the former casual income. Proposed Regulation V provides that the budget will in part be provided from miscellaneous income. This means that any use of such income will be subject to clear budgeting and will be approved by the Member States. At present there is no incentive to invest funds in order to earn

interest income on surplus liquidity, or to minimize unliquidated obligations, since use of this income does not appear to benefit international health programmes. More rigorous planning will reduce the level of unliquidated obligations. The approach proposed is consistent with that prevailing in other organizations of the United Nations system.

Exchange rate facility

12. No major change is proposed to the exchange rate facility (covered in proposed Regulation IV) although the revision sets out its purpose in greater detail. The value and utility of the facility have been reviewed in order to ensure that it is relevant and an effective use of the Organization's resources. The main advantage of the facility is that implementation of the regular budget is not affected by adverse exchange rate movements (nor by favourable ones). WHO has a long budget planning cycle, approximately five years from inception to realization. It is hard to predict exchange rate movements with any degree of reliability over such a period, despite the wide availability of economic forecasting and other data.

Late payments of, or arrears in, Members' contributions; financial incentive scheme

13. Late payments of, or arrears in, Members' contributions and a financial incentive scheme are closely related. Neither of these issues is currently addressed specifically in the Financial Regulations; the existing financial incentive scheme was approved by the Health Assembly in 1988, by resolution WHA41.12. Member States' contributions are required to be paid as of 1 January under current regulation 5.6, and proposed regulation 6.4. The existing, liberal, incentive scheme rewards Member States provided that they make payment before the end of the year in which the payment is due. The scheme is financed from the Casual Income Account. It uses an "s" curve to allocate among qualifying Member States the interest earnings that have been credited to the Casual Income Account. It does not appear to be particularly effective as an incentive scheme, given the high level of unpaid contributions in both dollar terms and number of Member States.

14. Management of the current incentive scheme is time consuming and not very efficient. Late payment by Member States increases administrative work, not only in following up on the status of Members, but also in managing the consequences of the effect on cash flow.

15. Several options were considered:

- to leave the scheme as it is; this does not fit with the proposals for casual income, and would not appear to improve effectiveness;
- to abolish any form of incentive scheme, which would be administratively convenient but would provide no opportunity for reward or sanction;
- to charge interest at market rates to Member States that do not pay in full and on time. This would not recognize the difference in circumstances between Member States that cannot pay on time because of legislative processes and those that do not pay for other reasons;
- to give a discount to Member States that pay before 31 March in the year for which the contribution is due. The discount would be calculated according to market rates, and would reward prompt payment. It would be simple to administer, and could be funded from the budget since it could be reasonably forecast.

16. The purpose of a financial incentive scheme should be to encourage Member States to pay when contributions are due, i.e. 1 January in each year. In order to make the incentive scheme more attractive to Member States that pay on time, or early, it is proposed that there should be no incentive unless payment in full is received before the last working day in March of the year for which the contribution is due. In order to relate the incentive to the cost of money, it is proposed that the incentive should be calculated at the London Inter-bank Bid Rate for the period equivalent to the time between the date of payment and 31 March. This amount could be applied as advance payment for the following year. The amount that may be necessary to meet this liability can be met from miscellaneous income and will therefore be projected as part of the budgeting exercise.

17. In order to improve the rate of collection of assessed contributions, a more active approach is being taken to dialogue with representatives of Member States. This will assist with the cash flow planning referred to above and which is necessary to ensure that WHO's liquidity is effectively managed. It will also make possible closer collaboration with Member States that may have genuine difficulty in paying their assessed contributions in full and on time.

18. Existing regulation 5.7 gives the Director-General authority to accept contributions in United States dollars, or Swiss francs, or other currencies in consultation with the Executive Board. This is somewhat restrictive on Member States, and does not allow for the most effective use of funds by WHO. Consequently, this regulation has been revised (proposed Regulation VI) to include specific reference to the euro, and to enable the Director-General to accept other currencies as she shall determine. This does not confer a right, or obligation, on Member States to pay in the currency of their choosing, but rather gives the Director-General an authority that can be used for efficient financial management.

19. Implementation of this proposed regulation will require careful management to protect WHO from the adverse effects of foreign exchange movements against the United States dollar. However, it is desirable because WHO incurs expenditures in a wide range of currencies and thus the existing regulation imposes a cost on WHO. Each foreign exchange transaction incurs a cost, the difference between the buying and selling rate, known as the "spread". This spread is becoming wider, because of changes in foreign exchange markets. The authority to accept contributions in other currencies will enable WHO to match currencies, thus reducing the loss due to the spread. Other organizations of the United Nations system widely use this facility to manage their financial operations more effectively.

Working Capital Fund, including replenishment arrangements, and internal borrowing

20. Operation of the Working Capital Fund has been set out more clearly in proposed Regulation VII. There is a relationship with the use of the internal borrowing facility. Both are useful mechanisms to assist in managing the cash flow of the Organization.

21. As a longer term objective it is expected that, as with the management of WHO foreign exchange exposures, financial modelling will make it possible to manage more effectively the liquidity of WHO in order to support health programme delivery. In the absence of more detailed Organization-wide financial planning (including cash flow forecasts, or projections), any level at which the Working Capital Fund is set is somewhat arbitrary. A cash flow model will be developed which will make it possible realistically to assess the financing needs of the Organization. Realistic proposals for the level of financing of the Working Capital Fund can thus be made to the Member States. An improved rate of collection from Member States is an integral part of this process.

22. The existing Regulations allow the Organization to borrow against other available resources. These resources exclude cash that is held in trust, such as the Staff Health Insurance Fund. The level

of borrowing that may be prudent will be assessed through financial modelling as referred to above, and will vary from time to time depending on a range of factors such as actual cash received, expected cash receipts, and payments to meet financial commitments.

Unliquidated obligations

23. The language concerning the obligation process over the end of a financial period or biennium has been revised to make it clearer and more explicit. Unliquidated obligations arise at the end of the year after the end of a biennium because the actual expenditure is less than the amount foreseen when the obligation was raised. As mechanisms are developed for global programme planning, which will ensure greater correlation between expected results and outcomes, the level of unliquidated obligations should be more efficiently managed. Part of the reason for a higher level of unliquidated obligations at the end of the biennium (which are credited to casual income at the end of the following year) is that managers are conservative in raising obligations in order to ensure that they have sufficient funds available to cover the payment liability that flows from the obligation.

Carry forward

24. In relation to unliquidated obligations at the end of the biennium, proposed regulation 4.6 authorizes the Director-General to carry forward financial resources from one biennium to the next. The carry over is limited to a maximum of 5% of the original budget, subject to funds being available. It is subject to the condition that such resources will be used only to carry out programme activities that were approved within the budget for the biennium from which the resources originate. There can be no carry over of any amount unspent at the end of the year following the biennium, since carry over applies specifically to activities planned for the preceding biennium, nor can the carry forward be added to the budget for the next biennium. The purpose of the proposal is to prevent any rush to spend resources at the end of the biennium, and the risk that pressure not to lose resources overrides good programme planning. Expenditures will be reported on as a separate fund within the financial statements, which will enable Member States to see exactly what has occurred, both the amount and the purpose.

Revolving funds

25. Proposed Regulation IX authorizes the Director-General to establish revolving funds, such as the Revolving Sales Fund, in order to use income generated to cover the costs of the activity involved.

Programme support costs

26. Resolution WHA34.17 authorizes the Director-General to levy a charge for programme support costs on extrabudgetary resources. This is reported on in the financial statements as the "Special Account for Servicing Costs" (AS funds). Use of this account, the costs charged against it, and the basis on which the programme support cost is levied have been reviewed. It is a complicated process that does not lend itself to clarity. A new approach is being developed that will be more transparent and simpler to administer.

27. The current policy regarding interest earnings is also complex, and it is proposed that these earnings could form part of the financing available to meet indirect support costs. The Regulations have been revised to give the Director-General the authority to levy a charge on extrabudgetary contributions, to reimburse all or part of the costs incurred in the generation and administration of

those resources, and to use for this purpose interest earned on the resources (proposed regulation 8.3). This is in line with practices in a number of other organizations of the United Nations system.

Transfer between appropriation sections

28. It has become an established practice for the Health Assembly to give the Director-General authority to transfer between appropriations by up to 10% without prior approval. Proposed Regulation IV maintains this authority. In addition now that budget structure and organizational structure are aligned, there is a proposed authority to make transfers between appropriation sections to reflect changes in the organizational structure of the Secretariat. Such changes in the organizational and budget structure do not in themselves affect the expected results of the budget as approved by the Health Assembly.

ACTION BY THE EXECUTIVE BOARD

29. Should the Board agree with the proposed revision of the Financial Regulations, it may wish to adopt a resolution along the following lines:

The Executive Board,

Having considered the report on the proposed revision of the Financial Regulations,¹

RECOMMENDS to the Fifty-third World Health Assembly the adoption of the following resolution:

The Fifty-third World Health Assembly,

Having considered the revisions to the Financial Regulations proposed by the Director-General and endorsed by the Executive Board at its 105th session,

ADOPTS the revised Financial Regulations.

¹ Document EB105/25.

ANNEX 1

FINANCIAL REGULATIONS AND FINANCIAL RULES TIMETABLE AND PROCESS

FINANCIAL REGULATIONS

- | | |
|--------------|--|
| January 2000 | The Executive Board considers the proposals of the Director-General for recommendation to the Health Assembly |
| May 2000 | The Health Assembly considers the proposals of the Director-General and the recommendations of the Executive Board; approves the revised Financial Regulations |
| May 2000 | Revised Financial Regulations become effective |

FINANCIAL RULES

- | | |
|--------------|--|
| January 2000 | Director-General revises Rules after consideration of revised Financial Regulations by the Executive Board |
| May 2000 | The Executive Board confirms the Financial Rules |
| May 2000 | Revised Financial Rules become effective |
| May 2001 | The Health Assembly notes new Financial Rules |

Financial statements for the 1998-1999 biennium will be prepared in line with the existing Financial Regulations and Financial Rules, but with a clearer presentation in order to make them more accessible and relevant to the needs of Member States and other interested parties.

Financial statements for the 2000-2001 biennium, including the interim financial statements for 2000, will be prepared in line with the revised Financial Regulations and Financial Rules.

At the same time, the internal financial procedures of WHO are being revised and updated in order to ensure they are responsive to programme needs, and represent best financial practice with appropriate internal controls.

ANNEX 2

PROPOSED REVISED FINANCIAL REGULATIONS OF THE WORLD HEALTH ORGANIZATION

Regulation I – Applicability and Delegation of Authority

- 1.1 These Regulations shall govern the financial administration of the World Health Organization.
- 1.2 The Director-General may delegate to other officers of the Organization such authority as he or she considers necessary for the effective implementation of these Regulations.

Regulation II – The Financial Period

- 2.1 The financial period shall be two consecutive calendar years beginning with an even-numbered year.

Regulation III – The Budget

- 3.1 The budget estimates for the financial period, as referred to in Article 55 of the Constitution (hereinafter referred to as “budget proposals”), shall be prepared by the Director-General.
- 3.2 The budget proposals shall cover income and expenditure for the financial period to which they relate, and shall be presented in United States dollars.
- 3.3 The budget proposals shall be divided into parts, sections and chapters, and shall include such information, annexes and explanatory statements as may be requested by, or on behalf of, the Health Assembly and such further annexes or statements as the Director-General may deem necessary and useful.
- 3.4 The Director-General shall submit the budget proposals at least twelve weeks before the opening of the regular session of the Health Assembly, and before the opening of the appropriate session of the Executive Board, at which they are to be considered. At the same time, the Director-General shall transmit these proposals to all Members (including Associate Members).
- 3.5 The Executive Board shall submit these proposals, and any recommendations it may have thereon, to the Health Assembly.
- 3.6 The budget for the following financial period shall be approved by the Health Assembly in the year preceding the biennium to which the budget proposals relate, after consideration and report on the proposals by the appropriate main committee of the Health Assembly.
- 3.7 Should the Director-General, at the time of the session of the Executive Board that submits the budget proposals and its recommendations thereon to the Health Assembly, have information which indicates that there may, before the time of the Health Assembly, be a need to alter the proposals in the

light of developments, he or she shall report thereon to the Executive Board, which shall consider including in its recommendations to the Health Assembly an appropriate provision therefor.

3.8 Should developments subsequent to the session of the Executive Board that considers the budget proposals, or any of the recommendations made by it, necessitate or render desirable in the opinion of the Director-General an alteration in the budget proposals, the Director-General shall report thereon to the Health Assembly.

3.9 Supplementary proposals may be submitted to the Board by the Director-General whenever necessary to increase the appropriations previously approved by the Health Assembly. Such proposals shall be submitted in a form and manner consistent with the budget proposals for the financial period.

Regulation IV – Regular Budget Appropriations

4.1 The appropriations voted by the Health Assembly shall constitute an authorization to the Director-General to incur contractual obligations and make payments for the purposes for which the appropriations were voted and up to the amounts so voted.

4.2 Appropriations shall be available for obligation for the financial period to which they relate. The Director-General is authorized to charge, as an obligation against the appropriations during the current financial period, the cost of goods or services which were contracted during the current financial period, and which are to be supplied or rendered during that period or within the year following the end of the period.

4.3 The Director-General is authorized to make transfers between appropriation sections in order:

- (a) to reflect changes in the organizational structure of the Secretariat;
- (b) to effectuate substantive adjustments in expenditures up to an amount not exceeding 10% of the amount appropriated for the section from which the transfer is made. Transfers exceeding 10% may be effected only with the prior agreement of the Executive Board or any committee to which it may delegate the appropriate authority.

All such transfers shall be reported in a financial report for the financial period concerned.

4.4 At the same time as budget proposals are approved an exchange rate facility shall be established by the Health Assembly, which shall set the maximum level that may be available to cover losses on foreign exchange. The purpose of the facility shall be to make it possible to maintain the level of the budget so that the activities that are represented by the budget approved by the Health Assembly may be carried out irrespective of the effect of any fluctuation of currencies against the United States dollar at the official United Nations exchange rate. Any net gains or losses arising during the biennium shall be credited or debited to miscellaneous income.

4.5 Unliquidated obligations in respect of the regular budget for the current financial period may be carried forward to the following financial period to make it possible:

- (a) to complete activities for which the obligation was originally raised by the end of the first year of the following financial period;

- (b) to pay for all goods and services rendered, including those under the obligations referred to in regulation 4.5(a), by the end of the second year of the following financial period.

At the end of the financial period, any unobligated cash balance of the appropriations shall be credited to miscellaneous income. Any unliquidated obligations from the prior financial period shall at that time be cancelled and credited to miscellaneous income. Should the claim related to the obligation continue to exist against the Organization, a new obligation against the appropriations for the current financial period shall be established.

4.6 At the end of each biennium the Director-General may carry forward to the next biennium an amount not exceeding 5% of the budget approved by the Health Assembly for the biennium that is ending, provided that the amount that remains unobligated at the end of the biennium is adequate to cover the amount to be carried forward. The amount carried forward may only be obligated for activities that were planned and approved as part of the budget approved by the Health Assembly for the biennium from which the carry forward shall be made. The amount carried over shall be in addition to the budget approved by the Health Assembly for the new biennium, but shall not be available for new activities approved for that biennium.

4.7 Any unobligated balances within obligations issued under regulation 4.6 shall be credited to miscellaneous income if not utilized one year after they have been carried forward. Unliquidated cash balances shall be transferred to miscellaneous income two years after the date on which they were carried forward.

4.8 Expenditures incurred in respect of any amount carried forward as provided in regulation 4.6 above shall be reported on in the financial reports as a separate fund.

Regulation V – Provision of Regular Budget Funds

5.1 Appropriations shall be financed by contributions from Members, according to the scale of assessments determined by the Health Assembly, and by miscellaneous income.

Regulation VI – Assessed Contributions

6.1 The assessed contributions of Members based on the scale of assessments shall be divided into two equal annual instalments. In the first year of the financial period, the Health Assembly may decide to amend the scale of assessments to be applied to the second year of the financial period.

6.2 After the Health Assembly has adopted the budget, the Director-General shall inform Members of their commitments in respect of contributions for the financial period and request them to pay the first and second instalments of their contributions.

6.3 If the Health Assembly decides to amend the scale of assessments, or to adjust the amount of the appropriations to be financed by contributions from Members for the second year of a biennium, the Director-General shall inform Members of their revised commitments and shall request Members to pay the revised second instalment of their contributions.

6.4 Instalments of contributions shall be due and payable in full as of 1 January of the year to which they relate. Any payments received before 31 March in the year to which the contribution relates shall

receive a discount equivalent to interest calculated from the date of payment to 31 March at the London Inter-bank Bid Rate for the relevant period.

6.5 As of 1 January of the following year, the unpaid balance of such contributions shall be considered to be one year in arrears.

6.6 Contributions shall be assessed in United States dollars, and shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.

6.7 Payments made by a Member shall be credited to their account and applied first against the oldest amount outstanding.

6.8 The Director-General shall submit to the regular session of the Health Assembly a report on the collection of contributions.

6.9 New Members shall be required to make a contribution for the financial period in which they become Members at rates to be determined by the Health Assembly. When received, such unbudgeted assessments shall be credited to miscellaneous income.

Regulation VII – Working Capital Fund and Internal Borrowing

7.1 Prior to the start of each biennium the Director-General shall review the level of financing that may be necessary to cover variances in the timing of the cash flow. The amount of financing that may be necessary may be provided from the Working Capital Fund and by internal borrowing against available cash reserves of the Organization.

7.2 The Working Capital Fund shall be financed by the Member States from the regular budget, subject to the approval of the Health Assembly.

7.3 Any repayments of borrowing under regulation 7.1 shall be credited first against any internal borrowing outstanding and secondly against any borrowing outstanding from the Working Capital Fund.

Regulation VIII – Miscellaneous and other Income

8.1 Miscellaneous income shall include the following:

- (a) any amounts within unliquidated obligations that are not required to be carried forward in accordance with regulation 4.5;
- (b) any interest earnings or investment income on surplus liquidity in the regular budget;
- (c) any refunds or rebates of expenditure received after the end of the biennium to which the original expenditure related;
- (d) any proceeds of insurance claims that are not required to replace the insured item, or otherwise compensate for the loss;

- (e) the net proceeds generated on the sale of a capital asset after allowing for all costs of acquisition, or improvement, of any asset concerned;
- (f) any net gains or losses that may have arisen under operation of the exchange rate facility, or application of the official United Nations rates of exchange, or in revaluation for accounting purposes of the Organization's assets and liabilities;
- (g) any income not otherwise specifically referred to in these Regulations.

8.2 Any credits due to Members in accordance with regulation 6.4 shall be applied to offset Members' assessed contributions and shall be funded from miscellaneous income.

8.3 The Director-General is authorized to levy a charge on extrabudgetary contributions. This charge, together with interest earnings or earnings from investments on extrabudgetary contributions, shall be used to reimburse all, or part of, the indirect costs incurred by the Organization in respect of the generation and administration of extrabudgetary resources. All direct costs of the implementation of programmes that are financed by extrabudgetary resources shall be charged against the relevant extrabudgetary contribution.

8.4 Any refund of expenditure received from third parties during the biennium in which the original expenditure was incurred shall be credited against that expenditure.

8.5 Any payments received from insurance policies held by the Organization shall be credited towards mitigating the loss that the insurance covered.

8.6 The Director-General is delegated the authority, under Article 57 of the Constitution, to accept gifts and bequests, either in cash or in kind, provided that he or she has determined that such contributions can be used by the Organization, and that any conditions which may be attached to them are consistent with the objective and policies of the Organization.

Regulation IX – Funds

9.1 Funds shall be established to enable the Organization to record income and expenditure. These funds shall cover all sources of income: regular budget, extrabudgetary resources, trust funds, and any other source of income as may be appropriate.

9.2 Separate accounts shall be established for amounts received from donors of extrabudgetary contributions and for any trust funds so that relevant income and expenditures may be recorded and reported upon.

9.3 Other accounts shall be established as necessary as reserves or to meet the requirements of the administration of the Organization, including capital expenditure.

9.4 The Director-General may establish revolving funds so that activities may be operated on a self-financing basis. The purpose of such accounts shall be reported to the Health Assembly, including details of sources of income and expenditures charged against such funds.

9.5 The purpose of any account established under regulations 9.3 and 9.4 shall be specified and shall be subject to these Financial Regulations and such Financial Rules as are established by the

Director-General under regulation 2.1, prudent financial management, and any specific conditions agreed with the appropriate authority.

Regulation X – Custody of Funds

10.1 The Director-General shall designate the bank or banks or financial institutions in which funds in the custody of the Organization shall be kept.

10.2 The Director-General may designate any investment (or asset) managers and/or custodians that the Organization may wish to appoint for the management of the funds in its custody.

Regulation XI – Investment of Funds

11.1 Any funds not required for immediate payment may be invested and may be pooled in so far as this benefits the return that may be generated.

11.2 Income from investments shall be credited to the fund or account from which invested moneys derive unless otherwise provided in the regulations, rules or resolutions relating to that fund or account.

11.3(a) Income generated from regular budget resources shall be credited to miscellaneous income in accordance with regulation 8.1(b).

(b) Income generated from extrabudgetary resources may be used to reimburse indirect costs related to extrabudgetary resources in accordance with regulation 8.3.

11.4 Investment policies and guidelines shall be drawn up in accordance with best industry practice, having due regard for the preservation of capital and the return requirements of the Organization.

Regulation XII – Internal Control

12.1 The Director-General shall:

- (a) establish detailed financial rules and procedures in order to ensure effective financial administration, the exercise of economy, and safeguard of the assets of the Organization;
- (b) designate the officers who may receive funds, incur financial commitments and make payments on behalf of the Organization;
- (c) maintain an effective internal control structure to ensure the accomplishment of established objectives and goals for operations; the economical and efficient use of resources; the reliability and integrity of information; compliance with policies, plans, procedures, rules and regulations; and the safeguarding of assets;
- (d) maintain an internal audit function which is responsible for the review, evaluation and monitoring of the adequacy and effectiveness of the Organization's overall systems of internal

control. For this purpose, all systems, processes, operations, functions and activities within the Organization shall be subject to such review, evaluation and monitoring.

12.2 The Director-General may make such *ex gratia* payments as deemed to be necessary in the interest of the Organization. A statement of such payments shall be included with the final accounts.

12.3 The Director-General may authorize, after full investigation, the writing-off of the loss of any asset, other than arrears of contributions. A statement of such losses written off shall be included with the final accounts.

Regulation XIII – Accounts and Financial Reports

13.1 The Director-General shall establish such accounts as are necessary and shall maintain them in a manner consistent with the United Nations System Accounting Standards.

13.2 Final financial reports shall be prepared for each financial period, presented in conformity with – and in the formats established under – the Standards referred to in regulation 13.1, together with such other information as may be necessary to indicate the current financial position of the Organization.

13.3 An interim financial report shall be prepared at the end of the first year of the financial period.

13.4 The financial reports shall be presented in United States dollars. The accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary.

13.5 The financial reports shall be submitted to the External Auditor(s) not later than 31 March following the end of the financial period to which they relate.

Regulation XIV – External Audit

14.1 External Auditor(s), each of whom shall be the Auditor-General (or officer holding equivalent title or status) of a Member government, shall be appointed by the Health Assembly, in the manner decided by the Assembly. Auditor(s) appointed may be removed only by the Assembly.

14.2 Subject to any special direction of the Health Assembly, each audit which the Auditor(s) performs/performs shall be conducted in conformity with generally accepted common auditing standards and in accordance with the Additional Terms of Reference set out in the Appendix to these Regulations.

14.3 The External Auditor(s) may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

14.4 The External Auditor(s) shall be completely independent and solely responsible for the conduct of the audit.

14.5 The Health Assembly may request the Auditor(s) to perform certain specific examinations and issue separate reports on the results.

14.6 The Director-General shall provide the External Auditor(s) with the facilities required for the performance of the audit.

14.7 For the purpose of making a local or special examination or for effecting economies of audit cost, the Auditor(s) may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm that, in the opinion of the Auditor(s), is technically qualified.

14.8 The Auditor(s) shall issue a report on the audit of the biennium financial report prepared by the Director-General pursuant to Regulation XIII. The report shall include such information as he/she/they deem(s) necessary in regard to regulation 14.3 and the Additional Terms of Reference.

14.9 The report(s) of the Auditor(s) shall be transmitted through the Executive Board, together with the audited financial report, to the Health Assembly not later than 1 May following the end of the financial period to which the final accounts relate. The Executive Board shall examine the interim and biennium financial reports and the audit report(s) and shall forward them to the Health Assembly with such comments as it deems necessary.

Regulation XV – Resolutions involving Expenditures

15.1 Neither the Health Assembly nor the Executive Board shall take a decision involving expenditures unless it has before it a report from the Director-General on the administrative and financial implications of the proposal.

15.2 Where, in the opinion of the Director-General, the proposed expenditure cannot be made from the existing appropriations, it shall not be incurred until the Health Assembly has made the necessary appropriations.

Regulation XVI – General Provisions

16.1 These Regulations shall be effective as of the date of their approval by the Health Assembly, unless otherwise specified by the Health Assembly. They may be amended only by the Health Assembly.

16.2 In case of doubt as to the interpretation of any of the foregoing regulations, the Director-General is authorized to rule thereon and, in case of interpretation having significant impact on application of the regulations, shall inform the Executive Board at its next session.

16.3 The financial rules established by the Director-General as referred to in regulation 12.1 above, and the amendments made by the Director-General to such rules, shall enter into force after confirmation by the Executive Board. They shall be reported upon to the Health Assembly for its information.

Appendix

ADDITIONAL TERMS OF REFERENCE GOVERNING THE EXTERNAL AUDIT OF THE WORLD HEALTH ORGANIZATION

1. The Auditor(s) shall perform such audit of the accounts of the World Health Organization, including all trust funds and special accounts, as deemed necessary in order to satisfy himself/herself/themselves:
 - (a) that the financial statements are in accord with the books and records of the Organization;
 - (b) that the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions, and other applicable directives;
 - (c) that the securities and moneys on deposit and on hand have been verified by the certificates received direct from the Organization's depositaries or by actual count;
 - (d) that the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereon;
 - (e) that procedures satisfactory to the Auditor(s) have been applied to the recording of all assets, liabilities, surpluses and deficits.
2. The Auditor(s) shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Secretariat and may proceed to such detailed examination and verification as he/she/they choose(s) of all financial records including those relating to supplies and equipment.
3. The Auditor(s) and staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the Auditor(s), necessary for the performance of the audit. Information classified as privileged and which the Secretariat agrees is required by the Auditor(s) for the purposes of the audit, and information classified as confidential, shall be made available on application. The Auditor(s) and staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The Auditor(s) may draw the attention of the Health Assembly to any denial of information classified as privileged which, in his/her/their opinion, was required for the purpose of the audit.
4. The Auditor(s) shall have no power to disallow items in the accounts but shall draw to the attention of the Director-General for appropriate action any transaction concerning which creates doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be immediately communicated to the Director-General.
5. The Auditor(s) shall express and sign an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:
 - (a) identification of the financial statements audited;
 - (b) a reference to the responsibility of the entity's management and responsibility of the Auditor(s);

- (c) a reference to the audit standards followed;
 - (d) a description of the work performed;
 - (e) an expression of opinion on the financial statements as to whether:
 - the financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;
 - the financial statements were prepared in accordance with the stated accounting policies;
 - the accounting policies were applied on a basis consistent with that of the preceding financial period;
 - (f) an expression of opinion on the compliance of transactions with the Financial Regulations and legislative authority;
 - (g) the date of the opinion;
 - (h) the Auditor's(s') name and position;
 - (i) the place where the report has been signed;
 - (j) should it be necessary, a reference to the report of the External Auditor(s) on the financial statements.
6. The report of the Auditor(s) to the Health Assembly on the financial operations of the period should mention:
- (a) the type and scope of examination;
 - (b) matters affecting the completeness or accuracy of the accounts, including where appropriate:
 - (i) information necessary to the correct interpretation of the accounts;
 - (ii) any amounts which ought to have been received but which have not been brought to account;
 - (iii) any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;
 - (iv) expenditures not properly substantiated;
 - (v) whether proper books of accounts have been kept; where in the presentation of statements there are deviations of a material nature from a consistent application of generally accepted accounting principles, these should be disclosed;
 - (c) other matters which should be brought to the notice of the Health Assembly such as:
 - (i) cases of fraud or presumptive fraud;

- (ii) wasteful or improper expenditure of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);
 - (iii) expenditure likely to commit the Organization to further outlay on a large scale;
 - (iv) any defect in the general system or detailed regulations governing the control of receipts and disbursements, or of supplies and equipment;
 - (v) expenditure not in accordance with the intention of the Health Assembly, after making allowance for duly authorized transfers within the budget;
 - (vi) expenditure in excess of appropriations as amended by duly authorized transfers within the budget;
 - (vii) expenditure not in conformity with the authority which governs it;
- (d) the accuracy or otherwise of the supplies and equipment records as determined by stocktaking and examination of the records.

In addition, the report may contain reference to:

- (e) transactions accounted for in a previous financial period, concerning which further information has been obtained, or transactions in a later financial period concerning which it seems desirable that the Health Assembly should have early knowledge.

7. The Auditor(s) may make such observations with respect to his/her/their findings resulting from the audit and such comments on the financial report as he/she/they deem(s) appropriate to the Health Assembly or to the Director-General.

8. Whenever the Auditor's(s') scope of audit is restricted, or insufficient evidence is available, the Auditor's(s') opinion shall refer to this matter, making clear in the report the reasons for the comments and the effect on the financial position and the financial transactions as recorded.

9. In no case shall the Auditor(s) include criticism in any report without first affording the Director-General an adequate opportunity of explanation on the matter under observation.

10. The Auditor(s) is/are not required to mention any matter referred to in the foregoing which is considered immaterial.

ANNEX 3

**COMPARISON BETWEEN PROPOSED REVISED FINANCIAL REGULATIONS
AND EXISTING FINANCIAL REGULATIONS**

Regulation I	This comprises existing regulations 1.1 and 14.1 unchanged.
Regulation II	No change from existing regulation 2.1.
Regulation III	Existing regulations 3.1 to 3.9 have been reworded for greater clarity. The budget process is in line with the Constitution and reflects practical reality. There is no other substantive change.
Regulation IV	<p>The proposed regulation refers explicitly to the regular budget since the provisions do not apply to extrabudgetary resources. The order of the provisions has been revised to follow the sequence in which the activities occur.</p> <p>4.1 refers to “contractual obligations” for purposes of clarity.</p> <p>4.2 simplifies the process of raising obligations; other aspects of the obligation process are covered elsewhere.</p> <p>4.3 deals with the authority of the Director-General to make transfers between appropriation sections and widens this authority. Such transfers will no longer need to be subject to a Health Assembly resolution each biennium.</p> <p>4.4 deals with the exchange rate facility and is more explicit in the purpose and use. It also deals with the funding mechanism through miscellaneous income.</p> <p>4.5 deals with the treatment of unliquidated obligations at the end of a financial period. It is more explicit about the basis on which unliquidated obligations may be carried forward.</p> <p>4.6 introduces the carry over from one biennium to the next and sets out the parameters under which this should operate.</p> <p>4.7 deals with the treatment of cash remaining in unliquidated obligations.</p> <p>4.7 and 4.8 deal with the treatment of obligations at the end of the carry over period with a view to ensuring that there is no build-up of the carry forward that would, in effect, increase the regular budget in future financial periods. 4.8 also specifies that separate financial reporting is required.</p>
Regulation V	This brings miscellaneous income within the scope of the regular budget as one of the sources of resources.

- Regulation VI This sets out the mechanism for assessed contributions. A substantive change with respect to existing Article V is in proposed regulation 6.6 which introduces the euro as a specified currency for payment of contributions and authorizes the Director-General to accept other currencies. Proposed regulation 6.4 provides for introduction of an incentive for prompt payment of assessed contributions.
- Regulation VII This proposed regulation is new and governs the Working Capital Fund and internal borrowing. It makes clear the order in which funds can be applied to repay borrowing, and provides for replenishment of the Working Capital Fund through the regular budget process.
- Regulation VIII This proposed regulation, dealing with miscellaneous income, is new. By virtue of proposed Regulation V, miscellaneous income is included in the regular budget process.
- Regulation VIII also deals with “other income”, equivalent to existing Article VII. “Other income” means income that is not dealt with as assessed contributions or miscellaneous income, or credited to revolving funds under proposed regulation 9.4.
- 8.3 introduces the authority to levy a programme support cost and avoids the need for a specific Health Assembly resolution on the subject, which helps to streamline administration. It is related to proposed Regulation XII, which authorizes the Director-General to use interest earnings for programme support costs.
- 8.4 and 8.5 are more specific as to ways in which these two sources of income may be applied.
- 8.6 clarifies the delegated authority of the Director-General under Article 57 of the Constitution, which is ambiguous in the current Regulations.
- Regulation IX Existing Article VI has been significantly redrafted to express the concept of fund accounting. Specific funds such as the Working Capital Fund, covered by existing Article VI, is dealt with in more detail in proposed Regulation VII. The treatment of foreign exchange gains and losses has been moved to proposed Regulation IV. Proposed Regulation IX includes an express provision allowing the Director-General to establish funds that may be used to finance capital expenditure such as real estate and information technology.
- 9.4 has been drafted broadly to allow for the possibility that revolving funds may be financed either by specific contributions or from the regular budget. In the latter case this would take place through the regular budget process. The intention of this proposed regulation is to allow the costs of production and sales to be charged against sales income generated, rather than the present complex accounting treatment required by resolution WHA22.8. The effect of this resolution is to charge the costs to the Special Account for Servicing Costs and to transfer sufficient income from the Revolving Sales Fund to the Special Account for Servicing Costs to cover those costs.

Regulation X	This proposed regulation expands existing Article VIII in order to allow the Director-General to appoint asset managers for the funds of WHO. Although implicit in the existing regulations, the proposed regulation makes it clear that the Director-General does have this authority. It also reflects developments in the financial services industry where there is growing legal segregation of banking and asset management for regulatory reasons.
Regulation XI	This proposed regulation replaces existing Article IX, and includes a new requirement for investment policies and guidelines which is not required in the existing regulations and corresponds to good financial practice. The explicit reference to the reporting of investments in Article IX has been deleted since this is covered by proposed Regulation XIV. 11.2 authorizes the Director-General to apply interest income from all sources of resources to miscellaneous income, extrabudgetary resources, or other funds.
Regulation XII	The internal control provisions in existing Article X have been thoroughly revised to reflect modern practice. Internal control concerns not only financial assets, but also the way in which the Organization is managed.
Regulation XIII	Existing Article XI has been extensively changed. As WHO has adopted the United Nations System Accounting Standards it is not considered necessary to itemize the requirements since these accounting standards will provide the framework for financial reporting.
Regulation XIV	This proposed regulation replaces existing Article XII which was recently amended. Wording has been changed to cover both male and female officials.
Regulation XV	Existing Article XIII has been amended to be more explicit in the manner in which the Director-General may incur expenditure that cannot be made from the existing appropriations.
Regulation XVI	This replaces existing Article XV, and includes existing Article XVI which has not been changed. Existing regulation 15.2 has been revised to enable the Director-General to make an interpretation of the regulations and to report thereon to the Executive Board if the interpretation has a significant impact on the application of the regulations.
Appendix	There is no change to the Appendix except for paragraph 5 and wording to cover both male and female officials.

= = =