



**World Health
Organization**

SIXTY-FOURTH WORLD HEALTH ASSEMBLY
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Interim Report of the External Auditor

The Director-General has the honour to transmit to the Sixty-fourth World Health Assembly the interim report of the External Auditor on the financial operations of the World Health Organization for the financial period 2010–2011 (see Annex).

ANNEX

**INTERIM REPORT OF THE EXTERNAL AUDITOR TO THE SIXTY-FOURTH
WORLD HEALTH ASSEMBLY ON THE FINANCIAL OPERATIONS OF THE
WORLD HEALTH ORGANIZATION FOR THE FINANCIAL PERIOD
1 JANUARY 2010 TO 31 DECEMBER 2011**

INTRODUCTION

1. The audit of the World Health Organization (WHO) was assigned to the Comptroller and Auditor-General of India for the financial periods 2008–2009 and 2010–2011 in terms of resolution WHA60.7.
2. The scope of the audit is in accordance with Regulation XIV of the Financial Regulations and the Additional Terms of Reference Governing the External Audit appended thereto.
3. The audit is conducted in accordance with the International Standards on Auditing; the audits focused on financial, compliance and performance aspects.
4. This being my interim report to the Health Assembly, the audit procedures carried out were not oriented towards expressing an audit opinion on the interim financial statements included in the Interim Financial Report for the year 2010.
5. I am continuing the practice of reporting on the interim period as this affords me the opportunity of bringing to the notice of the Health Assembly any significant findings arising from my audits on a yearly basis rather than only on a biennial one.
6. Audits were conducted in the first year of the current financial period in the regional offices for Africa and the Western Pacific, along with two country offices, one in each region. In addition, an in-depth review was conducted on the working of the Office of Internal Oversight Services and the Income and Award Management unit at headquarters. Matters which have been previously reported to the Health Assembly have been followed up, where necessary.
7. In the second year of the financial period, the audit will be undertaken in the remaining regional offices and selected country offices, in addition to in-depth studies of some important aspects of the Organization's working. An audit opinion will also be expressed on the financial statements for the financial period 2010–2011.
8. The working relationship with the Secretariat has been constructive and the audits performed at different levels and locations were facilitated by the excellent cooperation from the Secretariat at headquarters as well as in the regional and country offices. Coordination with the Office of Internal Oversight Services has been continual and comprehensive. Professional reliance was placed, wherever necessary, on the work of internal oversight.
9. Important findings arising from the audits performed were, after detailed discussions with the managements concerned, conveyed to them through Management Letters. The more significant of these findings, appropriately aggregated, have been incorporated in this report.

10. The Secretariat has accepted the recommendations made in the report and has assured that action will be taken to address them.

FINANCIAL MATTERS

11. The overall effective budget for the biennium 2010–2011 stands at US\$ 4540 million. During the year 2010, the total operating revenue was US\$ 2323 million. Total operating expenses for the year 2010 were US\$ 2078 million. Total surplus carried to 2011 after taking into consideration net financial revenue and expenses of US\$ 42 million in 2010 was US\$ 287 million.

12. **Non-provision on voluntary contributions.** United Nations System Accounting Standards, paragraph 34 (on voluntary contributions) states that “Voluntary contributions formally pledged represent a good-faith commitment of the contributor for the period and/or programme to which they relate. Such income should accordingly be recognized in that period. However, in the interests of prudent financial management, provision may be made as appropriate where the collection of the income so recognized is considered doubtful. In specific cases, where the pledge is deemed uncollectible, write-off action will be required. Alternatively, the income may be recognized only when funds are received”.

13. Accounting Policy No.1.3 on Accounts Receivable as adopted by WHO, states that the accounts receivable are recorded at their estimated realizable value. Consistent with the existing Financial Regulations and Financial Rules, WHO made full provision for delays in Member States’ assessed contributions. No provisions were made for non-collection of voluntary contributions or other receivables. The un-collected voluntary contributions and other receivables need to be reviewed individually and provided for wherever necessary. It was noticed that for the year 2010, out of voluntary contributions receivable totalling US\$ 515 million as at 31 December 2010, US\$ 81 million was outstanding for a period ranging from 360 days to 720 days and US\$ 21 million outstanding for more than 720 days.

14. I *recommend* that the un-collected voluntary contributions be reviewed and provisions made in accordance with the United Nations System Accounting Standards.

15. The Secretariat accepted the recommendation and stated that the outstanding voluntary contributions would be reviewed by the end of the biennium.

MANAGEMENT REFORMS

16. I note the activities undertaken in 2010 with regard to the enterprise risk management framework in the Organization.¹ I note that the initiative to manage risks in the General Management cluster has stabilized and the Organization intends to extend the framework to the regional offices.

17. I consider that strengthening of financial management is an area which can be targeted by the Organization under management reforms. As part of the review of financial management and internal controls in the Organization, the follow up on the report entitled “Review of WHO’s approach to

¹ See document EBPBAC13/2.

Comptrollership” – prepared by a leading international firm of management consultants on behalf of the Office of Internal Oversight Services in July 2009 – was examined. I note that a number of steps have been taken for better enforcement of financial controls. These have included a change in the reporting arrangements for the line managers of the Global Service Centre, which has involved designating the Comptroller as the second-level superior to the Head of Finance at the Global Service Centre, and making a change in the post description of the Comptroller. However, the review of internal controls during the audits conducted in 2010 indicates that a number of issues highlighted in the report – including misalignment between the responsibilities assigned to the Comptroller vis-à-vis the level of authority delegated, insufficient coordination and enforcement of financial rules and procedures, and the strengthening of the internal control framework – are still to be addressed.

18. I *recommend* that the report’s recommendations that have a direct bearing on strengthening internal controls and improving reporting arrangements be considered for adoption so that the Comptroller’s responsibilities and powers are synchronized.

STATUS OF WHO’S TRANSITION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

19. The United Nations system is moving to compliance with the International Public Sector Accounting Standards (IPSAS), replacing the United Nations System Accounting Standards. As part of the transition to IPSAS, WHO has decided to prepare its financial statements in accordance with IPSAS with effect from 1 January 2012.

20. A review of the progress of implementation of IPSAS in WHO revealed that out of 31 IPSAS, WHO identified that five¹ were not applicable. Of the 26 applicable Standards, WHO has formulated policy documents in respect of seven,² on which we have also provided our inputs. In respect of four IPSAS,³ work is in progress and is scheduled to be completed by the end of 2011. In respect of five⁴ Standards, WHO intends to hire expert consultants to assist with drafting of guidelines for technical standards related to consolidations and financial instruments. In respect of the remaining 10 IPSAS (Nos. 9, 13, 17, 18, 19, 21, 23, 25, 26 and 31), WHO has decided a timeline for completion by second and third quarter of 2011.

21. Most of the Standards remaining to be implemented are key ones relating to revenue recognition, property, plant and equipment, segment reporting, employee benefits and intangible assets. Accounting policies, providing a set of principles for presenting activities in the financial statements, for appropriate recognition and valuation criteria for transactions and balances, need to be developed to ensure compliance with IPSAS. After development of IPSAS-compliant accounting policies, WHO will need to re-calculate opening balances in respect of, inter alia, fixed assets, inventory, employee benefits, accounts receivable, assessed contributions provisions and other current liabilities as at 1 January 2012.

¹ IPSAS 10, 11, 16, 22 and 27.

² IPSAS 1, 2, 3, 4, 5, 14 and 24.

³ IPSAS 7, 8, 12 and 20.

⁴ IPSAS 6, 15, 28, 29 and 30.

22. WHO needs to evolve a reliable inventory management system to keep track of inventory items. This system is vital for proper recording, valuation, reconciliation of movements and changes in state of inventories, so as to recognize the inventories in the financial statements, meeting the requirements of IPSAS 12.

23. In view of the above analysis, it is our assessment that the progress on implementation of IPSAS, if not monitored against clear deliverables, runs the risk of mismatch with the targeted date of 1 January 2012.

24. I *recommend* that WHO may expedite the action plan outlining deliverables along with the timeline in respect of the pending IPSAS to ensure that the process of migration to IPSAS is implemented with effect from 1 January 2012.

INCOME AND AWARD MANAGEMENT

25. A review of the Income and Award Management unit of the Department of Finance at headquarters was conducted. The primary objective of the review was to assess the effectiveness of the Income and Award Management unit in recording and distribution of awards and income and in management of accounts receivable. The Income and Award Management unit furnished a list of 7431 awards comprising 4275 active awards (pre-conversion 2083, post-conversion 2192), 2431 closed awards (pre-conversion 1250 and post-conversion 1181) and 725 others.

26. The Income and Award Management unit is responsible for timely and accurate recording of all revenue for the Organization. This includes recording of all new donor agreements and amendments, entering the distribution of awards and applying awards to fund projects (or workplans). The unit is also responsible for the reviewing and linking of all cash receipts to awards and managing amounts receivable to ensure that cash is received on a timely basis. Information on the status of awards and receivables is also provided across the Organization. The Award Managers have overall managerial responsibility and authority for establishing and administering the award in accordance with the terms and conditions of the donor agreement. This specifically includes initiating award creation in the Global Management System, award distribution, monitoring the technical and financial implementation, as well as reporting back to the donor.

27. **Delay in creation of awards.** As per the practice of the Income and Award Management unit, award creation should take place within 48 hours from the receipt of the completed award activation request from the Award Manager. It was observed that out of 36 awards examined, there was delay in creation of the award in 15 cases, ranging from 3 to 163 days. Also in respect of 152 post-conversion awards, out of 2192 awards with status as "Active", the award start date was prior to the award activation date and the difference between award start date and the award creation date was more than 365 days. This indicated that awards were created after the start date.

28. The Secretariat stated that the principle delays are between the agreement start date and the agreement signature date and then between the signature date and the date that the Award Manager sends the award activation request to the Income and Award Management unit. Once requests are sent to the unit, awards are generally activated within 48 hours unless information is missing. To address the delay between award start date and date of sending the award activation request to the unit by the Award Manager, a mechanism for central tracking of all donor agreements is being developed.

29. I *recommend* that the donor proposal tracking tool, which is in the pilot stage, be implemented fully so that the Income and Award Management unit gets timely information and the delays are reduced.

30. **Capturing award data in the Global Management System.** We observed that 3476 agreements converted into awards in the System were without agreement links. Of these, in 56 converted awards, the award amount was less than US\$ 100 (mostly US\$ 0, US\$ 1, and US\$ 99).

31. The Secretariat stated that the Income and Award Management unit continues to do the clean-up of converted awards by reviewing the award amount and updating the award information field. Out of the 3476 awards converted without links, 1200 now have agreement links. For newly created awards, the Income and Award Management unit ensures that award amount equals the agreement amount.

32. I *recommend* that the Income and Award Management unit should continue to trace all agreements and capture the correct award amount in the system in order to remove inconsistencies in the data.

33. **Distribution of awards.** Non-distribution of awards by the end date means that the funds cannot be spent without going back to the donor and thereby delaying the project implementation. It was observed in audit that 314 awards with a total undistributed amount of approximately US\$ 283 million were not distributed until 31 October 2010. Out of these, 63 awards had passed their end date (1 November 2010) (with approximately US\$ 3.5 million undistributed), and 50 awards had end dates during November–December 2010 (with US\$ 26.8 million undistributed).

34. The Secretariat stated that regular monthly updates continue to be done by the Income and Award Management unit on undistributed amounts and the amount of undistributed awards has reduced to US\$ 116 million in February 2011.

35. In respect of the 81 awards having total project funding of US\$ 44 309 762, the award end date is on or before 31 March 2011 whereas the expenditure incurred (inclusive of encumbered amount) was ranging from 0% to 29% of the total project funding amount.

36. I note the Management's response that regular updates continue to be sent by the Income and Award Management unit on award implementation monitoring. There are a large number of awards where funds have been distributed to budget centre level but where the award has passed the closure date and funds remain unspent. There are over 500 awards that will end in the next five months with US\$ 100 million to be spent.

37. I *recommend* that the Award Managers should be proactively engaged in the award management cycle in order to ensure that the award funds are fully utilized and the project implementation does not suffer.

38. **Management of receivables (voluntary contributions).** As per age-wise analysis of receivables, the total outstanding amount as at 30 September 2010 was US\$ 718¹ million of which US\$ 188 million pertained to UNITAID. The age-wise analysis of receivables indicated that some of the receivables were above 720 days.

¹ The Income and Award Management unit is responsible for management of awards for WHO and hosted entities.

39. The comparison of the project receivables listing as at 31 December 2009 and as at 30 September 2010 is set out in Table 1 below.

Table 1. Receivables

	(Amount in US\$)		
	31 December 2009	30 September 2010	% increase
Total project receivables – US\$ (Including non consolidating entities)	509 193 085	718 152 275	41.0
WHO receivables – US\$	403 961 843	466 077 005	15.3

40. The statistics provided above indicate that receivables of WHO and other entities have increased by the end of 30 September 2010. Also a substantial part of the receivables – US\$ 514 913 133 – is outstanding for more than 180 days, which is 72% of the total outstanding. The receivables have increased by 41% in 9 months and a focused follow-up is required to reduce them. Analysis of data on receivables ending 30 September 2010 shows that 41 awards were shown as closed between September 2008 and June 2010 but the receivables there-against, amounting to US\$ 6 214 118, were outstanding.

41. The Secretariat stated the WHO receivables as at 31 December 2009, 31 December 2010 and 31 January 2011 were US\$ 403 961 850, US\$ 517 602 969 and US\$ 561 280 462 respectively. The WHO receivables have increased both in number and amount. Out of the total of WHO receivables, 19% are more than 360 days old. Of the receivables more than 360 days old, 70% are drawdowns under the Payment Management System pertaining to USAID and Centers for Disease Control awards. Out of the closed awards with receivables, 34% have now been collected and the remainder are being followed up.

42. I *recommend* that WHO should continue to make concentrated efforts to review and reduce receivables outstanding.

43. **Unapplied receipts.** Incoming receipts are to be matched and applied to the recorded award receivables. As the expenditure starts after award creation and distribution, it is imperative that receipts should be applied at the earliest. Examination of data revealed that there has been accumulation of unapplied receipts amounting to US\$ 14 million as at 30 September 2010.

44. I have noted the reply of the Secretariat that the number and level of unapplied receipts continues to decrease significantly. At the end of January 2011, there were only 83 unapplied receipts with a total of US\$ 11 million.

45. I *recommend* that unapplied receipts should continue to be reviewed on a regular basis and appropriate measures should be taken to apply them in a timely manner.

BUDGETARY CONTROL AND FUND UTILIZATION

46. I had recommended in my previous reports¹ that periodical reviews might be undertaken to ensure optimum utilization of allotment/award. In the Regional Office for the Western Pacific, only 42% of available resources were used for project implementation in respect of all the funds until October 2010. In the Regional Office for Africa, expenditure had been incurred up to 40% of all allotted funds until the end of October 2010. Regional Management's assurance regarding action taken to review the implementation of the programme budget is noted.

47. Allotment holders are required to ensure that obligations are raised within available allotments. Red balances were still observed in the regional offices. In the Regional Office for Africa the negative balances showed an increasing trend with 749 cases at the end of November 2010. Further, in the WHO country office in the Democratic Republic of the Congo, audit observed that out of 162 allotments operated for the country office, no fund was allotted against 56 allotments, but funds were obligated and amounts were disbursed totalling approximately US\$ 2 million. The Regional Management's reply regarding clearance of all negative balances in the allotments as part closure of 2010 accounts is noted.

ENCUMBRANCES

48. In the Global Management System, as a control approach, the concept of unliquidated obligations is replaced with encumbrances that would equal a firm commitment for goods and services which had not been delivered. Audit observed that the liquidation of 2008–2009 encumbrances in the Regional Office for the Western Pacific was yet to be done. As at 26 November 2010, there were encumbrances amounting to US\$ 2 313 599 which were still to be liquidated. Efforts being made by the Regional Office for liquidation of the encumbrances are noted.

49. I *recommend* that the necessary follow-up action should be taken up with budget centres to liquidate the encumbrances at the earliest.

BANK ACCOUNTS, CASH AND IMPRESTS

50. **Bank reconciliation.** The bank reconciliation process is an important internal control that provides an assurance that cash transactions at the bank are completely and accurately recorded in the accounting records for financial reporting purposes and that this is performed in a timely manner. Regular bank reconciliations reduce risks significantly. Audit observed delays in the reconciliation of bank accounts in the Regional Office for the Western Pacific (up to 143 days) and the Regional Office for Africa. It was further observed that there were inordinate delays in receipt of bank statements. I have noted the replies of the Regional Managements that bank reconciliations have been completed up to December 2010.

51. I *recommend* that bank reconciliation statements be prepared for all the bank accounts in the month following the one to which they relate and efforts should be made to reconcile balances which have remained outstanding for long.

¹ Documents A62/29 and A63/37.

52. **Cash management.** In the offices of the WHO Representatives of Cambodia and the Democratic Republic of the Congo, cases were noticed where there were delays in recording of transactions in the Cash Book, and also instances of differences between the Cash Book and General Ledger pending for long periods. I have noted the assurances given by the WHO country offices in Cambodia and the Democratic Republic of the Congo.

53. I *recommend* that all prescribed procedures in respect of custody, handling and recording of cash be strictly complied with.

54. **Imprest.** Imprest funds are Organization controlled checking accounts which can be used for small purchases and petty cash transactions. Regional/country offices are permitted to establish imprest funds as a practical aid in reducing processing costs for minor expenditures and to eliminate the need to process a large volume of very small transactions. We observed delay in the submission of the monthly statements of imprest accounts by country offices. This resulted in delayed reconciliation or journalization of expenses by the regional office. As a result expenditure remained outside accounts for long periods, which affects budgetary control. It was further observed that in addition to petty expenses, imprest vouchers contained the disbursements of a regular nature (including pay disbursement to staff, travel advances, payments under Direct Financial Cooperation and Agreements for Performance of Work) which are generally routed through the Global Service Centre. Inclusions of such vouchers make the handling, reconciliation, journalization and follow up of unadjusted items more laborious and tedious. I have noted the introduction of the e-imprest system designed with the intention of making the imprest accounting efficient.

55. **e-IMPREST.** e-Imprest was developed to provide an Oracle-based support for the country office operations by helping them to manage and monitor their imprest transactions and operations on a real-time basis. It is composed of six modules and one of the modules is the bank reconciliation module. This is used to reconcile all the transactions in the e-Imprest with the transactions in the country office bank accounts. In the Regional Office for the Western Pacific and the WHO country office in Cambodia, a number of unreconciled items pending since February/March 2010 were noticed. The efforts of the Management in providing requisite training to staff on e-Imprest are noted.

56. During examination of imprest accounts at the Global Service Centre in Kuala Lumpur, we observed that against the norm of US\$ 2500 per transaction, during the year 2010, 5025 individual transactions/payments from the e-Imprest account at the Centre, relating to 179 vendors and amounting to US\$ 83 255 734.19, exceeded the prescribed limit of US\$ 2500. The individual transaction amount ranged between US\$ 2501 to US\$ 749 044.54. The Management stated that imprest accounts have been decentralized to the regional offices and agreed that the business rules about the limit of US\$ 2500 were not always followed.

57. I *recommend* that un-reconciled items in the e-Imprest account be reconciled to date and the necessary system enhancements be completed at the earliest.

PROCUREMENT

58. During the year 2010 expenditure on procurement of equipment, vehicles and furniture and contractual services was of the order of US\$ 344.7 million. The overall guiding objective for all WHO staff participating in procurement is to obtain the best value for money. "Best value for money" is the responsive offer that represents the best combination of technical specifications, quality and price. As a general rule, the lowest responsive bid is presumed to be in the best interest of the Organization.

59. WHO has the mechanism of the Contract Review Committee, which is responsible for verifying that the proposed selection of a contractor is in the best interests of the Organization. The Committee has been tasked with the procurement of project supplies, reimbursable purchases, non-project supplies and various contractual services when the contractual amount exceeds US\$ 200 000, as well as any proposed procurement below such amount which the responsible procurement officer decides to submit to the Committee. The Manual provides an exception clause to the requirement of three tenders for acquisition of goods or services above US\$ 25 000 in the form of “one source of supply” or “impracticability”. It also provides that all the requests for exemption from competitive bidding have to be approved by the Contract Review Committee for contracts above US\$ 25 000.

60. The examination of cases submitted to the Committee during 2010 revealed that the waiver requests were 42% of all cases submitted. This is not only a very high figure in itself, since waivers should be an exception, but it also compares adversely with a figure of 24.8% in the year 2009. The waiver requests are not always appropriately supported by documentation on the technical justification. There was no formalized procedure for inducting independent outside experts in the panel formed to evaluate the requests for proposals. In some cases several experts of the same cluster/technical group were inducted as members of the evaluation committee, thus denying the benefit of transparency and independent appraisal. The two-bid system (submission of technical and financial bids separately) as currently applied in practice is deficient due to the excessive weightage given to technical parameters and inappropriate criteria for cost evaluation. The time granted by programmes launching a request for proposals is very short, which unnecessarily curtails the response rate from potentially interested bidders. Furthermore, the “outreach effort” in terms of the advertising and propagation of the requests for proposals is often rather limited, which has effect on response rates and quality.

61. The Secretariat accepted the audit observation and stated that it would focus on reform of regulations, improving evaluation methods and gradually bringing regional Contract Review Committees up to the same standard as that of the Committee at headquarters.

62. I *recommend* that the waiver requests should not be a regular feature of procurement process. They should be resorted to as an exception to the system. The Secretariat needs to devise clear guidelines so that waivers are permitted only in exceptional circumstances; that the Global Management System provides definitive information/assurance that all waiver cases have met the laid down norms/provisions; that the requirement of three tenders is followed; and that the involvement of outside experts in the procurement process may be considered.

CONTRACTS FOR SERVICES

63. Agreements for Performance of Work are intended for use in arrangements where a specific piece of work (normally of short duration) is performed by a corporate entity, nongovernmental organization, university or private individual. My earlier reports had highlighted instances of non-fulfilment of various requirements relating to Agreements for Performance of Work.

64. We continued to notice cases where justification for selection of partners was not stated; where there was a lack of competitive bidding in selection of partners; where justification for payment of advance was not available on record; where the waiver of contractual requirements was given on account of long association with contracting partners; where there were unjustified differences in payment schedules as per terms of reference and actual payments; or where the adjudication reports were deficient or missing. In the WHO country office in Cambodia, we observed cases where:

contracts for Agreements for Performance of Work were signed after the commencement of the activities; payments were made to the contractual partners before all the deliverables were received; or deliverables, in the form of technical and financial reports, were not found on record. Similar deficiencies were noticed in the regional offices for Africa and the Western Pacific and the WHO country office in the Democratic Republic of the Congo. I have noted that a web-based contract tracking system is being developed for the Western Pacific Region. Among other things, the system will help the technical units to monitor the contracts under Agreements for Performance of Work. I fully support this initiative and hope that the control mechanism will be in place early and will be applied across all the regions.

INVENTORY MANAGEMENT

65. I have made a number of recommendations in my previous reports concerning the management of inventory in the Organization. WHO needs to evolve a reliable inventory management system to keep track of inventory. This system is vital for proper recording, valuation, reconciliation of movements and changes in the state of inventories, so as to recognize the inventories in the financial statements, keeping in view the requirements of IPSAS 12 which is still to be implemented by the Organization.

66. The process of inventory management was examined at WHO headquarters to assure that the internal control procedures were designed to secure an effective inventory management system. The following deficiencies were noticed in the control structure operating in inventory management: the project/technical unit is designated as the custodian of the inventory rather than the individual concerned; thus, the accountability for the asset remains diffused. There is no provision in the Global Management System that enables the linking of items in the discrepancy list to the human resources unit modules for matching with the payroll and retirement benefit payments to the staff. The Asset Management Group does not have any role in the clearance certificate given to the fixed-term and temporary staff when they cease employment with WHO or are transferred. This would have a bearing on the location of missing items communicated in the financial report. After the goods are received, the Asset Management Group puts a bar code on the item. It was observed that this bar coding is not being used during physical verification as the scanner is not compatible with Global Management System.

67. The WHO Manual states that the inventory is to be valued at the invoiced amount. It was observed from the asset register of 2010 that the invoice number field was incomplete for many entries without which the amount could not be verified. Moreover, other fields such as serial number, purchase order number, warranty start date, warranty end date and physical location were not populated completely. This would constrain the Organization during physical verification, warranty claim, replacement and maintenance of assets.

68. During the audits conducted at the Regional Office for Africa, the WHO country office in Cambodia and the WHO country office in the Democratic Republic of the Congo, a number of shortcomings were noticed which included deficiencies in physical verification of inventories, the absence of full details of inventories, incorrect or deficient recording, missing items and non-recovery of the value of the missing item from the individuals concerned. In the Regional Office for Africa, inventory reports were not received for 2009 from 18 country offices. The efforts being made at the Regional Office for efficient management of inventory are noted.

69. As per the WHO Manual, in cases of discrepancies, losses and thefts, the Property Survey Committee decides on the action (e.g. deletion from inventory and fixing of responsibility) to be taken. It was observed that the annual inventory certificate furnished by the regional offices did not contain any information on the action taken by the regional Property Survey Committees on these discrepant items. The total value of stolen/missing items in the annual inventory certificates furnished by the regions (figures for the Regional Office for Africa were not available) was US\$ 231 903 for 2010. Analysis of the list of missing/stolen items from the regions revealed the preponderance of items “attractive” for personal use. The total value of missing items for headquarters was US\$ 199 514 and the Property Survey Committee in its note to the discrepancy report had commented adversely on the deficient practices in recording, tracking and control of WHO assets.

70. I *recommend* that in order to have an effective inventory management system in place, internal controls in respect of its recording, valuation, physical verification and its custody need to be strengthened.

DIRECT FINANCIAL COOPERATION

71. Under Direct Financial Cooperation, formal agreements between WHO and local governments are signed in order to cover the cost of items that would otherwise be borne by governments, in order to strengthen their health development capacity and ability to participate more effectively in, or to meet their commitments to, WHO technical cooperation at country level. The first deliverable is a signed contract and the final deliverable an acceptable technical report and financial certification, which are to be received within three months of the completion of the activity. In the Regional Office for Africa, financial and technical reports were outstanding from 33 countries as on 31 December 2009. Despite pending financial and technical reports, Direct Financial Cooperation payments had not been withheld from contracting partners where technical reports and financial certification as mandated were due. There is no management information system regarding refund of unspent balance and efforts made to obtain refund of unused moneys from national governments. In the Regional Office for the Western Pacific post activity reports were still to come for a total of 118 cases of Direct Financial Cooperation.

72. I *recommend* that provisions stipulated in the WHO Manual and General Conditions of Agreement should be adhered to while entering into agreements for Direct Financial Cooperation. An effective monitoring system for adequate follow up of technical reports, financial certification and statement of expenditure should be put in place and control mechanisms strengthened.

FELLOWSHIPS

73. WHO fellowship is a significant component of human resources development. It encompasses a range of specially tailored training modalities of determined duration for individuals and groups. These fulfil specific learning objectives, corresponding to approved health and health-related plans, policies, and priorities. Ultimately, they aim at national capacity building by strengthening the health systems. I have been reporting on the inadequate monitoring of the fellowship programme in my earlier reports. During the audits undertaken this year at the regional offices for Africa and the Western Pacific, delays in receipt of Termination of Study Reports and the Utilization of Fellows’ Services Reports were noticed. Termination allowance payments were made without ensuring receipt of Termination of Study Reports. The replies of the Regional Management regarding monitoring and follow up on fellowships are noted.

PERSONAL ADVANCES TO STAFF

74. **Salary advances.** As per the WHO Manual, salary advances granted in an emergency against the current month's salary shall be repaid within three months. In the Regional Office for Africa, 5978 cases of salary advances pertaining to 2282 employees were noticed, out of which 3308 cases were outstanding for more than 365 days. It was also found that 1201 employees had two or more pending salary advances against their names in violation of the extant orders. Further, there are 1400 cases of employees whose contracts have been terminated, for whom outstanding advances may have to be written-off as losses. The Regional Management's assurance to clear these advances is noted.

75. I *recommend* that the efforts to monitor and settle the outstanding salary advances to ensure compliance as per the provisions of the WHO Manual be strengthened.

76. **Overpayment to staff.** In accordance with the Staff Rules, the Global Human Resources function at the Global Service Centre is responsible for determining the salary and allowances payable to the staff members. Scrutiny of data on overpayments revealed that there were 481 cases of overpayments amounting to US\$ 2 955 340.83 during 2010. A test check of cases of overpayments revealed that there were cases where the prescribed process was not followed. As a result payroll was generated for the staff without taking into account the "Leave without Pay" sanctioned to the staff member. This had resulted in overpayment of salary to the extent of US\$ 229 224. The Management stated that the overpayment was largely caused by the delay in submitting and approving the request for leave without pay or notifying the Global Service Centre of the extended return date. The Management further stated that follow-up action to recover the overpayments was being taken.

77. I *recommend* that the internal controls regarding salary payments be reviewed and strengthened in order to avoid overpayments.

78. **Travel claims.** As per WHO's travel policy, staff members are required to submit their travel claims immediately after return from travel. The control over advances paid is maintained through the delinquent recovery process, which generates credit memos for deduction of the unclaimed travel advance from the salary if the claim was not submitted within 60 days. The examination of records relating to travel advances at the Global Service Centre revealed that 3165 cases were considered delinquent as at 31 December 2010 involving US\$ 3 million. All the travel requests were pending for over 60 days.

79. **Travel advances.** In the Regional Office for Africa, 2986 cases of travel advances relating to 1043 employees were outstanding, of which 452 cases were outstanding for more than 365 days. Of these, two or more advances were pending against 619 employees. The Regional Management has provided assurance that these advances will be adjusted by May 2011.

80. **Other advances.** As per the Financial Rules of WHO, payments shall not be made in advance except as where otherwise specified in these Rules. A review of outstanding advances up to October 2010 in the Regional Office for Africa showed 761 cases pending adjustment/recovery amounting to approximately US\$ 3 274 000. These advances are shown under General Suspense Head relating to various transaction types, such as health insurance and imprest. Not all transactions were recorded in the system with an indication of the purpose for which these advances were made.

81. I *recommend* that the internal control mechanism for sanctioning and monitoring of advances to staff should be strengthened.

INTERNAL OVERSIGHT SERVICES

82. A review on the functioning of the **Office of Internal Oversight Services** in headquarters was conducted. The objective of audit was to review the effectiveness of the Office in fulfilling its mandate and its adherence to the International Standards for the Professional Practice of Internal Auditing.

83. The Office of Internal Oversight Services conducts its work in accordance with the International Standards, which are promulgated by the Institute of Internal Auditors. The International Standards, guidelines and various instructions issued for the planning and conduct of the Office's work were the main criteria for assessing the capabilities of the Office to fulfil its mandate effectively.

84. **Mandate.** The Office of Internal Oversight Services derives its authority from the Financial Regulations and Financial Rules of WHO. As per the Financial Regulations, it is the responsibility of the Director-General to maintain an effective internal audit function responsible for the review, evaluation and monitoring of the adequacy and effectiveness of the Organization's overall system of internal control. The Institute of Internal Auditors defines internal auditing as an "independent, objective assurance and consulting activity designed to add value and improve an organisation's operations." The Institute's Standard 2100 prescribes that the internal audit activity must evaluate and contribute to the improvement of the governance, risk management and control processes using a systematic and disciplined approach.

85. The Financial Rules do not define the role of the Office of Internal Oversight Services in improving the effectiveness of risk management and governance process. The Secretariat stated that the matter is under discussion in the context of the redrafting of the WHO e-Manual.

86. I *recommend* that that the Financial Rules should be updated to include risk management in the scope of the Office of Internal Oversight Services' responsibilities in order to provide it with a clear mandate.

87. **Availability of resources to the Office of Internal Oversight Services – financial resources.** The level of financial resources available to the Office to conduct its activities both in absolute terms as well as relative to WHO's resources is not commensurate with the responsibility assigned to the Office. The level of financial resources available has a direct bearing on the availability and deployment of staff and thereby on the quantum of activities that can be taken up by the Office. It also has an impact on the level of assurance on the operations of WHO that the management expects from the Office of Internal Oversight Services. The Institute of Internal Auditors' Standard 1110.A1 states that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. In WHO, the Office of Internal Oversight Services is given a financial ceiling by the Director-General's Office, within which it has to plan its activities. As such, the Office of Internal Oversight Services is not able to plan its activities commensurate with the enhanced activities of WHO, thereby having an impact on its effectiveness.

88. The financial resources available to the Office of Internal Oversight Services to conduct its various activities have seen a decreasing trend during the last three bienniums. A comparison of budget allocated to the Office vis-à-vis the total budget of WHO is shown in Table 2 below.

Table 2. Comparison of the budgets of WHO and the Office of Internal Oversight Services (IOS)

Biennium	Budget (US\$ million)		
	IOS	WHO	%
2006–2007	6.2	3313	0.19
2008–2009	7.8	4227	0.18
2010–2011	6.2	4540	0.14

89. The budget of the Office of Internal Oversight Services has been in the range of 0.19% to 0.14% of WHO budget during the last three bienniums showing a decline of almost 25% since the biennium 2006–2007. The Joint Inspection Unit of the United Nations in their report on oversight lacunae in the United Nations system,¹ issued in 2006, had suggested that resources allocated to the Office of Internal Oversight Services' activities should be in the range of 0.50% to 0.70% of the total resources available for the Organization. Compared to this benchmark, the resources available to the Office are not commensurate with the Organization's activities.

90. The Secretariat stated that the matter regarding reassessing the financial resources available to the Office of Internal Oversight Services is awaiting a decision at the level of the Director-General's Office.

91. I *recommend* that WHO may consider reassessing the financial resources available to the Office of Internal Oversight Services, in line with the enhanced activities of the Organization, the Management's expectations and additional responsibilities assigned to the Office.

92. **Human resources.** The report on oversight lacunae in the United Nations system of the Joint Inspection Unit suggested minimum requirements to set up internal oversight units in United Nations organizations. As per the formula suggested by the Joint Inspection Unit, the requirement for auditors in an organization like WHO works out to 21 to 35 auditors (on the budget of the year 2008–2009). As the activities of WHO are highly decentralized, it is desirable to have staff availability towards the upper limit of the range suggested by the Joint Inspection Unit.

93. The Office of Internal Oversight Services has a total complement of 14 staff, based in headquarters, which includes 12 professionals (8 auditors, 3 evaluators and 1 investigator) and 2 secretarial staff. In 2005, the number of staff available was 19, including 2 secretarial staff. During last two years, the volume of investigative work has increased with the result that auditors are also utilized for investigation purposes. In 2009 and 2010, almost 40% of the workdays of a Senior Auditor were utilized for investigations, thereby diverting the resources meant for audit towards investigations.

94. A comparison of the scenario between the year 2006 and 2010 indicates that the staff strength of WHO has increased from 4329 to 6948 (an increase of 60%), whereas the total number of staff in the Office of Internal Oversight Services has come down from 19 to 14 (a decrease of 26%). Thus, the relative strength of the Office's staff has been reduced both in absolute numbers as well as in relation to the total staff strength of WHO, whereas the responsibilities assigned to the Office have increased.

¹ Document JIU/REP/2006/2.

95. We are of the opinion that availability of human resources to the Office of Internal Oversight Services needs detailed examination. Increasing positions at various levels and finding alternate ways of providing assurance, like co-sourcing, are some of the options WHO may like to explore.

96. I *recommend* that the staff strength of the Office of Internal Oversight Services at various levels should be reviewed, keeping in view the increased scope of work and expectations of the management in providing assurance.

97. The Secretariat stated that the matter regarding the expectations from the Office of Internal Oversight Services in providing assurance and the strength of oversight services has been raised at the level of the Director-General's Office and is also a subject of mid-term review feedback.

98. **Implementation of workplans -- evaluations.** As per the mandate given to the Office of Internal Oversight Services, it undertakes audits – performance, operational and integrated – evaluations and investigations of alleged fraud and other irregular activities. Evaluations undertaken by the Office are normally thematic and provide an independent opinion on Organization-wide subjects. However, there is a visible downward trend in the number of evaluations being undertaken by the Office in the last few years.

99. Analysis of the workplans indicated that the time allotted to evaluations has been decreasing over the years. It has come down from 17% in 2007 to 3% in 2010. During 2007 to 2009 13 evaluations were planned, of which only 6 have been completed. In 2010, only one evaluation has been planned and completed. Evaluations are also being conducted by various programme units for variety of objectives. Out of 53 evaluations done by WHO during the period 2006–2009, only 7 were undertaken by the Office of Internal Oversight Services, whereas the remaining 46 evaluations were organized by programme units. As compared to performance audits, evaluations are resource intensive, using almost double the resources in terms of the number of days as well as the number of persons involved.

100. The Secretariat stated that a new policy on evaluations is being drafted and that allocation of the resources of the Office of Internal Oversight Services for evaluations is dependent on vacant posts being filled.

101. **Audits.** A comparison of actual utilization of days vis-à-vis planned utilization in respect of various audit activities shows that the actual time utilized for audits has normally been lower than planned. The time allotted for planning, coordination, supervision and audit of WHO entities has gone up from 20% in 2007 to 30% in 2010. Almost 70% of time has been spent on core audit activity against the suggested 80% of time which needs to be devoted to this activity.

102. **Time allocation among geographical locations.** WHO's programme budget is allocated in the ratio of 30:70 between headquarters and regional and country offices. Normally, the allocation of resources of the Office of Internal Oversight Services should also be in a similar ratio. A comparison of annual audit workplans for the period 2007–2010 shows that while the days planned for headquarters units, including global audits, are approximately 30% of the total available days, the percentage of days planned for regional offices and country offices ranges from 30% to 44% of the total planned days. Further, the annual workplan of the year 2010 has only 30% of the days planned for regional offices and country offices.

103. Thus, the days planned for audit of regional offices and country offices are not in proportion to the budget allocated to them. Over the years the audit activities have moved towards centralization, the

ratio of audits being planned in regional offices and country offices in the total time being devoted for audits excluding supervision and contingency has come down from 58% in 2007 to 43% in 2010.

104. The actual utilization of days for audits in regional offices and country offices has ranged from 28% to 48%. There is a significant variance (approximately 33%) between the number of days planned for supervision, contingency, and investigation and the number of days actually utilized. Even if global audits are excluded, the emphasis of the activities of the Office of Internal Oversight Services on regional offices and country offices has seen a downward trend. The number of regional office-based audits has come down from 10 in 2007 to 4 in 2010.

105. WHO is a highly decentralized organization with 145 country offices. Over the past four years, only 21% (30) of the country offices have been planned for audit. On average, 7 country offices (5%) have been covered for audits annually. At this rate, the Office of Internal Oversight Services would need a period of some 20 years in order to cover all the country offices, if the principle of periodicity is followed. In this connection, the Regional Director for Africa has also raised concerns on inadequate coverage of country offices in the African Region while suggesting units for audit for the year 2009.

106. The Secretariat stated that the workplan for 2011 takes care of these issues. The allocation of the resources of the Office of Internal Oversight Services for the 2011 workplan has been based on the available staff skill mix and anticipated overall allocation of resources across the three levels of the Organization i.e. headquarters/regional offices/country offices. Changes to the workplan are due to changes in priorities throughout the period resulting in deferring or exchanging planned missions with similar subjects or locations.

107. I *recommend* that workplans should be prepared in a more realistic manner keeping in view the actual time utilized for various activities, namely, audit, evaluations, and investigations in the earlier years. Workplans should also be in line with the allocation of the resources of WHO between headquarters and field offices keeping in view the risk profile of various audit entities/activities.

108. **Quality assurance.** As per the Institute of Internal Auditors' Standard 1300 on Quality Assurance and Improvement Program, the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. In pursuance of this requirement, a self-assessment review was conducted by the Office of Internal Oversight Services in 2006 through a private firm specializing in internal audit services. The study brought out certain issues for implementation by the Office of Internal Oversight Services, including the adoption of an enterprise risk management framework, risk-assessment process, the formulation of policy on training, timely reporting and the preparation of an audit manual. The action on most of the issues was initiated; however, the current status of implementation is not on record.

109. The Secretariat stated that the Office of Internal Oversight Services will review the recommendations made at that time and take them into consideration in preparation for the next periodic assessment due in 2011.

110. I *recommend* that the status of action taken on the accepted recommendations on the self-assessment report may be documented. Important accepted recommendations like those on delegation of authority, risk-assessment process, the finalization of the audit manual and a policy on training should be implemented within a fixed time frame.

ACKNOWLEDGEMENT

111. I wish to record my appreciation for the cooperation and assistance extended by the Director-General, the Regional Directors and the staff of the World Health Organization during my audits.



Vinod Rai
Comptroller and Auditor General of India
External Auditor
31 March 2011

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