Independent Expert Oversight Advisory Committee: annual report

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

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

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

2. The current members of the Independent Expert Oversight Advisory Committee are:

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<tr>
<th>Name</th>
<th>Date of appointment by the Executive Board</th>
<th>Decision reference</th>
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<tr>
<td>Mr Robert Samels (Chair)</td>
<td>May 2013</td>
<td>EB133(8)</td>
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<td>Mr Mukesh Arya</td>
<td>May 2013</td>
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<td>Mr Steve Tinton</td>
<td>May 2013</td>
<td>EB133(8)</td>
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<td>Dr Jeya Wilson</td>
<td>May 2015</td>
<td>EB137(4)</td>
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<td>Mr Leonardo Gomes Pereira</td>
<td>May 2015</td>
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3. This report is the seventh annual report of the Advisory Committee to the Programme, Budget and Administration Committee and summarizes progress achieved in its work from May 2016 to April 2017.

4. The Advisory Committee held its nineteenth, twentieth and twenty-first sessions on 27–29 July 2016, 18–20 October 2016 and 3–5 April 2017, respectively. At the nineteenth session, a one-day orientation session was held, for the benefit of the two new members; the other three members also attended. Feedback received from the members on the orientation session was very positive. The twentieth session was the first session of the Advisory Committee held outside Geneva, at the WHO Regional Office for South-East Asia in New Delhi. Some WHO headquarters staff were present at the session and others joined through a videoconference link for the relevant agenda items.

1 Date of adoption of relevant decision by the Executive Board.
5. As usual, the Advisory Committee received an excellent level of support from management and is thankful to the Director-General, the Regional Director for South-East Asia and their teams for the frank and open discussions with the Advisory Committee and for allocating sufficient time to listen to the members’ concerns and provide the necessary clarifications or answers.

**INTEGRITY OF FINANCIAL STATEMENTS INCLUDING STAFF HEALTH INSURANCE**


7. The Advisory Committee suggested the inclusion of a separate note of disclosure for PAHO describing the basis of the accounting: the suggestion was accepted by the Secretariat. The Advisory Committee urged the Secretariat to update the basis of accounting study for all non-consolidated entities, including PAHO, and to assess the impact on the WHO financial statements if a catastrophic loss was incurred by any of these entities. The Advisory Committee looks forward to receiving an update on this issue, at its session in October 2017.

8. The Advisory Committee further noted that the accounts were deemed compliant with International Public Sector Accounting Standards and that the transitional provision opted for property and equipment came to an end on 1 January 2017. The Advisory Committee was informed that the Secretariat is taking action both in terms of data collection and enhancement of the financial system to ensure that the record-keeping of fixed assets is in full compliance with International Public Sector Accounting Standards.

9. The Advisory Committee was pleased to note that an unqualified opinion would be issued by the External Auditors on the financial statements. The Advisory Committee had no reservations with regard to the submission of the financial statements to the Programme, Budget and Administration Committee and the World Health Assembly.

10. The Advisory Committee further noted that, for the first time, a statement on internal control from the Director-General was included with the financial statements. It considered this to be an encouraging step towards further strengthening the principles of accountability and transparency.

11. The Advisory Committee had taken note of the financial statements of the Staff Health Insurance Fund for 2016. The Advisory Committee knows that the management is well aware of the risks associated with the long-term unfunded liability; however, it reiterated its concerns regarding the sustainability of the Staff Health Insurance in its current form. It urged management to explore options on cost containment, reduction in coverage, and increasing revenue. The Advisory Committee will continue to monitor the actions taken by management to enable the Fund to be fully funded by 2038.

12. The Advisory Committee also took note of the recommendations made by the Office of Internal Oversight Services in respect of its recent audit of Staff Health Insurance functions, including strengthening of governance and enhanced controls over claim settlement.
EXTERNAL AUDIT

13. As per its usual practice, the Independent Expert Oversight Advisory Committee met with the External Auditors in private as well as with management representatives at each of its sessions.

14. The External Auditors provided the Advisory Committee with a summary of its most significant recommendations, audit results of the 2016 financial statements, review of control activities and implementation of previous audit recommendations. The Advisory Committee was satisfied to note that management had implemented a large majority of the recommendations and there were only five open recommendations to date.

15. The Advisory Committee received a briefing on the programmatic audit carried out by External Auditors in the area of information technology and implementation of the procurement strategy. The Advisory Committee will review the recommendations and management action plans at its next session in July 2017.

INTERNAL OVERSIGHT SERVICES

16. At each of its sessions, the Independent Expert Oversight Advisory Committee met with the Director of the Office of Internal Oversight Services, both privately and with members of management present.

17. At its twenty-first session, the Advisory Committee received an update on the key issues highlighted in the annual report of the Office of Internal Oversight Services that will be submitted to the World Health Assembly, the findings from WHO country office audits, the status of the implementation of recommendations and a report on investigations. The Advisory Committee also reviewed the workplan of the Office of Internal Oversight Services for 2017.

18. As mentioned in its interim report, the Advisory Committee was satisfied to note that the positive trend of improvements in accountability and compliance continues across the Organization, as evidenced by a decrease in the number of outstanding audit recommendations and the time taken to implement the recommendations. The Committee noted that the Office of Internal Oversight Services had not issued any “unsatisfactory”-rated audit reports in 2016.

19. The Advisory Committee enquired about the challenges being faced by PAHO in the implementation of its enterprise resource planning system, and whether they could have an impact on the future reliability of WHO’s financial statements regarding the consolidation of expenditures in the Regional Office for the Americas. The Advisory Committee requested the Director of the Office of Internal Oversight Services to obtain quarterly updates on the challenges in the implementation of the system from the Auditor General of PAHO, to ensure that any potentially problematic issues are brought to the attention of the Advisory Committee.

20. The Advisory Committee noted that various types of reviews, audits and evaluation, such as internal audits, programme and administrative reviews, external audits and joint evaluations, can affect technical units. These activities should be coordinated to optimize the use of time and resources. The Advisory Committee further reiterated that in all reviews or audits, it is critical to have clear linkages with the work being performed by the Compliance, Risk Management and Ethics Office and the Office of Internal Oversight Services.
21. The Advisory Committee raised concerns about the volume of pending investigations within the Office of Internal Oversight Services and encourages senior management to assess the volume of pending investigations and determine the level of investigation that the Office of Internal Oversight Services should undertake, taking into account materiality and the impact on the Organization.

COMPLIANCE AND INTERNAL CONTROL FRAMEWORK

22. The Independent Expert Oversight Advisory Committee was pleased to note that the Internal Control Framework has been accepted and embedded into the functions of the Organization. Observations, from both external and internal audit, provide evidence of a positive trend in the strengthening of internal controls, but with the caveat “not at all times and not at all places”. Direct financial cooperation and direct implementation in specific countries still need attention in respect of strengthening supervisory controls, assurance activities and regular monitoring.

23. The use of the self-assessment checklist is an effective method of generating awareness about the control areas needing attention as it provides an opportunity for budget centres to become engaged with administration, in carrying out compliance and control functions, and discuss the effectiveness of controls. The Advisory Committee reiterated that due to subjectivity involved in the assessment, the tool needs to be seen as an indicator, rather than a measurement, of compliance. Going forward, the results of such checklists should be used more effectively as the second line of defence as there needs to be an alignment between the weaknesses as identified in the self-assessment checklists, the risks identified in the corporate risk register and the audit findings by the Office of Internal Oversight Services.

24. At its twentieth session, the Advisory Committee was updated by the Regional Director and the Director of Administration and Finance about measures taken to achieve the Regional Office for South-East Asia’s objectives of enhancing efficiency and effectiveness of services, while strengthening risk management and accountability. The Directors of Administration and Finance provided an overview of the Internal Control Framework in the Region, using key performance indicators such as outstanding reports on direct financial cooperation, overdue donor reports, compliance with the Performance Management Development System, and programme budget management. The Advisory Committee was pleased to note that in the Regional Office for South-East Asia, there were no open outstanding internal or external audit recommendations and only one pending direct financial cooperation report.

25. The Advisory Committee remarked that under the WHO reform, several initiatives aimed at strengthening the internal control environment have been put in place, such as updated policies and processes for direct financial cooperation and direct implementation, programme and administrative reviews, self-assessment checklists, corporate risk register, dashboards for tracking recommendations, letters of representations, with the latest addition being a statement on internal control by the Director-General. These indicate a strong commitment from top management and show that a substantial investment has been made by the Organization in providing tools and trainings to managers. The Advisory Committee recognizes the efforts made by management in eliminating a culture of tolerance for non-compliance with rules and procedures within the Organization. It will be crucial for the new Director-General to continue placing a strong emphasis on improving the compliance and internal control framework.
RISK MANAGEMENT

26. The Independent Expert Oversight Advisory Committee continues to monitor at all its sessions the progress being made in the area of risk management. It received briefings on the process of risk management, compliance tools and processes, accountability compacts of Assistant Director-Generals, the compliance road map for Directors of Administration and Finance, ethics management and the statement on internal control.

27. The Advisory Committee acknowledges the critical role of the Compliance, Risk Management and Ethics Office in ensuring that the risk management process is well understood at all three levels of the Organization. It noted the broad divergence in most significant risks as identified by the regional offices. Following a rigorous bottom-up process of risk identification, mitigation measures and validation by top management, there appears to be a sound risk architecture in place, a reasonable understanding of risk management by the budget centres and a strong buy-in from all stakeholders.

28. The Advisory Committee is of the opinion that the initiative now has to move from the development stage, which was driven by the Compliance, Risk Management and Ethics Office, into operational ownership by individual business units at the headquarters, regional and country levels. There is a need to move from quantitative to qualitative management of risks, which would present a comprehensive picture in a manner that can be shared and understood by Member States and donors. In order to assist this transition, the following steps are necessary: the corporate-wide risks that have been identified should be embedded in an enterprise risk management framework; ownership of the risk management framework at the regional level should be identified; the risk framework should become an integral part of the management and accountability planning process in the three levels of the Organization; and a web-based tool should be developed to assist in updating risks, ownership of risks, mitigation plans and progress.

29. The Advisory Committee urges management to ensure that the enterprise risk management framework and the identification of risks are being used in planning, budgeting and implementation of programmes on a continuous basis.

30. It further encourages management to explore whether it was an appropriate time to consider a high-level external review or evaluation of the status, direction and implementation of the risk management process. The Advisory Committee considers the Organization to be at a critical juncture, where it needs to take stock of future steps to ensure that risk management becomes an effective and integral part of the management process.

REFORM IN THE AREA OF HEALTH EMERGENCIES

31. The Independent Expert Oversight Advisory Committee reviewed the progress in the area of health emergencies at its twentieth and twenty-first sessions and received updates on the internal issues, external challenges, budget shortfalls and risk mitigation measures from both the headquarters and the regional perspectives.
32. The Advisory Committee noted that a robust conceptual framework identifying the basic needs has been developed. It was informed that at any given point WHO is usually responding to more than 20 emergencies, at various levels, with competing demands. In addition, the Organization is in the process of implementing a new incident management system.

33. The Advisory Committee was apprised of the new business model for the country offices under protracted emergencies. It noted the initiatives under way to streamline the standard operating procedures and to fast-track human resources, procurement and financial processes.

34. The need for a Contingency Fund for Emergencies has been identified; however, substantial flexible funding has not been forthcoming. There is a risk that the funding shortfall could have an impact on the goal of responding to emergencies in a consistent manner, as one Organization with surge capacity. There is collaboration with Member States, partners and other organizations of the United Nations system to increase the core capacity and develop standardized services to enhance country preparedness. To mitigate the risks linked with the funding shortfall, the Secretariat is taking steps by engaging with the Global Policy Group, Member States, both bilaterally and through the financing dialogue.

**REVIEW OF POST-POLIO TRANSITION PLANNING**

35. The Independent Expert Oversight Advisory Committee continues to monitor the progress being made by the Organization with respect to polio transition planning, and it received an update at its twentieth session from staff in the WHO Country Office for India and members of the WHO headquarters polio team joining through a videoconference. The Committee was informed about the establishment of an agency-wide steering committee co-chaired by the Executive Director, Office of the Director-General and the Assistant Director-General, General Management, with participation from the regional offices for Africa, the Eastern Mediterranean and South-East Asia and departments at WHO headquarters, to provide guidance on risk management and programme integration. The Committee was encouraged with the clear alignment between WHO headquarters and country office teams and took note of the detailed, well-defined transition plan for the India programme to address the staffing, financial resources and operational challenges. The Advisory Committee looks forward to seeing similar plans for other countries that are implementing transition plans.

36. The Advisory Committee recommended that management fully assess the estimated total financial cost to the Organization and polio programme of the proposed policy change in the retirement age of staff and also determine the potential impacts on human resources initiatives such as gender balance. It encouraged the Secretariat to discuss the potential revision with Member States, to ensure that the adoption of the change in retirement age is done at the most appropriate time.

**FRAMEWORK OF ENGAGEMENT WITH NON-STATE ACTORS (RESOLUTION WHA69.10 (2016))**

37. As mandated by the Sixty-ninth World Health Assembly, the Independent Expert Oversight Advisory Committee continued to monitor the progress of implementation of the Framework by providing oversight of the application of rules and procedures to assess if they are being applied in a uniform and effective manner across the three levels of the Organization.
38. The Advisory Committee’s at its twentieth session was pleased to note that the World Health Assembly and the Directing Council of the Pan-American Health Organization have adopted the Framework. In view of the need for transparency and credibility of the Framework, the Advisory Committee was reassured to note that the Organization had put in place a system to share reports on due diligence and risk assessment at all three levels through an electronic workflow. It further encouraged management to review the different roles in relation to risks and ethics in the implementation of the Framework and to assess how it can bring about synergies between the different functions.

39. At the Advisory Committee’s twenty-first session, a briefing was provided on global engagement management, an information technology tool to enable implementation of the Framework in the coordination of resource mobilization and the management of declaration of interest of experts. As previously reported, the Advisory Committee understands that the idea is similar to the WHO programme budget web portal, which has created an important sense of trust among all stakeholders in terms of transparency and levels of confidence and assurance.

40. There is, however, an immediate need for the Global Policy Group to approve the detailed implementation plan of the Framework, which identifies specific deliverables and implementation dates. This is necessary in order for management and the Advisory Committee to monitor the progress of implementation of the Framework.

EVALUATION AND ORGANIZATIONAL LEARNING

41. The Independent Expert Oversight Advisory Committee reviewed a concept note on leadership and management at WHO, entitled “An evaluation of WHO reform, third stage”. At the Advisory Committee’s nineteenth session, the Executive Director, Office of the Director-General, gave a short update about the history of WHO reform, what triggered it, the financial crisis, how it has been a Member State-driven process rather than driven by just the Director-General or Secretariat, what the reform process encompassed, and what has been achieved. This included a briefing on the first and second stages of the evaluation of WHO reform. The Advisory Committee noted that stage 3 of the evaluation of WHO reform had been approved by the Executive Board as a priority evaluation in the 2016–17 biennial evaluation workplan. This will assess the effectiveness and impact of WHO reform since its implementation and provide recommendations on future steps.

42. The Advisory Committee took note of the scope of the work to be performed, the proposed methodology, the characteristics of potential provider and the strategy for dissemination of results.

43. At the 21st session, the Advisory Committee met with the representatives of the external independent evaluation team (PricewaterhouseCoopers) along with senior management and received a briefing on stage 3 of the evaluation of WHO reform 2011–2017. The Advisory Committee was apprised of the draft findings of the evaluation and looks forward to receiving the final report.

44. At its 21st session, the Advisory Committee also reviewed a draft annual report on evaluation activities, which will be presented to the Executive Board.
OTHER MATTERS

45. **Visit to the India Country office**: At the twentieth session, the Independent Expert Oversight Advisory Committee met with the Head of the India Country office and its staff. This direct interaction with senior staff from all the three levels present in the same room provided a refreshing insight into the functioning of the organization, and the Advisory Committee was appreciative of this learning opportunity. The Advisory Committee was encouraged to observe a strong alignment between the regional and country office in priorities, objectives, reporting and governance.

46. **Financial update**: At its twentieth session, the Advisory Committee was briefed by the Assistant Director-General, General Management, about the WHO financing dialogue. There was a discussion regarding the risks related to the financing shortfall in both this and the next biennium, including the 8% increase in the Programme budget 2016–2017 and the additional costs due to the new health emergency structure. The Advisory Committee noted that core voluntary contributions projected for 2016–2017 are approximately US$ 180 million, which is about US$ 60 million less than what the Organization received in the past biennium. The Advisory Committee had earlier raised concerns about the Organization’s dependence on voluntary contribution with a small donor base and reiterated that these pose significant risks to the Organization, all the more so with the creation of the new WHO Health Emergencies Programme and the future decline in polio funding when that programme ramps down over the coming years. The Advisory Committee urged the management to undertake “what if” or “scenario planning”, in order to understand the full impact of the projected funding shortfall on programmes, and to share the results with Member States.

47. **Information technology**: At its nineteenth session, the Advisory Committee received an update on the Organization’s information technology strategy, key initiatives under the WHO Department of Information Management and Technology, including the Global Management System Transformation programme, and establishment of a Global IT Fund and global information technology governance. The Advisory Committee looks forward to receiving a further update on the implementation of the IT Fund and corporate information technology policy, along with an update on the Organization’s project management centre of excellence. The Advisory Committee reiterated its concerns about the absence of a full-scale business continuity plan for the Organization. The Advisory Committee would like to receive an overview of such a plan from senior management at a future meeting.

48. **WHO headquarters modernization project**: At its nineteenth session, the Advisory Committee received an update on the WHO headquarters modernization project with its two proposed phases (construction of the new building, followed by renovation of the existing building), the associated costs, decision-making process, measures in place to remain within the scope and estimated costs of the project, reasons behind the decision for outsourcing the project management, process undertaken for risk analysis and mitigation measures. The Advisory Committee noted with satisfaction the strong governance structure put in place, along with an extensive risk analysis in identifying significant risks and their evaluation in terms of both probability and impact. The Advisory Committee examined in detail the corporate risk register, including the mitigation measures and the potential costs of such measures and was impressed with the in-depth analysis.

49. The Advisory Committee noted that the construction of new building is being funded from the interest-free loan provided by Swiss Government. However, it raised concerns that the Organization as a whole does not have a formal mechanism for ensuring sustainable financing for such projects. It encouraged the Organization to look at ways of replenishing assets in an organized manner over their useful life instead of the programme budget cycle of two years. The Advisory Committee looks
forward to reviewing a comprehensive, prioritized capital master plan, including financing, at a future session.

THE FUTURE

50. With the forthcoming change in WHO leadership, the Independent Expert Oversight Advisory Committee identified the following key areas of focus for senior management and urged the Organization to continue its efforts to improve them: the decision-making role of the Global Policy Group; expansion of the accountability framework; strengthening of WHO’s internal control framework at all levels of the Organization; operationalization of the risk management framework; sustainable financing for the Organization; and making the WHO Health Emergencies Programme effective by combining an operational unit within a normative Organization. The Advisory Committee looks forward to meeting the new Director-General and the Director-General’s team in the forthcoming session of the Advisory Committee in July or October 2017 to discuss these matters.

Robert Samels (Chair), Steve Tinton, Mukesh Arya, Jeya Wilson, Leonardo Pereira.