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

### **Report by the Secretariat**

1. As requested by members of the Programme, Budget and Administration Committee at the Committee's thirteenth meeting in January 2011,<sup>1</sup> the present document outlines steps to be taken to ensure full implementation of recommendations made in the reports of the External and Internal Auditors. This document should be considered together with the report on implementation of internal and external audit recommendations that was considered by the Committee in January 2013.<sup>2</sup> The latter document provided a comprehensive report on steps taken to address external and internal audit recommendations that were over two years old and outlined the challenges faced by the Secretariat in responding to audit recommendations. The following additional documents are relevant to this report: the reports of the Internal and the External Auditors to the Sixty-sixth World Health Assembly;<sup>3</sup> and the Report of the Independent Expert Oversight Advisory Committee to the Programme, Budget and Administration Committee of the Executive Board at its eighteenth meeting.<sup>4</sup>

2. The present progress report highlights action taken on those audit recommendations that tackle the most significant risks to the Organization, and the progress made. Specific attention is paid to: enhancements of the Organization's control framework; cross-cutting and/or thematic audits that have an impact on the Organization as a whole; and audits carried out at the country level.

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

3. Significant attention has been paid by both the External and Internal Auditors to the implementation of adequate controls at all levels of the Organization, facilitating improved compliance with rules and procedures. Although weaknesses still exist with regard to compliance with procedures – especially for procurement, management of local bank accounts, inventory and asset management, direct financial cooperation and human resources management – the Secretariat has made a concerted effort to implement components of the internal control framework and progress is being made in this area.

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

<sup>2</sup> Document EBPBAC17/4.

<sup>3</sup> Documents A66/35 and A66/34, respectively.

<sup>4</sup> Document EBPBAC18/4.

4. A progress update on implementing the internal control framework was presented to the Committee in May 2012,<sup>1</sup> including information on the updates made to the WHO eManual, the development of standard operating procedures for key administrative processes, and the design of a management dashboard that provides key performance indicators for priority processes and administrative procedures, thereby enabling managers to check compliance with procedures in a systematic manner. The user acceptance testing for the new dashboard is now being carried out and the tool will be implemented as of June 2013.

5. In respect of work performed on the standard operating procedures, a pre-implementation review of the General Management Cluster standard operating procedures was carried out by the Office of Internal Oversight Services (document IOS 11/867).<sup>2</sup> The review aimed to assess the status of this initiative; to review the adequacy of the development process; to identify lessons learnt; and to make general recommendations on the overall consistency of the approach and integrity of internal control mechanisms. With the response that the Secretariat has provided, all but two of the 15 recommendations of this audit have now been closed. The remaining recommendations are linked to the need to establish a more structured, risk-based methodology for identifying and prioritizing the procedures that need to be documented and for mapping the standard operating procedures to key controls. This work is still underway. As at 28 February 2013, of the total 321 processes identified for documentation, 141 had been fully finalized (44%), including all 'priority' standard operating procedures. The plan is to have the remaining standard operating procedures finalized by mid-2013. As the next step, training plans will need to be developed.

6. Further steps to enhance internal controls, taken since the Committee's meeting in May 2012, are listed below.

- The establishment of the new unit for compliance and risk management and ethics, discussed as part of WHO reform, is moving forward. It is expected that the unit will be operational during the second part of 2013. An important task for the new unit will be the enhancement of the knowledge and awareness of all WHO staff in respect of compliance and control measures. This will be a longer-term process, aimed at achieving an enhanced culture of accountability in the Organization.
- Progress has been made in the identification of the Organization-wide risks to WHO and developing an enterprise risk management framework for the Organization.<sup>3</sup> Efforts to identify and manage administrative and financial risks systematically have also continued.
- Letters of Representation are now required to be signed by the Regional Directors and the Assistant Directors-General, and then submitted to the Comptroller, in connection with the closure and audit of WHO's financial statements. These provide confirmation to the Director-General that the relevant Financial Rules and procedures have been followed in all major offices and clusters at headquarters. These confirmations were obtained from all Assistant Directors-General and Regional Directors in respect of the financial statements for 2012. The Letters of Representation will in the future be complemented by broader Statements of Internal Control, which will also cover indicators linked to ethics, human resources and risk management.

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<sup>1</sup> See document EBPBAC16/4.

<sup>2</sup> See also document A66/35, Annex 1.

<sup>3</sup> See also document EB133/10.

- For staff with key management and administrative responsibilities (such as Heads of WHO Country Offices, Directors of Administration and Finance, Budget and Finance Officers and Management Officers), clearer internal control functions, commensurate with the responsibilities of the positions concerned, are being defined and will be reflected in the relevant post descriptions.
- Additional compliance checks have been put in place across the Organization aimed at high-risk processes, including travel and services procurement.
- Across the Organization, the Global Management System upgrade is providing an opportunity, through enhanced training, to increase the knowledge of staff with regard to their roles and responsibilities as well as to improve compliance with the new processes.
- Additional staff will be recruited to strengthen the area of finance with the objective of providing better support to country offices in financial management and compliance.
- A handbook, targeted to the Heads of WHO Country offices, is being compiled, covering the key managerial and administrative responsibilities linked to this role and providing guidance and links to relevant policies and procedures.

7. Overall, the Secretariat aims to remediate internal control weaknesses through a combination of measures at both the strategic and operational levels in order to ensure that sustainable outcomes can be achieved. Revisions to the Global Management System are planned following completion of the System's technical upgrade; consideration needs to be given to the possibility of taking advantage of that period to reinforce automated, system-based controls. Recognizing the importance of compliance with rules and procedures for the smooth functioning and credibility of the Organization, work is continuing to develop policies on rewards and sanctions. The Secretariat is also committed to bringing forward recommendations stemming from the recent study on the costs of administration and management at WHO.<sup>1</sup> In particular, the need to further strengthen and to consistently apply the results hierarchy in the Programme budget 2014–2015 will allow for more effective control and monitoring of administrative and managerial costs for different activities.

## **ACTION TAKEN ON AUDIT RECOMMENDATIONS**

### **Internal audits**

8. Overall, significant progress was made in acting upon internal audit recommendations in 2012; according to statistics provided by the Office of Internal Oversight Services, 25 open audit reports have been closed in the last year and a significant portion of more recent recommendations are progressing towards closure.<sup>2</sup> The paragraphs below present examples of progress made.

9. **“Older” country audits.** For example, of the 34 recommendations in the report on the audit of the WHO Office of South Sudan (document IOS (09/813),<sup>3</sup> 26 have now been closed. The conduct of security risk assessments in sub-office locations has been a delaying factor. However, the support

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<sup>1</sup> See also document EBPBAC18/3.

<sup>2</sup> See document A66/35.

<sup>3</sup> See also document A66/35, Annex 1.

provided by United Nations Department of Safety and Security has facilitated this exercise which is now 75% complete. It is expected that the remaining assessments and implementation plans will be accomplished in the coming weeks. The working environment for the office in South Sudan is a particularly challenging one, as noted in the Secretariat's report to the Committee at its seventeenth meeting.<sup>1</sup> Similarly, for the audit on the WHO Country Office in Tehran, Islamic Republic of Iran (document IOS 10/829),<sup>2</sup> significant progress has been made addressing the pending recommendations, with a further 11 recommendations closed since November 2012. Most of the remaining open recommendations require coordination across the three levels of the Organization and are in some cases linked with the WHO reform agenda. As a result, they have taken longer than expected to close.

10. Responding to the recommendations stemming from the audit on the management and oversight of the Staff Health Insurance Fund (document IOS 09/808)<sup>2</sup> has been a complex undertaking, requiring extensive consultations with a wide range of stakeholders. The new governance structure, which will now be implemented as from 1 September 2013, will ensure more robust financial and administrative oversight of the health insurance scheme and will include inputs from external expert advisers, thereby also reducing risks to the Organization. Progress has also been made in implementing an application for staff health insurance that has already been deployed in the Regional Offices for Europe and the Western Pacific. It is planned that the roll-out of the application in the other regions will be completed by the end of 2013.

11. The report of the audit conducted on travel (document IOS 10/846)<sup>2</sup> contained an assessment of the effectiveness of internal controls in travel processes and a review of key managerial controls exercised over travel at headquarters. The report highlighted a number of aspects that could be strengthened, specifically in the areas of compliance with policies and procedures. In an effort to standardize policy and global compliance with it, the travel policy in the WHO eManual was fully updated during 2012. The policy is supported by standard operating procedures, which are also accessible to all staff through the Manual. Changes have also been implemented in the Global Management System. At headquarters, in order to ensure better management and oversight of travel by managers, the approval of travel reports is linked to the settlement of travel claims. This feature has also been implemented at the Regional Office for the Eastern Mediterranean. Awareness of the importance of planning travel ahead has been increased through training and other communication events. In order to improve compliance with the policy and standard operating procedures, and to improve planning and cost efficiency, consideration is being given to the option of restricting access to the creation of travel requests to well-trained users only. This is in line with the recommendation made in the audit report.

12. A review of leave and absence records, covering the period from January 2009 to December 2011, indicated that controls in this area needed to be enhanced (document IOS 11/878)<sup>2</sup> This issue has received considerable attention within the Secretariat, given the potential financial liabilities that it involves. Furthermore, the transition from the manual, paper-based process to a system managed through the self-service function of the Global Management System has brought to light a number of other unresolved issues. Overall, much progress has been made with respect to the recording and administration of leave since the audit report was issued. Action has been taken to raise awareness and knowledge among all staff members and institute enhanced controls at different levels.

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<sup>1</sup> Document EBPBAC17/4.

<sup>2</sup> See also document A66/35, Annex 1.

However, some of the recommendations of this audit cannot be fully implemented without the addition of a complex enhancement to the Global Management System.

13. Many of the issues identified in the audit observations and recommendations made in the report on employee payables and receivables (document IOS 10/847)<sup>1</sup> arose from:

- problems with data quality in the legacy human resources and accounting systems;
- complexities linked to the period 2008–2010, during which the transition to the Global Management System took place;
- process issues in the initial implementation of the System, especially with regard to issuing new contracts or contract extensions, which resulted in relatively high volumes of advance payments (processed locally).

14. Since then, significant efforts have been made to clean human resources and accounting finance data. Salary advances are now controlled centrally by the Global Service Centre and only the Centre has the authority to make advance payments. The payroll team follows standard operating procedures closely to ensure that recovery schedules are accurately recorded and maintained. New reports have been developed in the Global Management System to provide comprehensive reporting on staff balances.

15. **More recent audit reports.** During 2012, the African Region was the object of several audit missions. In response to these recent audits, the Regional Office has sent teams from its compliance unit or from the inter-country support teams, as required, to assist the audited office in responding to recommendations and taking remedial action. The objective is to close all 2012 audits by the end of 2013, to prevent any audit from becoming overdue. Since mid-2012, audit response missions have been undertaken to WHO country offices in Burkina Faso, Central African Republic, Liberia, Senegal and Uganda. Where the audit findings indicate serious shortcomings, the Regional Director asks for detailed and time-bound implementation plans from country offices. The African Region recognizes the continued need to build administrative capacity and improve controls in country offices. This need is being met, inter alia, through regular monitoring and reporting from the Global Management System to ensure that problems are detected early, and that interventions – which may include support missions and staff training – are targeted and timely.

16. Following the recent audit report on payroll at the Global Service Centre (document IOS 12/886) a risk-based approach has been adopted for all internal payroll processes. This approach includes the following current activities:

- development of standard operating procedures
- creation of associated risk register
- introduction of compliance activities
- alignment of resources with control activities.

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<sup>1</sup> See also document A66/35, Annex 1.

17. This project will continue during 2013. In parallel to this approach, the payroll unit is also implementing training sessions in order to raise the technical skills and performance of staff. This approach is mitigating payroll risks, particularly those relating to overpayment to staff.

18. A long-standing issue noted by the External and Internal Auditors concerns the accounting and control of bank accounts at the country level. Through support from the finance department at headquarters and the regional offices, there have been significant improvements in this area. Of a total of 621 accounts, there were only 10 that were not fully reconciled as at 31 December 2012. The reconciliation process has since been finalized.

### **External audits**

19. The External Auditor has carried out intensive work across all levels of the Organization as part of the report of the External Auditor on the financial operations of the World Health Organization for the financial year ended 31 December 2012. For the period concerned, Management Letters were issued, covering the following areas: inventory management, development of standard operating procedures, programme management, programme evaluation, enterprise risk management, IPSAS opening balances and financial statements, the Regional Office for the Western Pacific, the country office in the Philippines, the Global Service Centre, human resources management, fixed assets management, the Regional Office for Africa and the country office in Ghana. Highlights from the Management Letters will be presented in the report of the External Auditor to the Sixty-sixth World Health Assembly.<sup>1</sup>

20. Action is being undertaken by the Secretariat to deal with issues raised in the Management Letters. In respect of IPSAS opening adjustments, the recommendations were adopted as part of the financial statements for the year ended 31 December 2012. These have been finalized and are presented separately.<sup>2</sup> Programme management, human resources management and enterprise risk management are key areas for WHO reform and a series of actions have already been implemented to tackle the main issues.

21. Maintaining an effective interaction between the Secretariat and both the External and Internal Auditors is essential for improving the Organization's performance. The Secretariat remains committed to working closely with the Auditors in support of an enhanced culture of compliance and accountability within the Organization.

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

22. The Committee is invited to note the report.

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<sup>1</sup> Document A66/34.

<sup>2</sup> See document A66/29.