



World Health Organization
Organisation mondiale de la Santé

FIFTIETH WORLD HEALTH ASSEMBLY

Provisional agenda item 22.1

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Interim financial report on the accounts of WHO for 1996

External Auditor's report on his work

The Director-General has the honour to transmit herewith to the Fiftieth World Health Assembly (Annex) the interim report of the External Auditor on the accounts of the Organization for the 1996-1997 biennium.

ANNEX



A U D I T O R - G E N E R A L

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LETTER OF TRANSMITTAL

10 April 1997

The President of the World Health Assembly
World Health Organization
CH-1211 Geneva 27
SWITZERLAND

Dear Sir

I have the honour to present to the Fiftieth World Health Assembly my Interim Report on the World Health Organization for the 1996-1997 biennium. I would like to record that the financial statements, which are included in the Interim Financial Report for the year 1996, have not been audited and no audit opinion is expressed thereon.

In transmitting this report I wish to note that, in accordance with the World Health Organization's Financial Regulations, I have given the Director-General the opportunity to comment on my findings.

Yours sincerely

HE KLUEVER
AUDITOR-GENERAL, REPUBLIC OF SOUTH AFRICA
EXTERNAL AUDITOR

INTERIM REPORT OF THE INDEPENDENT EXTERNAL AUDITOR TO THE WORLD HEALTH ASSEMBLY: AUDIT OF THE WORLD HEALTH ORGANIZATION: 1996-1997 BIENNIUM

1. INTRODUCTION

The audit of the World Health Organization was assigned to the Auditor-General of the Republic of South Africa for the 1996-1997 biennium in terms of Resolution WHA48.18 of the 48th meeting of the World Health Assembly.

I have now completed my first year on the audit assignment and substantial progress with the audit for the biennium has been made. It is considered necessary to report to the World Health Assembly on salient matters relating to the audit findings thus far.

It should be emphasised that the audit procedures which were carried out during the past year were not designed to provide an audit opinion on the financial statements which are included in the Interim Financial Report for the year 1996 and these have therefore not been audited. This should be considered when referring to paragraph 18 of the Introduction to the Interim Financial Report for the year 1996.

2. SCOPE

The scope of the audit work which was carried out both at the head office in Geneva and at several regional offices, encompassed *inter alia* the following:

- A comprehensive planning phase.
- A follow-up of certain matters which were previously the subject of external audit reports.
- Interim audit tests of systems and controls.
- A review of the management arrangements and accountability structures.

3. OBJECTIVE

The objective of this report is to bring to the attention of the World Health Assembly, the significant findings arising from the audit work carried out to date in a timely manner and in which care was taken to follow due process. These findings have been set out hereafter under the following headings:

- Communication and accountability.
- Financial statements.
- Overall audit findings.

4. COMMUNICATION AND ACCOUNTABILITY

I have undertaken to play an appropriate role in strengthening the process of renewal and reform of the Organization which is intended to improve accountability, enhance operational economy, efficiency and effectiveness and thus improve the overall governance of the Organization. Proper accountability can only take place between the Organization and its governing bodies if there are effective structures and sound communication. A need to establish an appropriate structure, which will enhance and facilitate timely and proper communication between the independent external auditor and the Organization and its governing bodies, was identified during the preparation of the audit proposal. Three particular areas have been identified in this regard and are addressed hereafter.

4.1 Audit committee

It is submitted that the establishment of an audit committee will contribute significantly to the Organization and enhance the effectiveness of the role of the World Health Assembly. This may be achieved, by providing a forum to deal effectively with complex technical accounting and auditing issues raised by the external and internal auditors and the views of the Secretariat thereon. The quality of reporting within the Organization and to the World Health Assembly could also be improved through this forum.

Although various possibilities have been considered in this regard and have been communicated with the Organization, an entirely satisfactory solution has not yet been found. However, the recent opportunity created for the external auditor to also formally interact with the Administration, Budget and Finance Committee of the Executive Board is considered to be a step in the right direction and is welcomed.

4.2 Interim audit reporting

I propose to report to the World Health Assembly annually in order to promote timely action where necessary. This report, the scope and objectives of which are set out above, is the first to be issued in this regard.

4.3 Internal audit and oversight

The independence of the internal audit and oversight function was strengthened in December 1996 by the introduction of measures by the Director-General to improve the accessibility of the Office of Internal Audit and Oversight to the Executive Board and to enhance reporting to governing bodies. It may well be advisable to also reflect these changes in the Financial Regulations.

5. FINANCIAL STATEMENTS

The World Health Organization has undertaken to present its financial statements for the 1996-1997 biennium in accordance with the United Nations Common Accounting Standards. This will, in my opinion, improve the information disclosed and the understandability thereof considerably. The changes envisaged will include *inter alia*, a simplified format, the accrual of income and expenditure, the inclusion of a statement of cash flow and the disclosure of salient information relating to non-expendable equipment, furniture and motor vehicles.

A change of this nature will, in my opinion, require careful, timely planning and changes to certain systems. Statements should be properly prepared in the new format on a *pro forma* basis well in advance in order to address any problem areas and also to afford both my Office and other role players the opportunity to study the implications of the proposed improvements and to make formal inputs. Guidance will also have to be provided to regional offices and related organizations. The Financial Regulations may also, *inter alia*, need to be revisited with regard to the revised audit opinion. Adequate evidence of structured progress made by the

Organization in this regard had not been provided at the date of completion of the audit work, notwithstanding early informal and formal initiatives by my Office.

6. OVERALL AUDIT FINDINGS

The overall audit findings indicate a number of areas where improvements can be effected and these have been brought to the attention of the Organization. Brief details in this regard are set out below.

6.1 Management arrangements - improved budgeting and accounting

Various resolutions which have been taken by the World Health Assembly since 1993, have referred to the development of an improved budget and accounting process as well as the need for improved programme evaluation. While it is laudable that the Organization has recognised the importance of these matters and the need for reform, the pace of renewal, as well as the adequacy of the arrangements in the interim, remain cause for concern.

6.2 Financial situation

An amount of USD 21 085 thousand relating to internal borrowing has been recorded in Statement II of the Interim Financial Report for the year 1996 as the advance secured against other WHO funds. It appears, based on the information presented elsewhere in the Interim Financial Report, that this would have been reflected at a substantially higher figure if the calculation had been made on a basis which was consistent with that of the previous year.

The level of internal borrowing at 31 December 1996, according to the unaudited financial statements, is within the limit prescribed by the Financial Regulations of the World Health Organization.

6.3 Budgeting and expenditure control

Based on the audit tests conducted thus far, the overall implementation of budgeting and control measures which operate at present are functioning satisfactorily. However, our audit tests revealed a number of instances where obligations incurred exceeded the related allotments. Also, obligations had been established for future commitments or planned activities, rather than for valid charges against the resources of the Organization.

6.4 Local cost subsidies

Audit tests of regional offices activities revealed a significant number of outstanding statements of expenditure. This prevents proper accounting for moneys advanced in respect of local cost subsidies which had been paid by the regional offices.

6.5 Fellowships

The post fellowship monitoring system was not operating effectively at the regional office which was tested in this regard.

6.6 Procurement

There was no adequate evidence that use was being made of bulk purchasing in the procurement of computer equipment and documentation relating to proof of receipt was not always complete.

In the previous external audit report, it was recommended that the Organization adopt a code of purchasing ethics and implement a register of financial interests for staff involved in procurement activities. This would be consistent with initiatives of many organizations throughout the world to recognise the importance of enhancing preventative measures with regard to the threat of fraud and corruption. The Organization has indicated that the whole subject of standards of conduct under the Staff Regulations is currently a part of a system wide review.

6.7 Inventory

The recording processes of non-expendable equipment and furniture was inadequate. This has given rise to the control being unsatisfactory, while the completeness and valuation thereof could not be substantiated. This matter is also cause for concern in relation to compliance with the requirements of the United Nations Common Accounting Standards for the 1996-1997 biennium.

6.8 Regional offices

During the year under review, planning visits were conducted at the Regional Offices for Europe and the Americas, while interim testing was carried out at the Regional Offices for South-East Asia and for Africa. The specific aspects that need to be reported on have been included above.

At one regional office significant and ongoing improvements were noted when following-up the extensive matters which had previously been brought to light by the external auditor.

7. CONCLUSION

I should like to express my appreciation to management and personnel for the assistance afforded.

(signed)

AUDITOR-GENERAL
REPUBLIC OF SOUTH AFRICA

10 April 1997

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