



World Health Organization Organisation mondiale de la Santé

FIFTIETH WORLD HEALTH ASSEMBLY

Provisional agenda item 22.1

A50/23
23 April 1997

Interim report of the External Auditor

Comments of the Director-General

The Director-General presents herewith his comments on the interim report of the External Auditor as contained in document A50/22. After considering the matters raised in the report, the Director-General is pleased to note the good working relations with the External Auditor and to see that the audit did not reveal any material weaknesses or errors.

GENERAL COMMENTS

1. This is the first report submitted by the External Auditor following his appointment by the Forty-eighth World Health Assembly in May 1995 for the financial periods 1996-1997 and 1998-1999. The Auditor-General of the Republic of South Africa is the fifth External Auditor since the inception of the Organization (Sweden, 18 years, 1948-1966; Norway, 7 years, 1967-1973; Sweden, 4 years, 1974-1977; and United Kingdom of Great Britain and Northern Ireland, 18 years, 1978-1995).

2. While working relations with the external audit team have been good, there have, perhaps inevitably during the first year of a new appointment, been difficulties due to insufficient understanding of some time-tested methods of work of the Organization. Accordingly, closer and more frequent communications will be pursued in the coming year to facilitate a smooth audit process and clearer results. There are no specific recommendations in this interim report but the points emphasized have been given serious attention. The comments below indicate the Director-General's views on the matters raised.

SPECIFIC COMMENTS

3. Comments are given in the order of the references used in the interim report of the External Auditor.

INTRODUCTION [1.] - No comment.

SCOPE [2.] - No comment.

OBJECTIVE [3.] - No comment.

COMMUNICATION AND ACCOUNTABILITY [4.]

4. The purpose of the WHO reforms is much wider than stated by the External Auditor. It is to adjust WHO's response to changes - political, economic and social - that are affecting the world. It includes reviewing the mission of the Organization, reaffirming the role of its governing bodies and reviewing programmes and activities at all levels, with emphasis on the country offices. Key aspects of these reforms are coordination with the United Nations and other specialized agencies, improved methods of collaboration, better worldwide communications and improved use of WHO collaborating centres. This has already led to a number of policy reforms starting in 1994 with the WHO communications and public relations policy, continuing with the personnel policy and the renewal of health for all through the development of the health-for-all policy for the twenty-first century. These reforms permeate all the Organization's programmes, structurally and with regard to content, and they cover virtually every aspect of WHO's operations.

Audit committee [4.1]

5. The Director-General agrees that the present Administration, Budget and Finance Committee of the Executive Board serves as a suitable forum for discussion of matters raised by the External Auditor.

Interim audit reporting [4.2]

6. It is the prerogative of the External Auditor to issue reports to the Health Assembly annually if he wishes to do so. However, it may be recalled that when the biennial budgeting and financial reporting concept was first implemented in 1980-1981, the advantages mentioned at that time for adopting this concept were that it would save time in the relevant discussions at the governing bodies, reduce workload, time and cost for the Secretariat, and also save editorial, translation and printing work and costs in all the relevant governing bodies' documentation; these factors taken together have resulted in considerable savings. It is understandable that the External Auditor may wish to report to the Health Assembly upon important issues requiring the immediate attention of the governing bodies in connection with the first year of operations of the biennium, but it may be better to deal with routine items biennially.

Internal audit and oversight [4.3]

7. The new terms of reference were promulgated organization-wide at the end of 1996 and it would therefore not appear necessary to amend the Financial Regulations.

FINANCIAL STATEMENTS [5.]

8. While the Director-General has undertaken to present WHO's financial statements for the 1996-1997 biennium in accordance with the United Nations Common Accounting Standards, this will be done with the flexibility provided by the Standards, which will themselves be subject to modification, development and refinement as accounting principles evolve and in the light of the specific nature and requirements of the Organization. Any variation or adaptation of the Standards will be clearly specified in the Summary of Significant Accounting Policies to be included in the 1996-1997 Financial Report. It was reported to the Administration, Budget and Finance Committee in December 1996 (document EB99/4) that "... WHO would implement the harmonized United Nations system accounting standards in 1996-1997, but that the standards implemented for 1994-1995 and earlier were of equal rigour". Furthermore, the revised financial statements are merely intended to enhance comparability and uniformity with other organizations/agencies within the United Nations system. As has been conveyed to the external audit team, appropriate action to revise the financial statements has been under way since 1996, as planned, and the final version to be included in the 1996-1997 Financial Report will be reviewed with the External Auditor in due course.

OVERALL AUDIT FINDINGS [6.]

Management arrangements - improved budgeting and accounting [6.1]

9. The reservations expressed by the External Auditor are not fully understood because no detailed information has been given about his specific causes of concern. It is intended to discuss the matter further and in the hope of providing more insight into the managerial process in WHO before the External Auditor presents his final report at the end of the biennium.

10. The Director-General does not share the view that the pace of renewal is a cause for concern. As an example: the Executive Board, in resolution EB99.R13, thanked the Director-General for the substantial effort made for budgetary reform in the presentation of the proposed programme budgets for 1996-1997 and 1998-1999. The Board welcomed the continued development of a strategic approach to programme budgeting and the notable progress made in the presentation of targets and products. More generally, it welcomed the improvements in the structure and transparency of the proposed programme budget. The development of plans of action and methodology for evaluation are well advanced, as the Executive Board noted in January 1997 at its ninety-ninth session. Further reports will be presented to the 101st session of the Executive Board in January 1998.

11. As stated earlier, the Director-General is always looking for possible improvements in the field of accounting methodology and financial reporting processes. In 1996 professional advisory services were obtained from leading international audit and financial firms and insurance companies, as well as from internationally known academic authorities in the field of finance and accountancy. Nevertheless, it is considered worthwhile mentioning that WHO's accounting system, through the gradual introduction of electronic data-processing, has maintained a high degree of reliability and accuracy, and has never been a cause of concern for the Health Assembly.

Financial situation [6.2]

12. As was carefully explained in detail to the External Auditor, reporting of expenditure against the biennial regular budget funds at the end of the first year of the biennium does in fact differ from that of the last year in the sense that the unliquidated obligations are integrated in the statement of income and expenditure only at the end of the financial period. This has been the practice followed and accepted by the Health Assembly since the implementation of the biennial concept in 1980-1981. Moreover, Financial Regulation 5.1 requires that internal borrowing, if any, is reported to the Executive Board only at the end of the biennium. This is being done through the Financial Report. The WHO method of calculating internal borrowing as at 31 December 1996 is consistent with that used for earlier interim financial reports, for example as at 31 December 1992 and 1994. Similarly, the biennial financial report as at 31 December 1995 was consistent with those of the 1991 and 1993 biennial reports.

Budgeting and expenditure control [6.3]

13. During the course of the biennium financial operations flow rapidly, and allotments may in fact temporarily go into the red, which does not in any way expose the Organization financially, since funds are on hand to cover such temporary allotment shortfalls. There is continual review, and allotment adjustments are effected as required. If WHO is to maintain smooth programme delivery during the course of the financial period, this is the only practical and effective means to operate, and it is consistent with past practice.

Local cost subsidies [6.4]

14. Governments do not always submit on time expenditure statements supporting advances to cover local costs. One office mentioned by the External Auditor is seeking to speed up the receipt of such statements;

another indicates that all funds disbursed in the current financial period have been accounted for, while for prior years' expenditure the staff will investigate the situation.

Fellowships [6.5]

15. The post-fellowship monitoring system depends essentially upon the government authorities. The office concerned agrees that this is an area to be strengthened.

Procurement [6.6]

16. The external audit team was informed that whereas a single purchase order may not be issued for several hundred computers, price negotiations with suppliers are based on large quantities and not on single units, so that the main advantage of bulk procurement can still be obtained.

17. The External Auditor was informed that under the present situation it was considered that a fully adequate code of ethics already exists in the form of WHO Staff Regulations and Rules. The whole subject of standards of conduct under the Staff Regulations is currently a part of a United Nations system-wide review. Finally, regarding a code of purchasing ethics, he was also informed that WHO has been an active participant in the Inter-Agency Procurement Services Office's (IAPSO) pursuit of a code of ethics for procurement staff for the last two years.

Inventory [6.7]

18. Whereas the Organization does maintain manual inventory control cards, and while section VI.6 of the WHO Administrative Manual extensively covers this subject, it is not totally correct, as the External Auditor states, that "the recording processes of non-expendable equipment and furniture was inadequate" and that the control may be "unsatisfactory". The External Auditor was informed of the existing "manual" procedure as well as of the development of a computerized inventory system which will improve the completeness of the records.

19. The Director-General does not share the concern expressed by the External Auditor in the last sentence of his report since the United Nations Common Accounting Standards do not specify any particular requirement other than the showing of a total inventory value as a non-accounting footnote in the financial statements. While it is important to have quantities of inventoried items on record, only the value of these items will be appropriately footnoted in the financial statements. The situation is well in hand and reliable figures will be available for the 1996-1997 Financial Report.

Regional offices [6.8]

20. The progress noted will be built upon.

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