External and internal audit recommendations: progress on implementation

Report by the Secretariat

1.   As requested by the Programme, Budget and Administration Committee at the Committee's thirteenth meeting in January 2011, this report provides an update of actions taken by the Secretariat to ensure full implementation of recommendations made in the reports of the external and internal auditors. The report should be read in conjunction with document EBPBAC21/4, Internal control framework: implementation update, including proposals on direct financial cooperation, which the Committee had noted at its previous meeting.[1]

WHO'S ACCOUNTABILITY SYSTEM

2.   Over the past years, and as an important part of WHO reform, the Secretariat has focused on improving its accountability system. As highlighted by both the Internal and External Auditors and by the Independent Expert Oversight Advisory Committee, a culture of compliance and accountability, demonstrated through implementation of a sound accountability system, is crucial for WHO to respond more rapidly to vulnerabilities and risks and to find permanent solutions to recurring issues.

3.   The WHO accountability system consists of three key components (as highlighted in Figure 1 below): an accountability framework, a risk management framework and an internal control framework. Enhanced accountability and greater transparency are organizational objectives and goals, as expressed in WHO's Twelfth General Programme of Work (2014–2019) and the programme budget.

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[1] See document EB136/3, section 3.3.

Figure 1. WHO's accountability system

Accountability Framework

Overall architecture for accountability

To whom and what we are accountable

Defines what it means and what it entails

Risk Management Framework

Likelihood and impact of Organization's ability to achieve its objectives

Internal Control Framework

Provides reasonable assurance regarding achievement of operational, compliance and reporting objectives

WHO's revised accountability framework

4.   A milestone in enhancing WHO's accountability system has been the revision of the Organization's accountability framework. Accountability has always been embedded in the structure of WHO and its operational policies and procedures, but the framework issued in 2006 has been revised to reflect the evolving environment relating to global health needs, continuing WHO reform, and the need to strengthen WHO's accountability and transparency.

5.   The revised framework provides the dominant structure for accountability in the Organization and defines what it entails. It builds on WHO's Constitution, rules, regulations, policies and strategies, and establishes the expectations for accountability for all managers and staff members within the Organization. It is designed to support the Organization's results-based management approach whereby delegated responsibility, authority and accountability exist in a decentralized environment at all levels of the Organization. In revising the framework, the Secretariat reviewed the best practices from other organizations in the United Nations system as identified in the report of the Joint Inspection Unit on Accountability Frameworks in the United Nations System in 2011.[1] A comprehensive implementation plan for the accountability framework is currently being developed and some tools have already been launched, including the accountability compact for Assistant Directors-General.

6.   Figure 2 depicts the components and mechanisms of the revised accountability framework.[2]

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[1] Document JIU/REP/2011/5.

[2] A full description of the revised framework, including the guiding principles for accountability in WHO, is available through the following link: http://who.int/about/who_reform/managerial/accountability-framework.pdf (accessed 1 May 2015).

Figure 2. WHO's accountability components and mechanisms
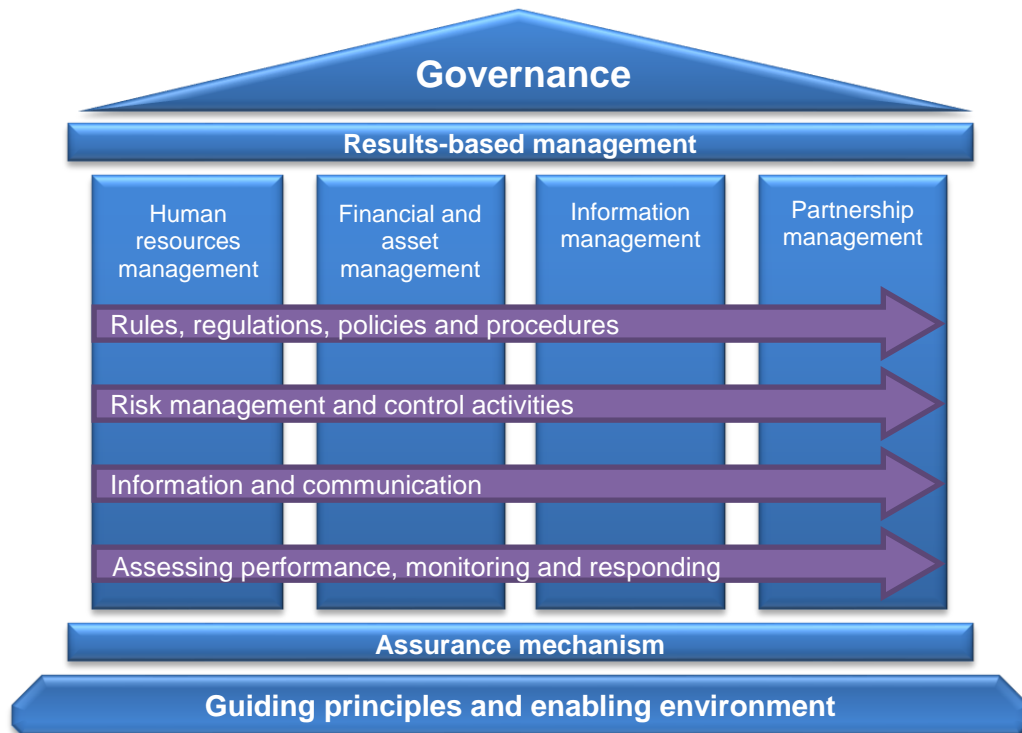
Progress made with the development and implementation of WHO's risk management framework

7.   Work to enhance WHO's approach to risk management has continued. As reported to the Committee at its previous meeting,[1] special efforts continue to be made to develop and implement procedures and tools to identify, assess, respond to and monitor risks in a structured, systemic and prompt manner. The risk management process has progressed as planned: the risk identification and mitigation phases have been completed and the validation phase is under way. Once the validation phase has been finalized, the implementation of risk mitigation strategies will need to be reflected in the work plans for the forthcoming biennium.

8.   The Secretariat is also finalizing WHO's risk management framework and policy. Due note has been taken of the External Auditor's guidance in the report to the Sixty-eighth World Health Assembly,[2] and it will be used to guide the next steps towards establishing a solid foundation for risk management and a fully risk-aware culture in WHO.

Progress made with the implementation of WHO's internal control framework

9.   Progress has been made in finalizing the **internal control management tools**, such as the self-assessment checklist and the managers' guide. In the context of the model of three lines of

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[1] See document EBPBAC21/5.

[2] Document A68/41.

defence,[1] these tools will help to ensure that managers, within their delegation of authority, are aware of the applicable policies and procedures, the controls they are responsible and accountable for, the related monitoring and reporting requirements, and the purpose and use of the internal control framework. The checklist has been pilot tested and is being introduced across the Organization in 2015. A summary report based on the results from the self-assessment checklist will inform the risk management process and the development of an internal control statement (planned for January 2016). The managers' guide has been developed and is currently available to all staff through the eManual.

10. Discussions continue on the recognized need to improve harmonization of the structure and responsibilities of the **compliance units** that have been established in different major offices. A definition for the concept of compliance is being developed and, although some room for regional specifications needs to be left, this will guide the set-up and functions of these units in the future.

11. The recently-launched project to **transform the Global Management System** provides an opportunity to further strengthen controls in WHO's enterprise resource planning system. In addition to process simplifications, this project is expected to bring a significant degree of automation to internal controls, thereby reducing risks in the implementation of administrative and financial transactions. Furthermore, the project will enable the Secretariat to make more effective use of the information available in the system through better reporting and further development of dashboards showing key performance indicators for managerial decision-making.

12. Regarding **policies, strategies and procedures** in core functional areas, some of the high-risk areas identified by internal and external audit recommendations and internal assessments for review and update include procurement and direct financial cooperation payments. Paragraphs 13–22 outline the progress made in these areas since the previous meeting of the Committee.

Procurement

13. A comprehensive procurement strategy for WHO has been developed.[2] This strategy seeks to integrate the procurement function into WHO's overall corporate planning and strategy development in the context of WHO reform. Through the implementation of the strategy, the Secretariat also aims to make the improvements identified by Member States, donors and internal and external auditors in the area of procurement, including the need to enhance the internal controls.

14. The strategy focuses on core transactions for procuring goods and services. It excludes those that are currently considered in the definition of "procurement" but have their "business ownership" outside the procurement function. The excluded transactions concern financial arrangements like direct financial cooperation, grant management, internal services and imprest expenditures as well as non-staff contracts, such as those for individual consultants, individual Agreements for Performance of Work and fellowships. Although these arrangements are not included in the strategy, work to improve policies, compliance and controls around them is also continuing.

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[1] Institute of Internal Auditors. Position paper: The three lines of defense in effective risk management and control: is your organization positioned for success? Institute of Internal Auditors, 2013 (https://na.theiia.org/standards-guidance/Public%20Documents/PP%20The%20Three%20Lines%20of%20Defense%20in%20Effective%20Risk%20Management%20and%20Control.pdf, accessed 5 May 2015).

[2] The full strategy document is accessible through the following link: http://www.who.int/about/resources_planning/WHO_Procurement_Strategy_April2015.pdf?ua=1.

15.   The new procurement strategy is based on a thorough risk analysis, combining the observations of Member States and donors, the recommendations of internal and external audits and the Secretariat's internal assessment findings. The analysis indicates that WHO's procurement function currently faces three categories of risk: procurement policy, compliance and oversight; cost-effectiveness; and operational capability.

16.   Based on the risk analysis, the strategy aims at mitigating these risks by defining the necessary measures and systems to overcome the negative impact of these three categories of risk across the procurement function. In order to do this, three corresponding strategic pillars support policy directions and principles and guide the tactical measures that need to be implemented.

17.   The three **strategic pillars** of the WHO procurement strategy are as follows.

I.   *Enhancing risk mitigation and compliance.* This pillar aims to reduce the financial and reputational risks associated with procuring services by limiting the opportunity for fraud or misconduct and preventing deficiencies in quality through a risk-mitigation model. This will be done by ensuring that practices across all major offices are consistent, with further reinforcement through partly centralizing controls. In addition, compliance measures will be emphasized in high-risk procurement processes in order to ensure segregation of duties, transparency and accountability.

II.   *Increasing cost–effectiveness*. This pillar aims to further reduce costs and manage supply risk in the procurement of goods and in logistics through product category management. It will allow WHO to group goods with the same characteristics based on key criteria such as cost and supply risk; that done, procurement strategies and tactics can be developed on the basis of these product groupings in order to ensure that the Organization attains best value for money and secure supply capacity.

III.   *Enhancing operational excellence*. This pillar aims to enhance operational capability by developing an effective management framework to assure timely and delivery of high-quality goods and services and by reinforcing the capacity for procurement. The management framework consists of interlinked elements: supplier management, supply chain optimization and quality assurance. At the same time, the procurement foundation will be strengthened by enhancing structure, improving processes and systems, and developing human resources, for example through regular procurement training at all levels of the Organization.

18.   The first stage in the implementation of the strategy will be the update and development of WHO's procurement policy to support the three strategic pillars. The enhanced regulatory framework for procurement policy will consider the existing principles of value for money, effective competition based on equal treatment, transparency and accountability. At the same time, it will reinforce WHO's commitment to environmentally responsible and socially responsible procurement, and paves the way for the development of a dedicated, environmentally-responsible procurement policy, reflecting WHO's commitment to green procurement. It will also lay the groundwork for efficient interface with the community of vendors.

19.   To ensure the harmonized implementation of policy and strategy, the Secretariat will create the function of procurement policy and strategy. The main benefit of this will be to define clearly the overall ownership and accountability with a dedicated procurement business owner. This will enable WHO to implement policies more easily and uniformly. It will further clarify the separation of the functions of policy-making and strategy analysis from responsibility for actual procurement transactions.

20.   Figure 3 lists the present issues linked to the procurement of services and goods, and highlights the scope of work and tactics that are planned to be implemented under each of the three pillars. Note

that all three pillars are interdependent and results can only be sustained if actions are implemented under each area. Overall, it is expected that, through the implementation of the tactical measures for the three pillars, cases of non-compliance in procurement will be reduced and risks for procurement fraud limited. Furthermore, clearer accountability for value for money and compliance at budget centre level combined with strengthened resources in the area of procurement will further assist in improving WHO's performance in procurement.

Figure 3. Summary of the three pillars in the procurement strategy

	Policy	
	Strategic pillar 1	**Strategic pillar 2**
Emphasis	**Risk and compliance**	**Cost–effectiveness**
Scope	**Procurement of services**	**Procurement of goods**
Issues	o Decentralized procurement structure o Procurement experts not involved o Ineffective segregation of duties o Lack of transparency and visibility o Unclear accountability	o Reactive procurement o High administrative and transport costs o Missed economies of scales o Ineffective competition o Lack of procurement planning o Low capacity and capability in procurement o High supply risk
Tactics	o Establish vendor management framework o Early involvement of procurement experts o e-Tendering system o Segregate requester and approver duties o Enhance compliance checks o Limit receipt focal points	o Strategic partnership with manufacturers o Expert committee o Procurement plans and forward purchasing o Broaden the supplier base o Extended use of long-term agreements o Collaboration with United Nations agencies o Simplified procedures and modality o Outsourcing and piggybacking o Reverse auctions

Strategic pillar 3
Operational excellence

Strategic pillar 3 addresses the basic procurement fundamentals that need to be in place to effectively execute and support strategic pillars 1 and 2. This strategic pillar includes basic procurement fundamentals such as: strengthening operational capability, effective supplier management, supply chain optimization, comprehensive quality assurance and reinforcing the procurement foundation.

Direct financial cooperation

21.   The Secretariat has continued to implement the enhancements for direct financial cooperation outlined in its report to the Committee at its previous meeting.[1] Policy enhancements for direct financial cooperation have been introduced and these are reflected in the WHO eManual, which is accessible to all staff. Implementation of assurance activities for projects funded by direct financial cooperation is ongoing and some system enhancements are being introduced to improve the workflow and uploading of direct financial cooperation reports in the Global Management System. Training on financial management is being enhanced and the internal control self-assessment checklist contains a section on direct financial cooperation, helping to raise awareness of the key policy and control issues.

22.   Overall, good progress has been made in reducing the number of overdue direct financial cooperation reports. Comparison between 31 December 2013 and 31 December 2014 shows that the number of overdue direct financial cooperation reports has been reduced by some 60%. This achievement reflects both increased attention by government counterparts to reporting on direct financial cooperation as well as a concerted effort by the Secretariat to improve compliance with reporting requirements. The new direct financial cooperation templates that have been introduced have also enhanced the quality of reports.

Accountability and the working environment

23.   WHO and all its staff members are accountable for the mandates, resources and funds entrusted to the Organization by its Member States. The highest standard of conduct, competence and performance is expected of all WHO staff members. In the respectful and ethical environment that WHO is fostering there is no tolerance for fraud, misrepresentation, false certification or inappropriate behaviour, including verbal or physical assault. An annual information note is issued, advising all staff members on the actions taken by the Director-General, Assistant Directors-General and Regional Directors to deal with recent cases of misconduct at WHO.

24.   Disciplinary measures imposed are proportionate to the nature and gravity of the misconduct. Both aggravating and mitigating factors are taken into account in determining a sanction, and this varies according to the facts and circumstances of each case. In this context, staff members who are separated from WHO further to a finding of misconduct may be informed that they will not be considered by WHO for future employment or services. In such cases, a note is kept in their personal file to that effect.

25.   In January 2015 the Executive Board at its 136th session, adopted resolution EB136.R13, in which it confirmed, inter alia, the amendments to WHO Staff Rule 1110.1 to expand the range of disciplinary measures. This gives WHO more flexibility when disciplining staff members who have been found guilty of misconduct. In the cases where dismissal and reduction in grade are not warranted, the Staff Rules now allow for measures such as suspension (with partial or no pay), loss of up to three steps at grade and a fine. Staff Rule 1112 also allows WHO to be partially or fully compensated by a staff member whose misconduct results in a financial loss for the Organization.

26.   Between 1 March 2014 and 31 March 2015, WHO concluded six disciplinary proceedings that led to the imposition of disciplinary measures in six cases, involving staff at both senior professional

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[1] Document EBPBAC21/4.

and general service levels. The measures concerned included: dismissal with one month's notice (four staff members), reassignment (one staff member) and a reprimand in writing (one staff member).

WAY FORWARD

27.   Steady progress has been made, but challenges remain. Although the key elements of WHO's accountability system are now in place, efforts must continue to ensure that the different initiatives that are being implemented are well integrated and support each other. For sustainable results, actions are needed at both the strategic and operational levels, with corresponding behavioural changes. It will be essential to implement the policies, procedures, best practices and lessons learnt in a more systemic manner across all offices and processes.

28.   Moreover, as accountability touches upon the culture of an organization, it is important to recognize that there will be a time lag between the decision to develop necessary new measures, their implementation, and their impact being seen. Full results will not be achieved instantly, but the Secretariat's commitment to making longer-term, sustainable improvements is firm.

ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE

29.   The Programme, Budget and Administration Committee is invited to take note of the report.

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