



WORLD HEALTH ORGANIZATION

FIFTY-SEVENTH WORLD HEALTH ASSEMBLY
Provisional agenda item 14

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Report of the Internal Auditor

MANDATE

1. The Office of Internal Oversight Services transmits herewith its annual report for the calendar year 2003 for the information of the Health Assembly.
2. Rule XII of the Financial Rules – Internal Audit – establishes the mandate of the Office of Internal Oversight Services. Paragraph 112.3(e) of Rule XII requires the Office to submit a summary annual report to the Director-General on its activities, their orientation and scope, and on the implementation status of the recommendations made. The Financial Rules also state that this report shall be submitted to the Health Assembly, together with any comments deemed necessary.
3. The Office performs an independent, objective, assurance and advisory activity designed to add value to and improve the Organization's operations. Using a systematic and disciplined approach, it helps the Organization to accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control, and governance.
4. In late 2003, the Office assumed responsibility for management of the Organization's framework for programme evaluation; results will be reported to the Executive Board. It is expected that, in future, certain synergies will be realized between performance audits and evaluations conducted under the framework.
5. The Office is authorized full, free and prompt access to all records, property, personnel, operations and functions within the Organization which, in its opinion, are relevant to the subject matter under review.

PRIORITIES, PROCESS AND PRODUCTS

6. A methodical risk-assessment process, which considers the Organization's structure and corresponding functions, guides the Office's approach to its activities. As a result of the overall risk assessment, the Office identified the following general areas of work: (a) regional offices; (b) offices of WHO Representatives; (c) headquarters programmes and functions; and (d) investigation and oversight. Specific priorities within each of these broad areas were then established through detailed risk assessment. The Office also took into account requests made by management for review of specific programmes or activities.
7. Although certain interventions were limited to very precise objectives, the scope of work was to evaluate whether the network of processes for risk management, control, and administrative governance, as designed and implemented by the Organization's management, was adequate and functioning in a manner to fulfil specific purposes. These were to ensure that: (a) risks were identified

and managed; (b) financial, managerial, and operating information was accurate, reliable, and timely; (c) staff actions were in compliance with WHO's regulations, rules, policies, standards and procedures; (d) resources were acquired economically, used efficiently, and protected adequately; (e) programmes, plans, and objectives were achieved; and (f) the Organization's control process fostered quality and continuous improvement.

8. At the conclusion of each audit, a detailed report was written and recommendations were made to management that were designed to help to manage risk, maintain effective controls and ensure sound governance within the Secretariat.

MANAGEMENT OF THE OFFICE

9. The Office reports directly to the Director-General and at year's end had a staffing resource of seven professional auditor posts, two professional evaluator posts and one Director's post. In late 2003, staffing was strengthened through the assignment of an experienced technical officer in order to provide the necessary skills for performance audits.

10. The priority work of the Office can be performed only within the limits of available staffing resources. High-risk situations involving investigation of irregular activity, which develop unpredictably, may divert such resources away from identified priorities. The Office must therefore establish priorities effectively for scheduled work in order to compensate for the low staffing level.

11. As part of the Office's efforts to enhance staff development and maintain its skill base, its staff have attended various in-house courses and external training programmes. The Office organized cost-effective training during the year for the benefit of its professional staff and other auditors in the United Nations system.

12. The Office maintains regular contact with the Organization's External Auditor. As in previous years, consultations were held during the year to coordinate audit work and to avoid overlap in coverage. The Office provides the External Auditor with a copy of all internal audit reports.

AUDIT RESULTS FOR 2003

13. In the opinion of the Office, the results of the audit work undertaken during 2003 indicate that overall, the processes for control, risk management and governance within WHO continue to provide reasonable assurance that significant shortcomings in the achievement of the Organization's objectives will be prevented or disclosed.

14. No limitations were placed on the scope of the work of the Office in the course of conducting its business; nor were there any significant unresolved differences of opinion between the Office and the Organization's senior management in respect of acceptance of residual risk.

15. Major issues and areas of improvement that were identified during the audits undertaken in 2003 are described below, set out under the major groupings outlined in the plan of work.

Regional offices

16. **Regional Office for Africa.** A horizontal review of the Region's management of risks relative to the expenditure cycle disclosed a number of basic weaknesses that represent a potential financial risk for the Organization. Activities which create financial transactions are often initiated without respecting established controls or clearance procedures, which at times may themselves be weak or nonexistent. These transactions are subsequently approved, paid and recorded in the accounts, without rectification, under a process that does not function effectively from a control standpoint. Most notably, authority has been delegated to Directors and WHO Representatives for expenditure approval; however, some often fail to enforce controls and are not held accountable for discrepancies in approved transactions.

17. **Regional Office for South-East Asia.** The results of the audit, which concentrated on areas relating to contracting services, local cost subsidies and payments, indicated that in general, the Regional Office had implemented control processes to mitigate most of the inherent risks. However, there was a need to manage better risks relating to contractors' performance, pricing, accountability, and protection against improper payments. The audit also noted a substantial increase, primarily from WHO country offices in India and Indonesia, in the value of local cost subsidy advances for which there was no accounting and it recommended action to ensure receipt of this information. Lastly, the Office facilitated a control self-assessment exercise for certain units in the general services area.

18. **Regional Office for Europe, Division of Technical Support – 2, European Centre for Environment and Health.** The audit examined the innovative concept of operating the geographically dispersed European Centre for Environment and Health. It disclosed that the managerial process in the application of this concept lacked clarity and posed a risk to the achievement of the Regional Office's objectives. There was a need to develop a strategy for reducing risk by taking account of factors such as location, synergy and strength, exit policy, operational mechanism and overhead costs, in order to streamline current operations and establish dispersed offices in the future. Further, there was a need continually to review the direction and status of the work programmes performed by the dispersed offices to ensure that they are consistent with regional priorities.

19. **Regional Office for the Eastern Mediterranean.** The objective of the audit was to carry out an assessment of the managerial processes of selected programmes within the Division of Communicable Disease Control. The audit found that, owing to a lack of resources, some units were not able to fully address public health issues in the Region, such as dealing with health risks like the re-emergence of severe acute respiratory syndrome, an influenza pandemic or the presence of zoonotic diseases (both new and recurring); and pursuing consultations on the revision of the International Health Regulations. The audit also noted a need to improve interaction with animal disease surveillance authorities with the aim of giving greater priority to surveillance as a critical component of safeguarding human health. Resource mobilization was also identified as an area of concern because of insufficient capacity and unclear assignment of responsibility. Shortage of funds could result in inadequate implementation of core functions. Weaknesses in programme planning and monitoring activities were noted and further effort is required to make full use of the computerized activity management system as a technical monitoring tool.

Country offices and programmes

20. **African Programme for Onchocerciasis Control.** The audit identified residual risks that stem from inadequate controls in certain areas. More specifically, it noted control weaknesses in such areas as interoffice accounting and reporting, project funding and cash transfers, imprest account submission

and verification, nonexpendable equipment, and internal communications. The audit also included two visits to projects funded by the Programme where recommendations were made in order to strengthen accountability.

21. **Office of the WHO Representative, Kinshasa.** The audit aimed to assure management of the propriety of the transfer of US\$ 12 million from the office in Kinshasa to its 13 field offices for poliomyelitis eradication, immunization and surveillance activities during the biennium 2002-2003. The audit work concentrated on reconciling accounting data from the Regional Office for Africa, the country office and its field offices and determined that receipt of the funds by the field offices could be established. However, accountability from that point forward was not always assured. The audit concluded that weaknesses in the accounting framework for the implementation of national immunization days – for example, unclear assignment of responsibilities, lack of effective segregation of duties, and inadequate documentation of expenditures – had made it difficult to establish effective accountability for those expenditures. Nevertheless, the poliomyelitis eradication work in the country has been effective and no confirmed cases have been reported by the surveillance system since 2000.

Headquarters

22. **Department of Mental Health and Substance Dependence.** The audit concluded that the Department's controls were adequate to ensure a reasonable expectation of success in achieving the objectives outlined in the work plan. However, further refinement of managerial policy and procedures could enhance the Department's role in implementing country activities. In addition, there should be a clear linkage between departmental objectives and activities stated in the work plan, and there was a need to attract financial resources to sustain and expand activities.

23. **Administrative Services Agreement between WHO and the Global Fund to Fight AIDS, Tuberculosis and Malaria.** The audit examined the provision of administrative services by WHO to the Fund under the terms of the Administrative Services Agreement. The Agreement is viewed by some as a restrictive arrangement that impedes the Fund's efficiency and effectiveness. At the same time, WHO is vulnerable to criticism that it is not providing the oversight needed to ensure that the Fund complies with necessary controls and procedures. To mitigate the negative implications of the current situation, action needs to be taken to ensure that WHO is a facilitator of Fund activities while remaining a responsible and transparent entity.

24. **General services and maintenance contracts at headquarters.** The audit disclosed that procedures and controls for services contracts at headquarters were, in general, operating satisfactorily. Nevertheless, it was noted that certain procedures relating to the Contract Review Committee and contractor performance could be strengthened.

OVERSIGHT

25. The Office investigated a considerable volume of activity related to fraud and irregular practices. During 2003, about 30% of the total staff time available in the Office was devoted to investigations in various country offices and at headquarters. In view of the nature of the work, products of investigations are subject to due process requirements to ensure that their final disposition is not prejudiced in any way.

26. The oversight work during 2003 disclosed that, in some cases, a proper control environment was lacking in certain offices and effective supervisory control was not always exercised by the

responsible officials. There was a clear need for the Organization to foster a culture of prompt disciplinary action in cases of possible staff misconduct.

27. **A WHO Representative's office.** A staff member allegedly colluded with employees of WHO's fuel supplier to purchase tax-exempt fuel coupons and then resell them at taxed, market price. A second staff member allegedly submitted false invoices for fuel and stationery and forged signatures in order to encash WHO cheques. The quantified loss of US\$ 125 000 has been largely recovered through insurance. The contracts of the two staff members ended in late 2002, before the fraud was discovered. One individual is in judicial custody; the other cannot be located by the police.

28. **A WHO Representative's office.** Two staff members who held separately the keys to a dual-lock safe both left their keys with a third staff member during their absence on duty travel in late 2002. The keys were kept together in an unsecured desk drawer and were apparently used to open the safe and remove US\$ 17 000. A fingerprint suggested that a janitor had gained access to the safe and although denying any guilt, he nevertheless resigned. The other staff members have been reprimanded.

29. **A WHO Representative's office.** In 2002 and early 2003, a group of five administrative staff members allegedly purchased stationery without required competitive bidding; they also allegedly made fictitious local cost subsidy payments, failed to apply proper procurement procedures for various local purchases, and in one instance, travelled to the staff member's home country for nonexistent training. A disciplinary review is under way.

30. **A WHO Representative's office.** Twenty-seven staff members submitted health insurance claims with allegedly fictitious or inflated supporting receipts during 2002 and 2003. The aggregate value of the claims amounted to US\$ 65 000. A disciplinary review is under way.

31. **A WHO-related office.** In mid-2002, cheques totalling US\$ 233 000 for programme activities were deposited in the personal bank account of a staff member. Although the staff member claims that the funds were disbursed for programme activities, no supporting documentation has been provided. A disciplinary review is under way and an insurance claim is being pursued to recover the loss.

32. **Headquarters.** A staff member provided an allegedly fictitious invoice for US\$ 4800 from a travel agent to support a claim of having purchased airline tickets for home-leave travel. The airline tickets had in fact been issued at no cost to the staff member under the airline's frequent-flyer scheme. A disciplinary review is under way.

AUDIT OF UNAIDS

33. During 2003, in its capacity of internal auditor of the host agency, the Office conducted an audit of informatics at the UNAIDS Secretariat, in Geneva. The results of the audit, together with recommendations, have been communicated to the Executive Director of the programme.

FOLLOW-UP AND IMPLEMENTATION

34. The Office monitors the implementation of all its recommendations and verifies the reported implementation during subsequent audit visits. Recommendations have been accepted positively by senior management and the Office is generally satisfied with the overall disposition of the significant

audit recommendations. The Annex to this document contains the status of reports issued during 2003 and includes information on closure.

35. All prior reports have been cleared except those mentioned below. In some of these areas, the topics are complex and implementation efforts may take time to complete. Nevertheless, the recommendations have not been fully implemented and, accordingly, the audits remain open.

36. **Pharmaceutical procurement.** The audit report issued in May 2001 to the General Management cluster discussed the need at headquarters for strengthening the quality assurance and testing system and the contracting procedures for drug procurement. It also highlighted the need to compile a list of essential drugs for WHO's procurement purposes, based on the WHO Model List of Essential Medicines. A response was recently received and is under evaluation.

37. **WHO Centre for Health Development, Kobe, Japan.** The audit report, issued in July 2001 to the Director-General, recommended that the relationship between the Centre and headquarters should be clarified. The state of affairs at the time of audit stemmed principally from an interpretation by the Centre of its reporting responsibilities and status with regard to its operational relationship with headquarters; this concerned such matters as authority, process, information and communication. No response has been received, although the Office is aware that new arrangements were put in place following the change of Directors of the Centre at the end of 2003. A follow-up audit is now being undertaken.

38. **Extrabudgetary partner agreements at the Regional Office for the Americas/PAHO.** The audit report issued in August 2002 to the Regional Director for the Americas, contained a number of recommendations; these have largely been implemented. The Regional Office/PAHO is adjusting its arrangements with a not-for-profit, public foundation to ensure an appropriate relationship and compliance with host government legal restrictions.

ACTION BY THE HEALTH ASSEMBLY

39. The Health Assembly is invited to note the report.

ANNEX

2003 AUDIT REPORTS AND STATUS

Office/subject	Report date	Audit closure date	Comments
Control self-assessment at the Regional Office for South-East Asia	13 March 2003	13 March 2003	
General service and maintenance contracts at headquarters	1 May 2003	9 January 2004	
Regional Office for South-East Asia	9 May 2003	4 November 2003	
Department of Mental Health and Substance Dependence	9 May 2003	6 November 2003	
Corporate credit cards at headquarters	15 May 2003	12 March 2004	
Investigation at a WHO Representative's office	20 May 2003		Sub judice
Investigation at a WHO Representative's office	6 June 2003	26 December 2003	Staff reprimanded
African Programme for Onchocerciasis Control	16 June 2003	12 February 2004	
Administrative Services Agreement between WHO and the Global Fund to Fight AIDS, Tuberculosis and Malaria	9 July 2003		
Investigation at a WHO Representative's office	5 August 2003		Sub judice
Informatics at UNAIDS Secretariat, Geneva	20 August 2003		
Regional Office for Europe, Division of Technical Support – 2, European Centre for Environment and Health	20 August 2003	3 November 2003	
Control self-assessment at the International Agency for Research on Cancer	22 September 2003	22 September 2003	

Office/subject	Report date	Audit closure date	Comments
Regional Office for Africa	23 October 2003		In advance of a formal response, the Regional Office for Africa has revised and clarified its delegations of authority and strengthened the imprest accounting system. A study has also been commissioned to review the provision of budget and financial services for the Region.
Investigation at a WHO-related office	27 October 2003		Sub judice
Office of the WHO Representative, Kinshasa	31 October 2003		
Investigation at headquarters	25 November 2003		Sub judice
Investigation at a WHO Representative's office	16 December 2003		Sub judice
Regional Office for the Eastern Mediterranean	17 February 2004		

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