



# **WORLD HEALTH ORGANIZATION**

**FIFTY-SECOND WORLD HEALTH ASSEMBLY**  
**Provisional agenda item 15**

**A52/14**  
**8 April 1999**

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## **Unaudited interim financial report for the year 1998**

### **Report of the External Auditor**

The Director-General has the honour to transmit herewith to the Fifty-second World Health Assembly the interim report of the External Auditor on the World Health Organization for the 1998-1999 financial period (Annex).

A52/14

ANNEX

## LETTER OF TRANSMITTAL

7 April 1999

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 Fifty-second World Health Assembly my Interim Report on the World Health Organization for the 1998-1999 financial period. The report is submitted in accordance with my intention, expressed to the Fifty-first World Health Assembly, to report annually on the audit work which has been carried out and has been made available to the Director-General for the favour of her comments.

It has been a privilege to participate in the process of change and reform and I wish to record my appreciation for the cooperation and assistance afforded by the Director-General and the Organization.

Yours sincerely

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

# **INTERIM REPORT OF THE INDEPENDENT EXTERNAL AUDITOR TO THE FIFTY-SECOND WORLD HEALTH ASSEMBLY: AUDIT OF THE WORLD HEALTH ORGANIZATION: 1998-1999 FINANCIAL PERIOD**

## **1. INTRODUCTION**

The audit of the World Health Organization (WHO) was assigned to the Auditor-General of the Republic of South Africa for the 1996-1997 and 1998-1999 financial periods, in terms of Resolution WHA48.18 of the 48th meeting of the World Health Assembly.

Substantial progress has been made with the audit of the 1998-1999 financial period, which has included *inter alia* a comprehensive planning process, interim audit field work at WHO and certain related accounts, completion of regional office procedures as part of our audit of all regional offices *in loco* in each financial period, as well as an extension of our procedures to include various country offices. In addition, a specialised computer audit was carried out in respect of general controls. Interaction with the Secretariat and representatives of the governing body has also continued in respect of matters relating to the enhancement of communication and accountability, which are reported on hereinafter, such as the creation of an audit committee. However, the audit procedures which were carried out during the past year were not intended to provide an audit opinion on the financial statements, which are included in the Unaudited interim financial report for the year 1998.

This report should be read in the context of a constructive contribution to the process of renewal and reform, which is intended to improve accountability, enhance operational economy, efficiency and effectiveness and thus improve the overall governance of WHO.

Furthermore, it is a pleasure to report that the cooperation and assistance rendered by the Director-General, the Regional Directors and the staff has been excellent and the financial records which were the subject of our audit tests at headquarters and the regions, were generally of a high standard.

## **2. OBJECTIVE AND SCOPE OF THE AUDIT**

### **2.1 Objective**

The audit is conducted in accordance with the principles incorporated in Article XII of the Financial Regulations and the Additional Terms of Reference Governing the External Audit appended thereto. The objectives of the audit work, which was carried out in the period under review, encompassed the planning, as well as the initiation of the interim procedures which will facilitate reporting to the World Health Assembly, serve as a basis for the completion of the audit and the expression of an audit opinion on the financial statements for the 1998-1999 financial period.

### **2.2 Scope**

In conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, the

audit work which was carried out at headquarters, regional and country offices encompassed, *inter alia*, the following:

- A strategic planning phase to ensure an effective and efficient audit.
- The follow-up of certain matters which were previously reported to the World Health Assembly.
- Interim audit tests of systems and controls at headquarters, regional and country offices.
- A combination of substantive, compliance and analytical procedures to achieve the objectives of the audit.
- A computer audit of the general controls within the Administration and Finance Information Support System.
- Value added audit work in selected areas.

The strategic goals, objectives and audit plan for the current biennium were communicated to the Administration, Budget and Finance Committee of the Executive Board as well as to the Secretariat.

### **3. PURPOSE OF THE REPORT**

The purpose of this report is to bring to the attention of the World Health Assembly, at an appropriate level of aggregation and under the following headings, various matters arising from the audit work completed in the first year of the 1998-1999 financial period as well as certain areas where improvements could be made:

- Communication and accountability.
- Budget presentation and process.
- Outstanding assessed contributions.
- Programme implementation, monitoring and evaluation.
- Budgetary, financial and related transactions.
- General controls in the computerised environment.
- Year 2000 compliance.
- Audits conducted at regional and country offices.

### **4. COMMUNICATION AND ACCOUNTABILITY**

#### **4.1 Establishing an audit committee**

In my previous report to the Fifty-first World Health Assembly I reported on the progress made regarding the establishing of an audit committee to deal effectively with accounting and auditing issues.

At its 103rd session and per resolution EB103.R8, the Executive Board established an audit committee as a separate committee set up by the Executive Board, composed of six members, one from each of the WHO regions. The objectives of the audit committee, in matters relating to external and internal audit, are:

- to assist the Board in providing oversight of WHO's financial and managerial operations;
- to promote accountability and transparency in financial transactions; and

- to facilitate timely communication and corrective action.

It is submitted that establishing this committee will contribute significantly to the reporting process and will provide a forum to deal effectively with accounting, auditing and managerial issues raised by the external and internal auditors and the views of the Secretariat thereon.

#### **4.2 Establishing an audit steering committee**

Arising from consultation with the Director-General, during which the advantages of a structured mechanism for communication at the highest level between the external auditor and the Secretariat was discussed, an audit steering committee consisting of senior representatives of these parties, was established.

The objective of this committee is to provide a forum that will facilitate the audit planning and follow-up processes, thereby fostering objectivity.

I believe that the audit steering committee will play a significant role in strengthening the cooperation and interface between the external audit team and the Secretariat, which in turn would improve the efficiency and quality of the audit.

#### **4.3 Internal audit and oversight**

The audit programme includes a review of the extent to which reliance can be placed on the work performed by the Office of Internal Audit and Oversight (IAO) to prevent duplication and to ensure a cost-effective audit.

The review indicated that reliance could be placed on the work performed by the IAO to the extent that it relates to the audit objectives and focus of the external audit mandate.

#### **4.4 Audit opinion**

With regard to the revised audit opinion proposed in my report to the Fifty-first World Health Assembly, the Executive Board, in resolution EB103.R14, endorsed the amendments to the Financial Regulations as proposed by the Director-General and recommended the adoption thereof by the Fifty-second World Health Assembly.

These improvements, which provide for the inclusion of additional details, reflect best practice and will ensure consistency throughout the United Nations system.

### **5. BUDGET PRESENTATION AND PROCESS**

World Health Assembly resolution WHA46.35 of 14 May 1993, requested *inter alia*, the development of an improved budget and accounting process which provides for a clearer, simpler presentation, establishes realistic and measurable targets in accordance with each health priority and a process of regular evaluation of progress. In my previous reports to the World Health Assembly, I reported on certain areas where improvements could be made as well as on progress in this regard.

The process of renewal and reform that is taking place in WHO has been noted during the interim audit, especially with regard to the change in the organisational structure at headquarters, steps taken in reorganising the budget and initiatives in the managerial process through which WHO will monitor and evaluate its performance.

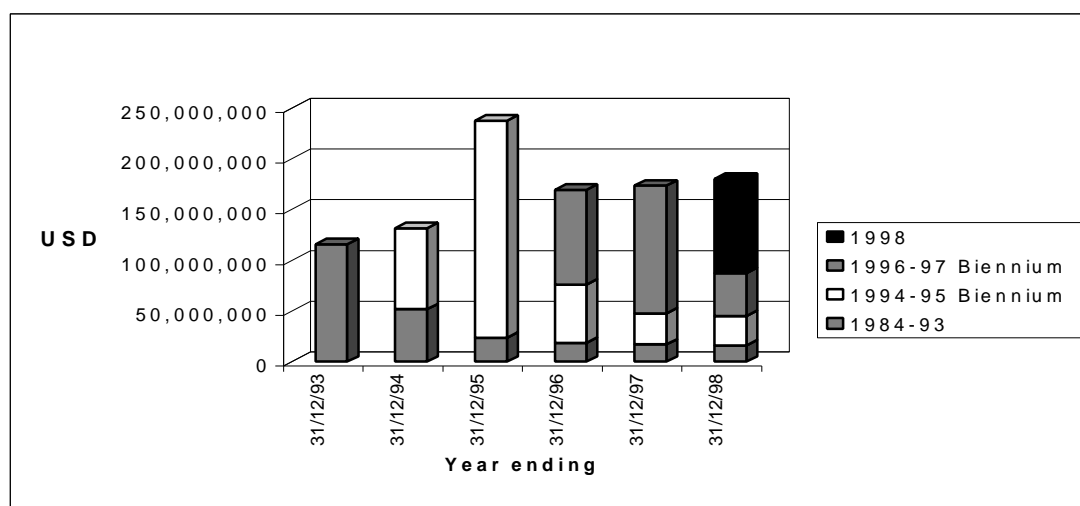
The progress made by WHO in advancing the concept of a strategic approach to programme preparation and presentation as well as its recognition of areas where improvements can be effected, is to be commended.

## 6. OUTSTANDING ASSESSED CONTRIBUTIONS

The Fifty-first World Health Assembly expressed its concern at the high level of outstanding contributions in resolution WHA 51.1 and requested the Director-General to review, taking into account developments in the United Nations system, all additional measures that may be appropriate.

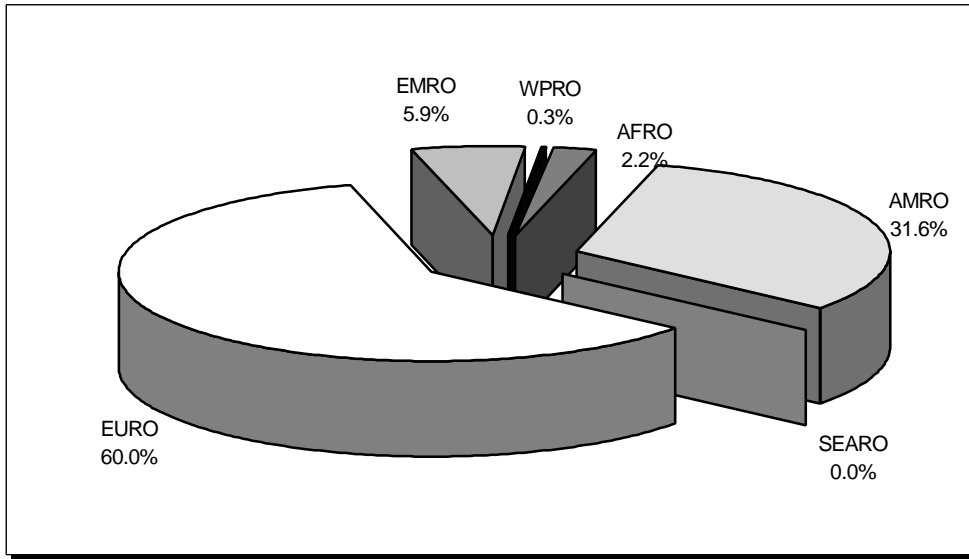
Notwithstanding various endeavors in this regard, the level of outstanding assessed contributions has continued to increase. The trend in the level of outstanding contributions, as well as the regional classification and the effect thereof on a monthly basis, is set out below.

**Figure 1: Trend in the level of outstanding assessed contributions**

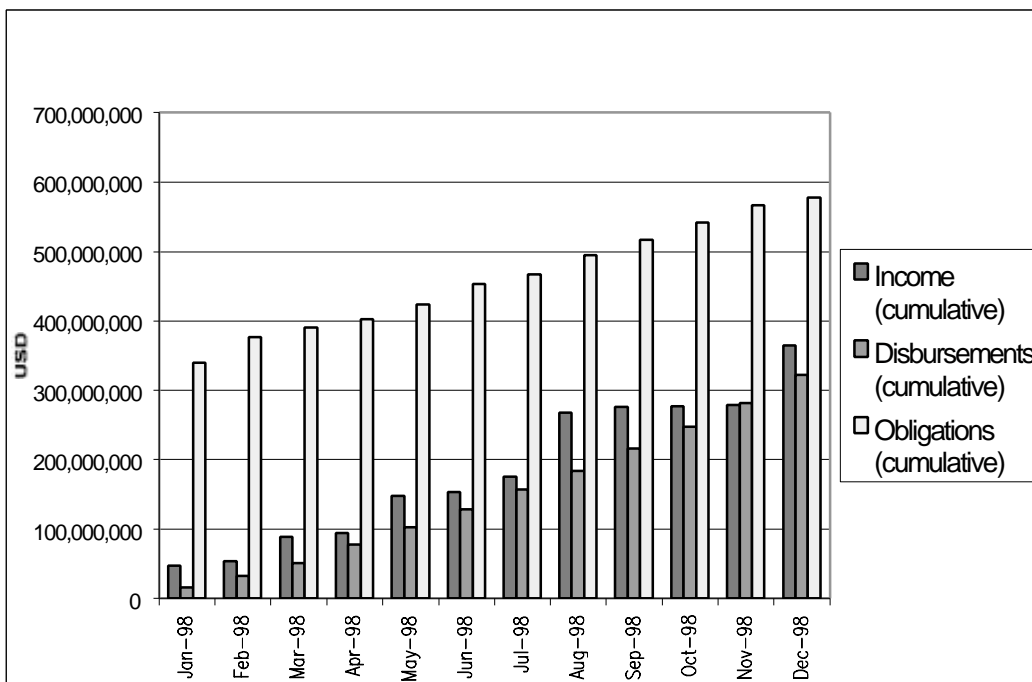


The total amount of outstanding contributions at 31 December 1998 amounted to USD 185 967 618 in comparison with an outstanding amount of USD 179 676 194 at 31 December 1997, an increase of 3.5 per cent.

**Figure 2: Arrears of assessed contributions per region as at 31 December 1998**



**Figure 3: Regular budget – income versus obligations and disbursements**



This demonstrates *inter alia*, the following matters with regard to the financial operations in respect of the regular budget:

- The total amount of obligations established by WHO during the 1998 year of the current financial period in respect of the regular budget amounted to USD 578 090 685, whereas the amount of income for the corresponding period amounted to USD 365 115 153.
- Obligations incurred exceeded the cumulative income received throughout 1998.
- The cumulative disbursements made, exceeded the cumulative income received once during 1998. This was at the end of November, when the cash deficit was provided for under the internal borrowing facility.

Considering the effect on the work programme and financial situation of WHO, the initiatives to collect these arrears of assessed contributions should be systematically measured where possible and the participation of regions in this regard will be significant to their success.

## **7. PROGRAMME IMPLEMENTATION, MONITORING AND EVALUATION**

The Executive Board at its Ninety-fifth session endorsed WHO's concept of strategic programme budgeting, through resolution EB95.R4 on budgetary reform, on the understanding that detailed yearly plans of action would be prepared nearer the time of implementation and that there would be increased accountability in the WHO managerial process through target setting and regular evaluation, a decision confirmed by the Forty-eighth World Health Assembly.

Progress in this regard was the subject of review during the external audit of the 1996-1997 financial period and various shortcomings were reported to the Fifty-first World Health Assembly. These related to a lack of homogeneity between the plans of action for different programmes as well as deficiencies in the plans themselves. Furthermore, it was reported that although evaluations were conducted, a formal unified system for conducting programme evaluations did not exist.

During the current biennium, these matters were again the subject of review at headquarters, regional and country offices.

### **7.1 Programme implementation and monitoring**

The review made obvious that plans of action had not been completed in a timely manner and the following areas were identified where improvements could be effected:

- The comprehensiveness of the information provided could be improved, *inter alia*, by including specific objectives or targets, the staff time required, the financial resources and the starting and completion dates.
- Plans of action should indicate clearly how the monitoring process will take place.
- More effective use could have been made of the computerised management system for the preparation and monitoring of the plans of action.
- A direct operative link should be made between the programme budget and the day-to-day operational work.

I was informed regarding the planned developments for the ensuing financial period and that new procedures will be developed during 1999 at headquarters to improve operational planning and monitoring, which will be implemented organisation-wide in the year 2000.



## **7.2 Programme evaluation**

The progress made by WHO in establishing a formal, unified system for programme evaluations through the issuing of draft guidelines, was reported to the Fifty-first World Health Assembly.

The overall guidance on conducting policy and programme evaluation in WHO was finalized and widely disseminated in early 1998. The lack of agreed business rules related to planning, monitoring and evaluation has, however, prevented the implementation of a unified evaluation system. Such a system for regular independent evaluations is being developed which will comprise internal and external evaluations.

## **8. BUDGETARY, FINANCIAL AND RELATED TRANSACTIONS**

The audit included a review of whether the budgetary and financial systems, together with related transactions complied with the Financial Regulations of the Organization, its policies and guidelines and provided reliable information in order to ensure the completeness and accuracy of the records.

The audit tests revealed that, overall, the records could be relied upon and were well maintained. The review of the adequacy and effectiveness of the system of internal control as well as the testing of transactions in key areas of financial activity such as budgetary control, obligations, expenditure, cash management, imprest accounts and project and non-project records revealed certain of the following areas where controls could be strengthened.

### **8.1 Allotment management**

In my previous report, it was mentioned that some allotments were temporarily exceeded by obligations incurred. Although the interim audit tests revealed a limited number of exceptions where this had occurred, the measures implemented to facilitate follow-up action are commendable.

### **8.2 Cash and bank management**

The audit procedures carried out at regional and country offices revealed that certain bank accounts appeared to be inactive, while others were maintained with balances which were either in excess of, or inadequate to meet the operational needs at the date that the reviews were conducted. To ensure that funds are utilised to the best advantage of WHO, the Secretariat has undertaken to bring this matter to the attention of regional offices once again.

### **8.3 Imprest accounts**

A review of the imprest accounts in certain regions revealed a lack of uniformity in the accounting and recording systems in place at imprest holders and it was suggested that the weaknesses in the authenticity and authorization of individual transactions as well as the uniform application of accounting and recording systems be addressed by formalised arrangements to conduct periodic reviews in this regard. The Secretariat has undertaken to convey this to regions and to consider their response accordingly.

#### **8.4 Asset management**

The revised United Nations System Accounting Standards provide for the disclosure of non-expendable equipment, furniture and vehicles by way of a note to the financial statements.

WHO has endeavored to comply with this requirement and non-expendable equipment, including furniture, computers, office equipment and motor vehicles were disclosed at cost in a note to the financial statements for the financial period ending 31 December 1997.

The audit revealed various aspects that need to be addressed with regard to the recording systems in place and the consistency of the method of valuation. It is understood that the Secretariat will effect improvements in this regard over a realistic time frame.

#### **8.5 Procurement**

During the audit of supplies and procurement, it was observed that when goods are delivered to regions, the receiving report is kept at the regional office concerned, while confirmation of receipt is not forwarded to headquarters. Payment is authorised on confirmation of receipt of the goods by the forwarding agent.

The need to ensure the completeness of records has been recognised by the Secretariat and appropriate improvements are currently under review.

#### **8.6 Fellowships**

The audits at regional offices revealed that the post-monitoring system of fellowships could be improved with a view to ensuring that utilisation reports are submitted for evaluation in all instances to the regions concerned.

While the initiatives of management to enhance participation of country offices to obtain the required post-monitoring reports in respect of the fellowship programme are appreciated, it is recommended that management consider the recovery of costs incurred in the instances where no subsequent services can be obtained.

### **9. GENERAL CONTROLS IN THE COMPUTERISED ENVIRONMENT**

A computer audit was carried out in respect of the general controls within the Administration and Finance Information Support (AFI) System.

The audit revealed that adequate general control measures within the information technology environment, to ensure the effective and continuous operation of the data processing function, had not been implemented throughout in respect of the following identified focus areas:

- Organisational structure and operating procedures.
- Programme change controls.
- Logical access controls.
- Physical access and environmental controls.

- Contingency planning.

With regard to actions taken by the Secretariat, my Office was informed that the Informatics Technology Strategy review project is reviewing the areas identified during the audit where controls can be improved.

## **10. YEAR 2000 COMPLIANCE**

WHO has taken steps over a considerable period of time to prepare for and to prevent any potential information technology problems associated with shortcomings regarding year 2000 compliance. Those units which are exposed, have the responsibility for taking the necessary measures and it was not considered administratively necessary to create and convene on a regular basis, a steering committee to manage the matter.

An overall plan was not compiled by WHO to address this matter and full systems tests have not been concluded. Although the Secretariat is confident that the monitoring and tests which will be carried out on those susceptible systems before the year-end are considered sufficient, it could not be evaluated whether adequate steps had been taken to ensure that all systems would function properly on 1 January 2000.

## **11. AUDITS CONDUCTED AT REGIONAL AND COUNTRY OFFICES**

Audit work was carried out at certain regional offices with a view to including all regional offices in visits during the financial period. However, increased focus was placed on the work performed at country level and several country offices were visited. While encouraging aspects were noted, such as the high standard of the plans of action completed by some country offices, it was evident that significant differences nevertheless existed in many areas. Furthermore, it appeared that uniformity did not exist with regard to benchmarking or similar norms. This has been recognized for several years and initiatives are currently being implemented by WHO to address these matters in a coordinated manner. By virtue of its relevance to the achievement of the objectives of WHO and the current focus in this regard, a number of country offices have been included in the audit plan for the current financial period. These visits are coordinated with internal audit to ensure that they are carried out on a cost-effective basis.

The specific findings of each audit conducted at regional and country offices were reported to the relevant management and the results of these audits were taken into consideration when the aggregated findings were included, under the appropriate headings in this report.

## **12. ACKNOWLEDGEMENT**

It is a pleasure to participate in the reform and renewal process of WHO and I wish to record my appreciation for the cooperation and assistance extended by the Director-General, the Regional Directors and the staff during the course of my audit.

H E Kluever  
Auditor-General  
Republic of South Africa  
External Auditor  
.... April 1999