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Financial matters

Report of the Internal Auditor

INTRODUCTION

1. The annual report of the Office of Internal Audit and Oversight for 1999 is transmitted herewith, through the Director-General, for the information of the Health Assembly.
2. Executive Board resolution EB104.R1 confirmed an amendment to Article XVII (Internal Controls) of the Financial Rules spelling out the mandate of the Office. Pursuant to Article XVII as amended, the Office submits a summary report annually to the Director-General on its activities as well as on the implementation status of audit recommendations. The report is transmitted to the Health Assembly together with comments deemed necessary.
3. The Office examines and appraises the way in which activities are carried out at all organizational levels through the process of internal audits, inspections and investigations. Its aim is to provide reasonable assurance that the activities have contributed to the attainment of the Organization's goals and objectives. More specifically, to achieve this, the Office reviews and appraises accounting, administrative and operating controls; evaluates the responsible, efficient and economic use of the Organization's resources; ascertains the extent of compliance with established policies, plans and procedures; determines the extent to which assets are accounted for and safeguarded from loss; assesses measures taken to prevent fraud, waste and malfeasance; and ascertains the reliability of financial and management information.
4. The focus of the Office's activities during 1999 has been to identify areas of improvement in operations, to strengthen internal controls, to suggest possibilities for cost savings and to report instances of noncompliance. Additionally, the Office has adopted a proactive approach to facilitating the assessment of risks and controls. It strongly believes that this focus will continue to promote the process of enhancing efficiency, effectiveness and value for money in the activities of the Organization. The Office is confident that impetus from the newly functional Audit Committee will further augment this process.
5. During the reporting period, the Office reviewed the administrative, financial and managerial process of headquarters programmes in Geneva. This work included focused reviews of specific account balances and processes within the department of Financial services. Audit visits were also made to all six regional offices, selected country offices and to some independent programmes and offices. Several investigations were performed, at headquarters, and regional and country offices. The reports of work done are listed in Annex 1.

AUDIT RESULTS FOR 1999

6. The results of the audit work undertaken during 1999 indicate that the overall system of internal control within WHO continues to provide reasonable assurance that, in the normal course of business, significant irregularities would be prevented or disclosed. However, it is increasingly critical for all concerned to recognize that compliance with regulations, although a fundamental prerequisite, does not always guarantee effective expenditure or operations. It is necessary to reorient the managerial approach across the Organization, and especially at regional and country levels, to a structure that reflects accountability and a results-based outcome. Continuous attention is required to ensure value for money through the best possible use of resources.

7. In the course of the audits, specific areas were identified where controls could be strengthened and where efficiency and effectiveness could be improved through vigilance and intensified efforts. These are described in the following paragraphs.

8. **Offices of WHO Representatives.** The Office continued to give priority to the audit of the offices of WHO Representatives. These offices are viewed as the principal conduit for channelling WHO's support to countries and, in this capacity, acting as a facilitator as well as responding authoritatively to the needs of the country. In the context that these country offices represent operational centres, the focus of the audit is on operational issues such as efficiency, effectiveness, economy and value for money. Audit of a Representative's office entails a review of matters related to programme delivery, managerial process and the support environment in place to attain its objectives. Visits were made to 22 WHO Representatives' offices and WHO centres (see Annex 1). Annex 2 summarizes the major findings of the audits which reflect issues relating to opportunities for improvement, policy considerations and process efficiency in the overall context of value for money. Some of the issues concern a single office and others are common to several if not most country offices.

9. **WHO regional offices.** For audit purposes, the Office views regional offices as cost and accountability centres directing fieldwork. The focus of the audits therefore is on procedural compliance and the strengthening of internal controls, with emphasis also on improving systems and procedures in order to enhance efficiency and effectiveness. The significant issues identified in the audit of the six regional offices are shown in Annex 3.

10. **Informatics audits.** In four audits, the Organization's application and control of computer technology was examined in depth. WHO has undertaken some significant studies in this area, the key one being the Information Technology Strategy, and set up strategic committees, namely the Informatics Advisory Group and the Information Management Group, in the second half of 1999. These key initiatives are in their early stages and therefore audit work and recommendations were focused on the more immediate operational level. The review of the Organization's use of the Internet and Intranet revealed weaknesses in the application of and attention to computer security, which could have been seriously exploited. In each of these audits it was noted that roles, responsibilities and accountabilities for informatics matters needed to be defined more precisely.

CONTROL SELF-ASSESSMENT

11. One of the principal roles of internal audit is to assist senior officials in evaluating the effectiveness of risk management and internal controls in the governance process. With the

establishment of management support units at headquarters, the Office adopted a proactive approach to control evaluation with support unit staff using a self-assessment technique.

12. The Office facilitated a review by the members of the management support units themselves of the risks and controls in their work towards departmental objectives. The process identified several issues that needed attention in order to mitigate risks in the attainment of these objectives. The General management cluster has initiated remedial actions and the Office will continue to consult until the conclusion of the project.

EVALUATION OF MANAGEMENT SUPPORT UNITS

13. Resolution EB103.R6 required an evaluation of the management support units, comparing their performance with that of the previous system. The Office directed the exercise in order to ensure objectivity and independence. The evaluation, which was done by external consultants, compared the efficiency, effectiveness and economy of the two systems (document EB105/17 Add.2). The quantitative analysis revealed the new system to be cost neutral and faster. Qualitatively, it was found to be a viable approach but it needed specific improvements in its strategies, intended functions and continuing operations.

OVERSIGHT ACTIVITIES

14. In accordance with its mandate to ascertain compliance, to determine whether assets are safeguarded from loss and to assess measures taken to prevent fraud, waste and malfeasance, the Office carries out investigations as warranted. Matters arising from these investigations are described below.

15. **Overpayment to contractors.** An investigation of remuneration of a contractor for the preparation of a set of guidelines confirmed that there was overpayment as a consequence of poor internal communications and lack of observance of existing rules. The money was subsequently recovered. Other allegations about the technical content of the work done under the contract were reviewed by management and no further action was found necessary.

16. **Tax reimbursement.** The Office was requested to review the status of reimbursement and the calculations for staff-reimbursable tax payment to a national government. The investigation confirmed the reported difference between the amounts reimbursed to the staff member and those paid to the government. It also identified several control weaknesses that led to this situation. The staff member's contract was terminated.

17. **Clearance procedures.** Further to an earlier investigation on the submission of fraudulent documents by a staff member, an additional review was carried out after he left WHO. He had already resigned after the first investigation. The review disclosed that noncompliance with clearance procedures resulted in financial loss to the Organization, as the amount he owed was greater than that recoverable from his terminal emoluments. Efforts are under way to recover this loss from him.

18. **Conflict of interest.** At the request of a regional office, an investigation was carried out into a short-term professional's possible involvement in soliciting investment for pharmaceutical companies. The results disclosed that the staff member had presented himself in an official capacity requesting

information relating to his private business concerns as well as supplying such information to external parties. The staff member's contract was not renewed.

19. **Vehicle purchase.** On notification of the fact, an unauthorized order for six vehicles through a WHO Representative's office was investigated. The vehicles were dispatched by the manufacturer and received by unknown persons. The whereabouts of the vehicles remain unknown. Inquiry on behalf of the Office at the port of discharge into the identity of the recipients of the vehicles pointed to a strong possibility of collusion between the customs officials, the clearing agent and the fraudulent importer. The Office was unable to conclude whether WHO staff were implicated in the transaction even though WHO facilities were used. The legal case is pending and the extent of WHO's liability on the manufacturer's claim has not been determined.

FOLLOW-UP AND IMPLEMENTATION

20. The Office monitors the implementation of all its audit recommendations and verifies the reported implementation during subsequent audit visits. During the reporting period, recommendations made were accepted positively by senior officials and the Office is satisfied with the overall disposition of major audit issues.

21. **Regional Office for Africa.** The audit of this Regional Office has revealed continuous and satisfactory improvement in its affairs compared to the previous reporting period. The placement of an experienced Director, Finance and administration, a thorough reorganization of the functions of the finance and personnel sections to deal with the known weaknesses, comprehensive training of WHO Representatives' staff in a course at the regional office, and increased supervisory visits to country offices have all contributed towards this improvement.

22. **Delayed implementation.** All recommendations of the audit reports for 1999 have been or are being implemented, with the exception of the following items:

(a) an investigation carried out in 1998 on the activities of a department had disclosed misconduct by a staff member. Senior officials were slow to take action. However, the staff member has since resigned from the Organization and, accordingly, the investigation is now closed;

(b) in two instances, implementation of the recommendations of the audits of WHO Representatives' offices was delayed. Both cases were characterized by tardy, ambiguous responses which failed to commit to an implementation framework. The regional offices involved have recognized the situation and have taken appropriate action to close properly these audits.

EXTERNAL RELATIONS

23. The Office participated in several activities organized by Geneva-based international agencies, including exchange of information and joint training. As customary, it also participated in and contributed to the 30th Annual Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (Paris, May 1999). The Office has continued to maintain contact with and responded to queries from representatives of Member States, particularly the "Geneva Group".

STAFF RESOURCES

24. The current staffing resources of the Office include eight professional auditor posts in addition to the Director's post; the additional auditor post made available effective for the 2000-2001 biennium has now been filled. Two auditors continue to be stationed in Washington, D.C. to audit the Regional Office for the Americas and PAHO.

EXTERNAL AUDITOR

25. The Office maintains a close and cordial working relationship with the Organization's External Auditor. Periodic consultations were held in 1999 to coordinate audit work and avoid duplication, particularly in geographical coverage. The Office systematically provides a copy of all internal audit reports to the External Auditor as well as other relevant documents produced by it.

ACTION BY THE HEALTH ASSEMBLY

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

ANNEX 1

1999 AUDIT REPORTS

- Contract Investigation (99/535)
- Insurance at Headquarters (99/536)
- UNAIDS Intercountry Teams (99/537)
- Tax Investigation (99/538)
- UNAIDS Theme Groups (99/539)
- Office of the WHO Representative in Malawi (99/540)
- Payroll (99/541)
- Office of the WHO Representative in Chad (99/542)
- Regional Office for South-East Asia (99/544)
- Office of the WHO Representative in Cambodia (99/545)
- Office of the WHO Representative in Viet Nam (99/546)
- Informatics and Telecommunications at the Regional Office for South-East Asia (99/547)
- Regional Office for Africa (99/543, 99/548)
- Office of the PAHO/WHO Representative in Suriname (99/549)
- Office of the PAHO/WHO Representative in Guyana (99/550)
- Onchocerciasis Control Programme (99/551)
- Investigation on Staff Qualifications (99/552)
- Joint Medical Service (99/553)
- Regional Office Administrative and Finance Information System (99/554)
- Control Self-Assessment – MSU/FCH (99/555), MSU/EIP (99/556), MSU/SDE (99/558), MSU/EGB (99/560), MSU/HTP (99/561), MSU/CDS (99/564), MSU/GMG (99/566), MSU/HTP & NCD (99/567)
- WHO Activities in the Democratic People's Republic of Korea (99/557)
- Investigation on Vehicle Purchase (99/559)
- Office of the WHO Representative in Cameroon (99/562)
- Regional Office for Europe (99/563)
- Investigation on Staff Conduct (99/565)
- Evaluation of Management Support Units (99/568)
- Office of the WHO Representative in Yemen (99/569)
- Office of the WHO Representative in Nepal (99/570)
- Regional Office for the Eastern Mediterranean (99/571)
- International Centre for Research on Cancer (99/572)
- Office of the WHO Representative in India (99/573)
- Regional Office for the Western Pacific (99/574)
- Internet/Intranet (99/575)
- Office of the PAHO/WHO Representative in Peru (99/379)
- Pan American Centre for Sanitary Engineering and Environmental Sciences, Peru (99/380)
- Office of the PAHO/WHO Representative in Haiti (99/381)
- Office of the PAHO/WHO Representative in Venezuela (99/382)
- Office of the PAHO/WHO Representative in Ecuador (99/383)
- Office of the PAHO/WHO Representative in Paraguay (99/384)
- Office of the PAHO/WHO Representative in El Salvador (99/385)
- Office of the PAHO/WHO Representative in Guatemala (99/386)
- Office of the PAHO/WHO Representative in Cuba (99/387)
- Office of the PAHO/WHO Representative in the Dominican Republic (99/388)
- Audit Reviews of Investments, Obligations, Interest, Apportionment at Headquarters
- Audit Reviews of Duty Travel, Bank and Suspense Accounts, Value-Added Tax at AMRO/PAHO

ANNEX 2

COUNTRY OFFICES

Item	Observation	Single occurrence	Multiple occurrences
a.	An increasing focus on shifting resources to priority areas to maximize the effectiveness of WHO input requires WHO mechanisms, processes and procedures to respond adequately if this objective is to be achieved. In one office, various external and internal factors indicate an inadequate response. These include factors such as the country context, a lack of sufficient emphasis on a need- and evidence-based approach to planning and resource allocation, frequent reprogramming, delayed financial implementation and a lack of detailed evaluation of the plan of action. There is a need for systematically gauging the effectiveness of WHO input in the context of value for money.	√	
b.	Priorities set by WHO, whether at the global or regional level, may differ from those set by national governments. The net casualty of a conflict between WHO and national priorities is transparency in resource allocation. When expenditure in the same class of activity in a programme component is spread into other programme components to diffuse the disclosed expenditure, there is loss of transparency.	√	
c.	A reduced capacity to absorb funds resulted in delayed implementation, with unspent funds accumulating as the biennium progressed. These funds were pooled and reassigned among the WHO Representatives' offices by the regional office. Owing to ineffective communication between the two offices and a dominant sense of ownership of the country allocation on the part of the ministry of health, there was considerable confusion and misunderstanding about the extent of funds available. This affected the workings of the WHO Representative's office as a frontline collaborator.		√
d.	When the form of the transaction is used as a basis for recording the activity rather than its substance, the records do not properly reflect the activities carried out. This practice also allows the circumvention of regulatory mechanisms and understates the expenditure in a particular component so that meaningful comparison for budgetary and management purposes is hindered.	√	
e.	Control over the planning process by the country on a de facto basis rather than on a basis of joint collaboration indicates weaknesses in the effectiveness of WHO input. Factors such as identification of priorities, programmes and activities by the country and a tendency to use WHO funds to fill in gaps also indicate this. The role and capacity of the WHO Representative's office must be strengthened to ensure joint collaboration based on agreed priorities.	√	
f.	As in any governance system, the cycle of planning, implementation, monitoring and evaluation must form an integrated process for it to be meaningful, effective and accountable. Currently, there is no systematic linkage and review of completed activities to products and to the achievement of targets and objectives in all regions. There is a need to strengthen the monitoring and evaluation aspect and apply it as a regular and mandatory management practice.		√

Item	Observation	Single occurrence	Multiple occurrences
g.	As a co-executing agency, the WHO Representative's office in one country is responsible for the implementation of a project, yet it has no direct control over many of the activities. This has resulted in some hindrances in the past. The Office has recommended that a regional approach be devised to strengthening partnership arrangements and so to safeguard adequately the risk of lack of control.	√	
h.	In one country, an action plan has been developed that envisages implementation of the sector-wide approach to development assistance by mid-2000. WHO collaboration would be included in this approach. The Office has recommended that the WHO Representative's office and the regional office carefully evaluate and satisfy themselves of the effectiveness of the accountability framework before engaging in this approach.	√	
i.	A tendency to prepare a plan covering an array of programmes based on the previous biennium's budget with a proliferation of short-duration fellowships and observation visits blunts the effectiveness of WHO expenditure. There is a need to focus on evidence-based priorities.	√	
j.	One country office entered into a three-year rental agreement for office space at a substantially higher cost with a partial renovation contract without prior authorization. The renovation and ancillary services are estimated to cost more than US\$ 115 000. The regional office is attempting to resolve the matter.	√	
k.	Various recommendations were made to WHO Representatives' offices on matters relating to (i) improvement of management tools such as work plans, questionnaires, databases and checklists, as well as on monitoring methods; (ii) follow-up on outstanding technical and financial reports on local costs and other advances made; (iii) compliance with inventory management and recording requirements; (iv) compliance with imprest expenditure rules and procedures; (v) compliance with personnel procedures and staff benefits; (vi) compliance with local purchases procedures; (vii) improvement in travel procedures.		√
l.	There was a notable lack of control procedures relating to the operation of the planning and monitoring system and training of staff to properly use such tools. Recommendations were made towards improving them.		√
m.	Conflicting information on the programme information system and the financial information system resulted in control weaknesses and led to management problems. The Office recommended that senior managers at the regional office review the problem in order to expedite and ease management of the WHO Representative's office.	√	
n.	In the audit of one country office, it was difficult to establish whether funds advanced were incurred for the purpose intended and in the amount envisaged and whether supplies and equipment were used for the purpose intended because satisfactory evidence to that effect was lacking. WHO has no permanent representation there.	√	

ANNEX 3

REGIONAL OFFICES

Item	Observation	Single occurrence	Multiple occurrences
a.	In one regional office there are specific procedural requirements relating to the fellowship programme in the areas of selection process, placements, outcome of the studies and utilization of fellows. Compliance shortcomings were noted in all these areas.	√	
b.	There is delayed and inadequate accountability from national counterparts on local cost advances made to them. Follow-up by WHO has not always been effective. Additionally, there is a need to strengthen controls at the regional office level over national training activities and other local costs in the areas of approving the activity and evaluating the effectiveness of its outcome.		√
c.	The late final recording of some country expenditure and a delayed review of the status of obligated funds have led in some instances to an inaccurate reflection of incurred expenditure and liability in the accounting records.		√
d.	Some account balances such as personal accounts of staff, receivable accounts and advances, do not accurately reflect the real position owing to untimely clearance, inadequate follow-up and improper recording of transactions.		√
e.	Instances of noncompliance were noted in some areas of personnel management; examples include the lack of valid employment contracts, improper clearance of departing staff and unavailability of adequate supporting documentation.		√
f.	Procedures for travel and airline ticket procurement need to be reassessed in order to take advantage of potential savings.	√	
g.	Inaccuracies in the calculation of staff benefits resulted in erroneous payments.		√
h.	There is inadequate analysis of the costings provided by contractors, whose selection is inadequately justified.		√
i.	Delays in reconciliation and recording of transactions resulted in substantial unexplained differences in the records.	√	
j.	Miscoding and erroneous classification of expenditures resulted in inaccurate reporting of some expenditure types.	√	
k.	Delayed implementation of activities stated in the plan of action has resulted in funds being reprogrammed into supplies and equipment at the end of the biennium in order to absorb the unspent funds.	√	
l.	There is a need for a central repository of information at the regional office level on the results and conclusions of WHO-funded research projects in order to avoid duplication.	√	
m.	Substantive expenditure was incurred for a project without any agreement that funds would be made available.	√	
n.	An inadequate management information system limited a meaningful analysis of budget with actual expenditure.	√	

