



WORLD HEALTH ORGANIZATION

FIFTY-THIRD WORLD HEALTH ASSEMBLY
Provisional agenda item 14.1

A53/22
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Amendments to the Financial Regulations

Report by the Secretariat

1. The Fifty-second World Health Assembly, through resolution WHA52.20, requested the Director-General to undertake a study of the Financial Regulations and the Financial Rules of WHO. Particular attention was to be paid to the management of assessed contributions; principles and criteria governing casual income; the exchange rate facility; late payment of, or arrears in, Members' contributions; the Working Capital Fund (including replenishment arrangements); internal borrowing; the financial incentive scheme; and unliquidated obligations.
2. The Administration, Budget and Finance Committee (ABFC) at its twelfth meeting and the Executive Board at its 105th session in January 2000 reviewed proposed revised Financial Regulations.¹
3. The Executive Board, in the light of comments by ABFC, decided to set up an open-ended working group of Member States that would further consider the proposed Financial Regulations and report to ABFC at its thirteenth meeting on 12 May 2000.² In turn, ABFC will report to the Fifty-third World Health Assembly with a view to recommending adoption of new Financial Regulations.
4. A meeting of the open-ended working group (Geneva, 9 and 10 March 2000) discussed issues of principle and reviewed a revised draft of the proposed Financial Regulations.³ A glossary of commonly used WHO accounting terms was also available to the working group.⁴ The report of the working group is contained in document EB/FinRegs/1/3.
5. Annex 1 of the present document contains the timetable and process for adoption of any new Financial Regulations. Annex 2 contains a revised draft of proposed Financial Regulations. It contains changes agreed by the working group, together with other minor changes based upon comments made by Member States (see paragraphs 6-8 below). Annex 3 summarizes the differences between the current Financial Regulations and the proposed Financial Regulations.
6. Regulation 1 has been expanded. It now reflects the responsibility of the Director-General and also requires her to establish Financial Rules, including relevant guidelines and limits for the

¹ Documents EB105/25 and EB105/25 Corr.1. Current Financial Regulations and Financial Rules are contained in *Basic documents* and document A53/INF.DOC./1.

² Decision EB105(7).

³ Document EB/FinRegs/1/2.

⁴ Document EB/FinRegs/1/INF.DOC./1.

implementation of the Financial Regulations. Consequently there is no specific reference in the Regulations to limits or guidelines for specific items.

7. Regulation 4.5 has been redrafted. When an unliquidated obligation is carried forward to the following financial period, a corresponding appropriation remains available as the authority under which the obligation was originally raised. The revised wording reflects this eventuality. It should be noted that the purpose and mechanism of carrying forward unliquidated obligations has not been changed from earlier drafts.

8. Regulation 6.9 has been redrafted. The wording enables Miscellaneous Income to be applied to pay arrears of contributions before assessments due for the current financial period. It should be noted that for those Member States which do not have any arrears, the credit of Miscellaneous Income will reduce the amount of assessment that is due to be paid for the current financial period.

9. ABFC will be invited to take note of the proposed revised Financial Regulations and, if appropriate, to consider whether to recommend their adoption by the Fifty-third World Health Assembly.

ANNEX 1

FINANCIAL REGULATIONS AND FINANCIAL RULES

TIMETABLE AND PROCESS

12 May 2000	ABFC considers the proposals of the Director-General for recommendation to the Health Assembly
May 2000	The Fifty-third World Health Assembly considers the proposals of the Director-General and the recommendations of ABFC; approves the revised Financial Regulations, to enter into force on confirmation of new Financial Rules by the Executive Board at its 107th session in January 2001
January 2001	Revised Financial Regulations become effective after the Executive Board confirms the Financial Rules established by the Director-General
May 2001	The Fifty-fourth World Health Assembly notes new Financial Rules

ANNEX 2

PROPOSED REVISED FINANCIAL REGULATIONS OF THE WORLD HEALTH ORGANIZATION

Regulation I – Applicability and Delegation of Authority

- 1.1 These Regulations shall govern the financial administration of the World Health Organization.
- 1.2 The Director-General is responsible for ensuring effective financial administration of the Organization in accordance with these Regulations.
- 1.3 Without prejudice to regulation 1.2 the Director-General may delegate in writing to other officers of the Organization such authority as he or she considers necessary for the effective implementation of these Regulations.
- 1.4 The Director-General shall establish Financial Rules, including relevant guidelines and limits for the implementation of these Regulations, in order to ensure effective financial administration, the exercise of economy, and safeguard of the assets of the Organization.

Regulation II – The Financial Period

- 2.1 The financial period shall be two consecutive calendar years beginning with an even-numbered year.

Regulation III – The Budget

- 3.1 The budget estimates for the financial period, as referred to in Article 55 of the Constitution (hereinafter referred to as “budget proposals”), shall be prepared by the Director-General.
- 3.2 The budget proposals shall cover gross income and gross expenditure for the financial period to which they relate, and shall be presented in United States dollars.
- 3.3 The budget proposals shall be divided into parts, sections and chapters, and shall include such information, annexes and explanatory statements as may be requested by, or on behalf of, the Health Assembly and such further annexes or statements as the Director-General may deem necessary and useful.
- 3.4 The Director-General shall submit the budget proposals at least twelve weeks before the opening of the regular session of the Health Assembly, and before the opening of the appropriate session of the Executive Board, at which they are to be considered. At the same time, the Director-General shall transmit these proposals to all Members (including Associate Members).
- 3.5 The Executive Board shall submit these proposals, and any recommendations it may have thereon, to the Health Assembly.

3.6 The budget for the following financial period shall be approved by the Health Assembly in the year preceding the biennium to which the budget proposals relate, after consideration and report on the proposals by the appropriate main committee of the Health Assembly.

3.7 Should the Director-General, at the time of the session of the Executive Board that submits the budget proposals and its recommendations thereon to the Health Assembly, have information which indicates that there may, before the time of the Health Assembly, be a need to alter the proposals in the light of developments, he or she shall report thereon to the Executive Board, which shall consider including in its recommendations to the Health Assembly an appropriate provision therefor.

3.8 Should developments subsequent to the session of the Executive Board that considers the budget proposals, or any of the recommendations made by it, necessitate or render desirable in the opinion of the Director-General an alteration in the budget proposals, the Director-General shall report thereon to the Health Assembly.

3.9 Supplementary proposals may be submitted to the Board by the Director-General whenever necessary to increase the appropriations previously approved by the Health Assembly. Such proposals shall be submitted in a form and manner consistent with the budget proposals for the financial period.

Regulation IV – Regular Budget Appropriations

4.1 The appropriations approved by the Health Assembly shall constitute an authorization to the Director-General to incur contractual obligations and make payments for the purposes for which the appropriations were approved and up to the amounts so approved.

4.2 Appropriations shall be available for obligation for the financial period to which they relate. The Director-General is authorized to charge, as an obligation against the appropriations during the current financial period, the cost of goods or services which were contracted during the current financial period, and which are to be supplied or rendered during that period or within the year following the end of the period.

4.3 The Director-General is authorized, with the prior concurrence of the Executive Board or of any committee to which it may delegate appropriate authority, to transfer credits between sections. When the Executive Board or any committee to which it may have delegated appropriate authority is not in session, the Director-General is authorized, with the prior written concurrence of the majority of the members of the Board or such committee, to transfer credits between sections. The Director-General shall report such transfers to the Executive Board at its next session.

4.4 At the same time as budget proposals are approved an exchange rate facility shall be established by the Health Assembly, which shall set the maximum level that may be available to cover losses on foreign exchange. The purpose of the facility shall be to make it possible to maintain the level of the budget so that the activities that are represented by the budget approved by the Health Assembly may be carried out irrespective of the effect of any fluctuation of currencies against the United States dollar at the official United Nations exchange rate. Any net gains or losses arising during the biennium shall be credited or debited to Miscellaneous Income.

4.5 Appropriations in respect of the regular budget for the current financial period may remain available for the following financial period to make it possible to carry forward unliquidated obligations in order to:

- (a) complete activities for which the obligation was originally raised, provided that the implementation of these activities has commenced during the current financial period, by the end of the first year of the following financial period;
 - (b) pay for all goods and services rendered, under the unliquidated obligations referred to in regulation 4.5(a), by the end of the second year following that financial period.
- 4.6 At the end of the financial period, any unobligated balance of the appropriations shall be credited to Miscellaneous Income.
- 4.7 At the end of the financial period, any unliquidated obligations from the prior financial period shall be cancelled and credited to Miscellaneous Income.
- 4.8 Any claims that continue to exist against the Organization under unliquidated obligations cancelled in accordance with regulation 4.7 shall be transferred to new obligations against appropriations established for the current financial period.

Regulation V – Provision of Regular Budget Funds

- 5.1 Appropriations shall be financed by assessed contributions from Members, according to the scale of assessments determined by the Health Assembly, and by Miscellaneous Income.
- 5.2 The amount to be financed by contributions from Members shall be calculated after adjusting the total amount appropriated by the Health Assembly to reflect that proportion of the regular budget to be financed by Miscellaneous Income.
- 5.3 In the event that the amount realized as Miscellaneous Income is greater than the amount approved by the Health Assembly under the regular budget proposals, any such surplus shall be credited to Miscellaneous Income for the following financial period, and shall be applied in accordance with the budget approved for that financial period.
- 5.4 In the event that the amount realized as Miscellaneous Income is less than the amount approved by the Health Assembly under the regular budget proposals, the Director-General shall review implementation plans for the regular budget in order to make any adjustments that may be necessary.

Regulation VI – Assessed Contributions

- 6.1 The assessed contributions of Members based on the scale of assessments shall be divided into two equal annual instalments. In the first year of the financial period, the Health Assembly may decide to amend the scale of assessments to be applied to the second year of the financial period.
- 6.2 After the Health Assembly has adopted the budget, the Director-General shall inform Members of their commitments in respect of contributions for the financial period and request them to pay the first and second instalments of their contributions.
- 6.3 If the Health Assembly decides to amend the scale of assessments, or to adjust the amount of the appropriations to be financed by contributions from Members for the second year of a biennium,

the Director-General shall inform Members of their revised commitments and shall request Members to pay the revised second instalment of their contributions.

6.4 Instalments of contributions shall be due and payable as of 1 January of the year to which they relate.

6.5 There shall be a financial incentive scheme which shall reward Member States that pay in full within the grace period set out in the Financial Rules. This financial incentive shall be calculated as a discount equivalent to interest calculated at the London Inter-bank Bid Rate for the period from the date of payment to the end of the grace period.

6.6 As of 1 January of the following year, the unpaid balance of such contributions shall be considered to be one year in arrears.

6.7 Contributions shall be assessed in United States dollars, and shall be paid in either United States dollars, euros or Swiss francs, or such other currency or currencies as the Director-General shall determine.

6.8 The acceptance by the Director-General of any currency that is not fully convertible shall be subject to a specific, annual approval on a case-by-case basis by the Director-General. Such approvals will include any terms and conditions that the Director-General considers necessary to protect the World Health Organization.

6.9 Payments made by a Member and/or credits from Miscellaneous Income shall be credited to the Member's account and applied first against the oldest amount outstanding.

6.10 Payments in currencies other than United States dollars shall be credited to Members' accounts at the United Nations rate of exchange ruling on the date of receipt by the World Health Organization.

6.11 The Director-General shall submit to the regular session of the Health Assembly a report on the collection of contributions.

6.12 New Members shall be required to make a contribution for the financial period in which they become Members at rates to be determined by the Health Assembly. When received, such unbudgeted assessments shall be credited to Miscellaneous Income.

Regulation VII – Working Capital Fund and Internal Borrowing

7.1 Pending the receipt of assessed contributions, implementation of the regular budget may be financed from the Working Capital Fund, which shall be established as part of the regular budget approved by the Health Assembly, and thereafter by internal borrowing against available cash reserves of the Organization, excluding Trust Funds.

7.2 The level of the Working Capital Fund shall be based on a projection of financing requirements taking into consideration projected income and expenditure. Any proposals that the Director-General may make to the Health Assembly for varying the level of the Working Capital Fund from that previously approved shall be accompanied by an explanation demonstrating the need for the change.

7.3 Any repayments of borrowing under regulation 7.1 shall be made from the collection of arrears of assessed contributions and shall be credited first against any internal borrowing outstanding and secondly against any borrowing outstanding from the Working Capital Fund.

Regulation VIII – Miscellaneous and other Income

8.1 Miscellaneous Income shall be applied in accordance with Regulation V and shall include the following:

- (a) any unobligated balances within appropriations in accordance with regulation 4.6;
- (b) any unliquidated obligations in accordance with regulation 4.7;
- (c) any interest earnings or investment income on surplus liquidity in the regular budget;
- (d) any refunds or rebates of expenditure received after the end of the financial period to which the original expenditure related;
- (e) any proceeds of insurance claims that are not required to replace the insured item, or otherwise compensate for the loss;
- (f) the net proceeds generated on the sale of a capital asset after allowing for all costs of acquisition, or improvement, of any asset concerned;
- (g) any net gains or losses that may have arisen under operation of the exchange rate facility, or application of the official United Nations rates of exchange, or in revaluation for accounting purposes of the Organization's assets and liabilities;
- (h) any payments of arrears of contributions due from Member States that are not required to repay borrowings from the Working Capital Fund or internal borrowing in accordance with regulation 7.3;
- (i) any income not otherwise specifically referred to in these Regulations.

8.2 Any credits due to Members in accordance with regulation 6.5 shall be applied to offset Members' assessed contributions and shall be funded from Miscellaneous Income.

8.3 The Director-General is authorized to levy a charge on extrabudgetary contributions in accordance with any applicable resolution of the Health Assembly. This charge shall be used, together with any interest earnings or earnings from investments of extrabudgetary contributions, in accordance with regulation 11.3(b), to reimburse all, or part of, the indirect costs incurred by the Organization in respect of the generation and administration of extrabudgetary resources. All direct costs of the implementation of programmes that are financed by extrabudgetary resources shall be charged against the relevant extrabudgetary contribution.

8.4 Any refund of expenditure, or reimbursement for services and facilities provided, received from third parties during the biennium in which the original expenditure was incurred or services and facilities were provided shall be credited against that expenditure.

8.5 Any payments received from insurance policies held by the Organization shall be credited towards mitigating the loss that the insurance covered.

8.6 The Director-General is delegated the authority, under Article 57 of the Constitution, to accept gifts and bequests, either in cash or in kind, provided that he or she has determined that such contributions can be used by the Organization, and that any conditions which may be attached to them are consistent with the objective and policies of the Organization.

Regulation IX – Funds

9.1 Funds shall be established to enable the Organization to record income and expenditure. These funds shall cover all sources of income: regular budget, extrabudgetary resources, Trust Funds, and any other source of income as may be appropriate.

9.2 Accounts shall be established for amounts received from donors of extrabudgetary contributions and for any Trust Funds so that relevant income and expenditures may be recorded and reported upon.

9.3 Other accounts shall be established as necessary as reserves or to meet the requirements of the administration of the Organization, including capital expenditure.

9.4 The Director-General may establish revolving funds so that activities may be operated on a self-financing basis. The purpose of such accounts shall be reported to the Health Assembly, including details of sources of income and expenditures charged against such funds, and the disposition of any surplus balance at the end of a financial period.

9.5 The purpose of any account established under regulations 9.3 and 9.4 shall be specified and shall be subject to these Financial Regulations and such Financial Rules as are established by the Director-General under regulation 12.1, prudent financial management, and any specific conditions agreed with the appropriate authority.

Regulation X – Custody of Funds

10.1 The Director-General shall designate the bank or banks or financial institutions in which funds in the custody of the Organization shall be kept.

10.2 The Director-General may designate any investment (or asset) managers and/or custodians that the Organization may wish to appoint for the management of the funds in its custody.

Regulation XI – Investment of Funds

11.1 Any funds not required for immediate payment may be invested and may be pooled in so far as this benefits the return that may be generated.

11.2 Income from investments shall be credited to the fund or account from which invested moneys derive unless otherwise provided in the regulations, rules or resolutions relating to that fund or account.

11.3(a) Income generated from regular budget resources shall be credited to Miscellaneous Income in accordance with regulation 8.1(c).

(b) Income generated from extrabudgetary resources may be used to reimburse indirect costs related to extrabudgetary resources.

11.4 Investment policies and guidelines shall be drawn up in accordance with best industry practice, having due regard for the preservation of capital and the return requirements of the Organization.

Regulation XII – Internal Control

12.1 The Director-General shall:

(a) establish operating policies and procedures in order to ensure effective financial administration, the exercise of economy, and safeguard of the assets of the Organization;

(b) designate the officers who may receive funds, incur financial commitments and make payments on behalf of the Organization;

(c) maintain an effective internal control structure to ensure the accomplishment of established objectives and goals for operations; the economical and efficient use of resources; the reliability and integrity of information; compliance with policies, plans, procedures, rules and regulations; and the safeguarding of assets;

(d) maintain an internal audit function which is responsible for the review, evaluation and monitoring of the adequacy and effectiveness of the Organization's overall systems of internal control. For this purpose, all systems, processes, operations, functions and activities within the Organization shall be subject to such review, evaluation and monitoring.

Regulation XIII – Accounts and Financial Reports

13.1 The Director-General shall establish such accounts as are necessary and shall, in so far as is not otherwise provided for in these Regulations and any Financial Rules established by the Director-General, maintain them in a manner consistent with the United Nations System Accounting Standards.

13.2 Final financial reports shall be prepared for each financial period, and interim financial reports shall be prepared at the end of the first year of each such period. Such financial reports shall be presented in conformity with – and in the formats established under – the Standards referred to in regulation 13.1, together with such other information as may be necessary to indicate the current financial position of the Organization.

13.3 The financial reports shall be presented in United States dollars. The accounting records may, however, be kept in such currency or currencies as the Director-General may deem necessary.

13.4 The financial reports shall be submitted to the External Auditor(s) not later than 31 March following the end of the financial period to which they relate.

13.5 The Director-General may make such *ex gratia* payments as deemed to be necessary in the interest of the Organization. A statement of such payments shall be included with the final accounts.

13.6 The Director-General may authorize, after full investigation, the writing-off of the loss of any asset, other than arrears of contributions. A statement of such losses written off shall be included with the final accounts.

Regulation XIV – External Audit

14.1 External Auditor(s), each of whom shall be the Auditor-General (or officer holding equivalent title or status) of a Member government, shall be appointed by the Health Assembly, in the manner decided by the Assembly. External Auditor(s) appointed may be removed only by the Assembly.

14.2 Subject to any special direction of the Health Assembly, each audit which the External Auditor(s) performs/performs shall be conducted in conformity with generally accepted common auditing standards and in accordance with the Additional Terms of Reference set out in the Appendix to these Regulations.

14.3 The External Auditor(s) may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

14.4 The External Auditor(s) shall be completely independent and solely responsible for the conduct of the audit.

14.5 The Health Assembly may request the External Auditor(s) to perform certain specific examinations and issue separate reports on the results.

14.6 The Director-General shall provide the External Auditor(s) with the facilities required for the performance of the audit.

14.7 For the purpose of making a local or special examination or for effecting economies of audit cost, the External Auditor(s) may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm that, in the opinion of the External Auditor(s), is technically qualified.

14.8 The External Auditor(s) shall issue a report on the audit of the biennium financial report prepared by the Director-General pursuant to Regulation XIII. The report shall include such information as he/she/they deem(s) necessary in regard to regulation 14.3 and the Additional Terms of Reference.

14.9 The report(s) of the External Auditor(s) shall be transmitted through the Executive Board, together with the audited financial report, to the Health Assembly not later than 1 May following the end of the financial period to which the final accounts relate. The Executive Board shall examine the interim and biennium financial reports and the audit report(s) and shall forward them to the Health Assembly with such comments as it deems necessary.

Regulation XV – Resolutions involving Expenditures

15.1 Neither the Health Assembly nor the Executive Board shall take a decision involving expenditures unless it has before it a report from the Director-General on the administrative and financial implications of the proposal.

15.2 Where, in the opinion of the Director-General, the proposed expenditure cannot be made from the existing appropriations, it shall not be incurred until the Health Assembly has made the necessary appropriations.

Regulation XVI – General Provisions

16.1 These Regulations shall be effective as of the date of their approval by the Health Assembly, unless otherwise specified by the Health Assembly. They may be amended only by the Health Assembly.

16.2 In case of doubt as to the interpretation and application of any of the foregoing regulations, the Director-General is authorized to rule thereon, subject to confirmation by the Executive Board at its next session.

16.3 The Financial Rules established by the Director-General as referred to in regulation 1.4 above, and the amendments made by the Director-General to such rules, shall enter into force after confirmation by the Executive Board. They shall be reported upon to the Health Assembly for its information.

Appendix

ADDITIONAL TERMS OF REFERENCE GOVERNING THE EXTERNAL AUDIT OF THE WORLD HEALTH ORGANIZATION

1. The External Auditor(s) shall perform such audit of the accounts of the World Health Organization, including all Trust Funds and special accounts, as deemed necessary in order to satisfy himself/herself/themselves:
 - (a) that the financial statements are in accord with the books and records of the Organization;
 - (b) that the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions, and other applicable directives;
 - (c) that the securities and moneys on deposit and on hand have been verified by the certificates received direct from the Organization's depositaries or by actual count;
 - (d) that the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereon;
 - (e) that procedures satisfactory to the External Auditor(s) have been applied to the recording of all assets, liabilities, surpluses and deficits.
2. The External Auditor(s) shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Secretariat and may proceed to such detailed examination and verification as he/she/they choose(s) of all financial records including those relating to supplies and equipment.
3. The External Auditor(s) and staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the External Auditor(s), necessary for the performance of the audit. Information classified as privileged and which the Secretariat agrees is required by the External Auditor(s) for the purposes of the audit, and information classified as confidential, shall be made available on application. The External Auditor(s) and staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The External Auditor(s) may draw the attention of the Health Assembly to any denial of information classified as privileged which, in his/her/their opinion, was required for the purpose of the audit.
4. The External Auditor(s) shall have no power to disallow items in the accounts but shall draw to the attention of the Director-General for appropriate action any transaction that creates doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be immediately communicated to the Director-General.
5. The External Auditor(s) shall express and sign an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:
 - (a) identification of the financial statements audited;

- (b) a reference to the responsibility of the entity's management and responsibility of the External Auditor(s);
 - (c) a reference to the audit standards followed;
 - (d) a description of the work performed;
 - (e) an expression of opinion on the financial statements as to whether:
 - (i) the financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;
 - (ii) the financial statements were prepared in accordance with the stated accounting policies;
 - (iii) the accounting policies were applied on a basis consistent with that of the preceding financial period;
 - (f) an expression of opinion on the compliance of transactions with the Financial Regulations and legislative authority;
 - (g) the date of the opinion;
 - (h) the External Auditor's(s') name and position;
 - (i) the place where the report has been signed;
 - (j) should it be necessary, a reference to the report of the External Auditor(s) on the financial statements.
6. The report of the External Auditor(s) to the Health Assembly on the financial operations of the period should mention:
- (a) the type and scope of examination;
 - (b) matters affecting the completeness or accuracy of the accounts, including where appropriate:
 - (i) information necessary to the correct interpretation of the accounts;
 - (ii) any amounts that ought to have been received but which have not been brought to account;
 - (iii) any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;
 - (iv) expenditures not properly substantiated;
 - (v) whether proper books of accounts have been kept; where in the presentation of statements there are deviations of a material nature from a consistent application of generally accepted accounting principles, these should be disclosed;

- (c) other matters that should be brought to the notice of the Health Assembly such as:
- (i) cases of fraud or presumptive fraud;
 - (ii) wasteful or improper expenditure of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);
 - (iii) expenditure likely to commit the Organization to further outlay on a large scale;
 - (iv) any defect in the general system or detailed regulations governing the control of receipts and disbursements, or of supplies and equipment;
 - (v) expenditure not in accordance with the intention of the Health Assembly, after making allowance for duly authorized transfers within the budget;
 - (vi) expenditure in excess of appropriations as amended by duly authorized transfers within the budget;
 - (vii) expenditure not in conformity with the authority that governs it;
- (d) the accuracy or otherwise of the supplies and equipment records as determined by stocktaking and examination of the records.

In addition, the report may contain reference to:

- (e) transactions accounted for in a previous financial period, concerning which further information has been obtained, or transactions in a later financial period concerning which it seems desirable that the Health Assembly should have early knowledge.

7. The External Auditor(s) may make such observations with respect to his/her/their findings resulting from the audit and such comments on the financial report as he/she/they deem(s) appropriate to the Health Assembly or to the Director-General.

8. Whenever the External Auditor's(s') scope of audit is restricted, or insufficient evidence is available, the External Auditor's(s') opinion shall refer to this matter, making clear in the report the reasons for the comments and the effect on the financial position and the financial transactions as recorded.

9. In no case shall the External Auditor(s) include criticism in any report without first affording the Director-General an adequate opportunity of explanation on the matter under observation.

10. The External Auditor(s) is/are not required to mention any matter referred to in the foregoing which is considered immaterial.

ANNEX 3

COMPARISON BETWEEN PROPOSED REVISED FINANCIAL REGULATIONS AND EXISTING FINANCIAL REGULATIONS

- Regulation I This includes existing regulations 1.1 and 14.1 unchanged except for wording to cover both male and female officials. A new regulation 1.2 has been incorporated to reflect more clearly the responsibility of the Director-General. A new regulation 1.3 has been drafted to require the Director-General to establish Financial Rules that will govern implementation of the Financial Regulations. This was initially covered in Regulation XII.
- Regulation II No change from existing regulation 2.1.
- Regulation III Existing regulations 3.1 to 3.9 have been reworded for greater clarity. The budget process is in line with the Constitution and reflects practical reality. There is no other substantive change.
- Regulation IV The proposed regulation refers explicitly to the regular budget since the provisions do not apply to extrabudgetary resources. The order of the provisions has been revised to follow the sequence in which the activities occur.
- 4.1 refers to “contractual obligations” for purposes of clarity.
- 4.2 simplifies the process of raising obligations; other aspects of the obligation process are covered elsewhere.
- 4.3 deals with the authority of the Director-General to make transfers between appropriation sections. The original draft proposed has been replaced by the wording of the existing regulation 4.5.
- 4.4 deals with the exchange rate facility and is more explicit in the purpose and use. It also deals with the funding mechanism through Miscellaneous Income.
- 4.5, 4.6, 4.7 and 4.8 deal with the treatment of unobligated appropriations and unliquidated obligations at the end of a financial period. These regulations are more explicit about the basis on which unliquidated obligations may be carried forward and have tightened the criteria governing treatment of unliquidated obligations at the end of a biennium.
- 4.9, 4.10, 4.11 and 4.12 proposed in the previous draft have been deleted.
- Regulation V This brings Miscellaneous Income within the scope of the regular budget as one of the sources of resources, and describes how it shall be applied in determining the level of assessed contributions, and the treatment of any excess or shortfall in Miscellaneous Income. In particular, it specifies that any excess is to be applied in accordance with the relevant, approved regular budget. The mechanism by which Member States are credited with Miscellaneous Income has been refined to ensure that credits are applied against any arrears before current assessments.

- Regulation VI This sets out the mechanism for assessed contributions. A substantive change with respect to existing Article V is in proposed regulation 6.6 which introduces the euro as a specified currency for payment of contributions and regulation 6.7 authorizes the Director-General to accept other currencies under strict guidelines. Proposed regulations 6.4 and 6.5 provide for introduction of an incentive for prompt payment of assessed contributions during a grace period which will be specified in the Financial Rules.
- Regulation VII This proposed regulation is new and governs the Working Capital Fund and internal borrowing. It makes clear the order in which funds can be applied to repay borrowing, and provides for replenishment of the Working Capital Fund through the regular budget process. It also requires the Director-General to establish the potential requirements of the Organization and to demonstrate the reasons for any changes proposed.
- Regulation VIII This proposed regulation, dealing with Miscellaneous Income, is new. By virtue of proposed Regulation V, Miscellaneous Income is included in the regular budget process.
- Regulation VIII also deals with “other income”, equivalent to existing Article VII. “Other income” means income that is not dealt with as assessed contributions or Miscellaneous Income, or credited to revolving funds under proposed regulation 9.4.
- 8.3 introduces the authority to levy a programme support cost subject to relevant Health Assembly resolutions. It is related to proposed Regulation XI, which authorizes the Director-General to use interest earnings for programme support costs if not required to be credited to a specific fund under regulation 11.2.
- 8.4 and 8.5 are more specific as to ways in which these two sources of income may be applied.
- 8.6 clarifies the delegated authority of the Director-General as related to application of Article 57 of the Constitution.
- Regulation IX Existing Article VI has been significantly redrafted to express the concept of fund accounting. Specific funds such as the Working Capital Fund, covered by existing Article VI, is dealt with in more detail in proposed Regulation VII. The treatment of foreign exchange gains and losses has been moved to proposed Regulation IV. Proposed Regulation IX includes an express provision allowing the Director-General to establish funds that may be used to finance capital expenditure such as real estate and information technology.
- 9.4 has been drafted to allow for the possibility that revolving funds may be financed either by specific contributions or from the regular budget. In the latter case this would take place through the regular budget process and thus the Health Assembly will approve the use of the regular budget for any new revolving funds. The intention of this proposed regulation is to allow the costs of production and sales to be charged against sales income generated, rather than the present complex accounting treatment required by resolution WHA22.8. The effect of this resolution is to charge the costs to the Special Account for Servicing Costs and to transfer sufficient income from the Revolving Sales Fund to the Special Account for Servicing Costs to cover those costs.

Regulation X	This proposed regulation expands existing Article VIII in order to allow the Director-General to appoint asset managers for the funds of WHO. Although implicit in the existing regulations, the proposed regulation makes it clear that the Director-General does have this authority. It also reflects developments in the financial services industry where there is growing legal segregation of banking and asset management for regulatory reasons.
Regulation XI	<p>This proposed regulation replaces existing Article IX, and includes a new requirement for investment policies and guidelines that is not required in the existing regulations and corresponds to good financial practice. The explicit reference to the reporting of investments in Article IX has been deleted since this is covered by proposed Regulation XIII.</p> <p>11.2 and 11.3 authorize the Director-General to apply interest income from all sources of resources to Miscellaneous Income, extrabudgetary resources or other funds.</p>
Regulation XII	The internal control provisions in existing Article X have been thoroughly revised to reflect modern practice. Internal control concerns not only financial assets, but also the way in which the Organization is managed. Regulations 12.2 and 12.3 have been moved to Regulation XIII.
Regulation XIII	Existing Article XI has been extensively changed. As WHO has adopted the United Nations System Accounting Standards it is not considered necessary to itemize the requirements since these accounting standards will provide the framework for financial reporting. It has also been clarified that both interim and final financial reports are subject to the United Nations System Accounting Standards.
Regulation XIV	This proposed regulation replaces existing Article XII which was recently amended. Wording has been changed to cover both male and female officials.
Regulation XV	Existing Article XIII has been amended to be more explicit in the manner in which the Director-General may incur expenditure that cannot be made from the existing appropriations.
Regulation XVI	This replaces existing Article XV, and includes existing Article XVI which has not been changed. In previous drafts a revision to existing regulation 15.2 had been proposed to enable the Director-General to make an interpretation of the regulations and to report thereon to the Executive Board if the interpretation has a significant impact on the application of the regulations. However, this has been deleted and the wording of the existing regulation 15.2 has been included.
Appendix	There is no change to the Appendix as amended by the Health Assembly in resolution WHA52.16, except for wording to cover both male and female officials.