



# **WORLD HEALTH ORGANIZATION**

**FIFTY-FOURTH WORLD HEALTH ASSEMBLY**

**A54/21  
26 March 2001**

## **Unaudited interim financial report for the year 2000**

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

The Director-General has the honour to transmit herewith to the Fifty-fourth World Health Assembly the interim report of the External Auditor on the World Health Organization for the financial period 2000-2001 (Annex).

# **INTERIM REPORT OF THE INDEPENDENT EXTERNAL AUDITOR TO THE FIFTY-FOURTH WORLD HEALTH ASSEMBLY: AUDIT OF THE WORLD HEALTH ORGANIZATION: 2000-2001 FINANCIAL PERIOD**

## **INTRODUCTION**

1. The audit of the World Health Organization (WHO) was assigned to the Auditor-General of the Republic of South Africa for the 2000-2001 and 2002-2003 financial periods, in terms of resolution WHA 52.8 of the fifty-second meeting of the World Health Assembly.
2. The purpose of this report is to inform the World Health Assembly of the salient matters arising from the external audit on a timely basis. The practice of issuing an interim report has, since its inception, been commended by the World Health Assembly and the continuation of this process has been endorsed by the Audit Committee.
3. The audit procedures that were carried out were not performed with the intention of expressing an audit opinion on the interim financial statements that are included in the Unaudited Interim Financial Report for the year 2000 (document A54/20). My report does not include any comments or observations on the specific disclosures in the Unaudited Interim Financial Report.

## **TERMS OF REFERENCE**

4. The audit is performed in accordance with Regulation XIV of the Financial Regulations and the Additional Terms of Reference Governing the External Audit appended thereto. In accordance with these terms of reference, the auditor shall express an opinion on the financial statements for the financial period and report on the financial operations and various other matters set out therein.

## **AUDIT APPROACH**

5. The audit is conducted in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency.
6. The audit work that was carried out at headquarters and a regional office during this period included, *inter alia*:
  - a strategic planning phase;
  - interim substantive and analytical tests of transactions and account balances; and
  - procedures to test compliance with the Financial Regulations and legislative authority.
7. A comprehensive audit approach, which incorporates value-added aspects, was followed in the performance of the aforementioned audit work. In addition, the mandate of the External Auditor provides the opportunity to add value to the accountability process in order to assist WHO in achieving its mandate in an economical, efficient and effective manner. In this regard, two value-added reviews were performed during the interim period, notably:

- a computer audit of the general control environment at a regional office; and
- a specialist review of the internal audit function.

## **OVERALL COMMENT**

8. The interim audit revealed that, in general, the financial records were reliable and well maintained and that adequate internal controls have been implemented by the Organization. There are, however, areas where I believe there is scope to further improve the systems and procedures currently in place. There are eight areas that have been highlighted in this report with a view to providing constructive comments to the Organization and should not be construed in a negative light.

9. Cognisance is also taken of the extensive reform initiatives underway, particularly in the areas of the financial framework, strategic budgeting, programme implementation, monitoring and evaluation, and human resources management. Several specific reform initiatives that are already underway have been tested during the interim audit and are reflected in my comments below. The efforts of the Director-General and her staff in this regard are recognised and commended.

## **COMMUNICATION AND ACCOUNTABILITY**

### **Audit Committee**

10. The Audit Committee held its third meeting in January 2001 and continued its important work in improving accountability and governance at WHO. At this meeting, the key aspects of the external audit plans for the 2000-2001 financial period were endorsed.

11. In pursuance of a request made by the Audit Committee at its second meeting in May 2000, an overview in tabular format of the status of implementation of external audit recommendations was provided to the committee for consideration. This is a positive initiative and the decision to include this matter as a standard agenda item for future meetings is welcomed.

12. The constructive relationship which has developed with the Audit Committee is valued and I look forward to ongoing improvements in the accountability arrangements in future.

### **Audit Steering Committee**

13. The Audit Steering Committee continued to meet on a needs basis during the period in an endeavour to facilitate the audit process effectively. These meetings have addressed such matters as audit planning, coordination and related processes.

### **Internal Audit and Oversight**

14. Liaison with the Office of Internal Audit and Oversight continued during the period in order to ensure the coordination of activities. Reliance is placed on the work performed by internal audit to the extent that it relates to the audit objectives and focus of the external audit mandate.

15. Furthermore, a review of the internal audit function was performed and is reported on in paragraphs 47. to 57. below.

## Reporting

16. The interim findings included in this report were thoroughly discussed with the management concerned. The draft report was also submitted to the Director-General to afford her the opportunity to provide comments before transmission of the final report to the President of the World Health Assembly.

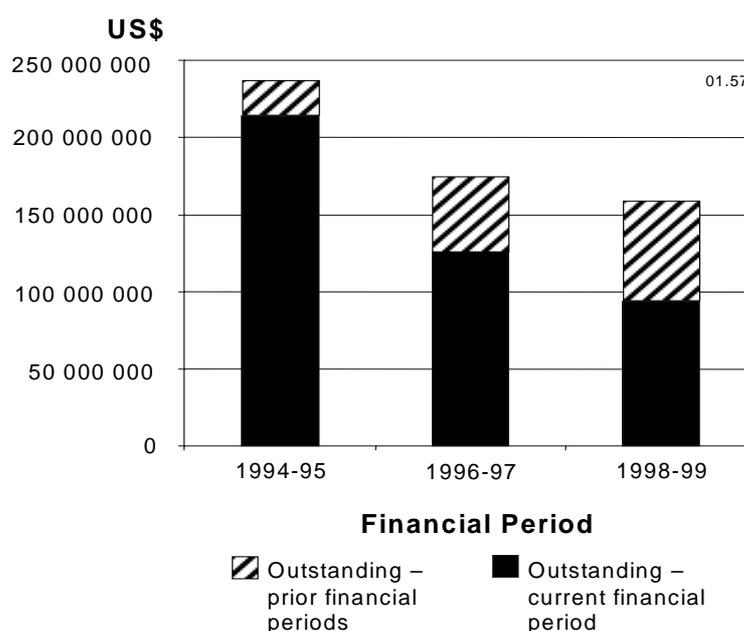
## OUTSTANDING ASSESSED CONTRIBUTIONS

17. The trend in outstanding assessed contributions and the importance of timely payment by members has been highlighted in my previous reports. The first year of the current financial period has shown continued improvement and WHO has achieved its highest collection rate in the last decade.

18. The total contributions for the 2000-2001 financial period amount to USD 842 610 440. These were due and payable in two equal installments of USD 421 305 000 on the first day of the 2000 and 2001 years respectively. An amount of USD 365 083 120 (86,6 per cent) had been collected in respect of assessments at 31 December 2000. This shows an improvement of 2 per cent over the collection rate achieved in 1999 and a 10 per cent improvement over the rate achieved in 1998.

19. The total amount of outstanding contributions has decreased during this period, however, the outstanding contributions of prior years has increased relative to the total amount outstanding because certain member states are not reducing their arrears. This is reflected in Figure 1 below.

Figure 1: Comparison of outstanding assessed contributions over the past three financial periods



20. The improved rate of collection of assessed contributions for 2000 is encouraging and the efforts made in this regard are to be commended. The level of assessed contributions outstanding from prior financial periods, however, continues to be an area of concern.

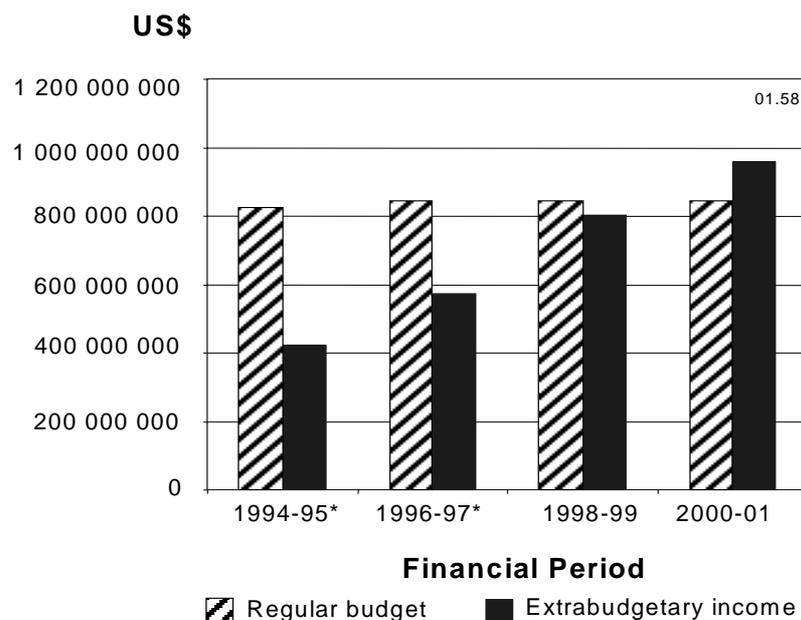
21. The recently revised financial regulations and rules include a provision for member states to pay their assessed contributions in local currencies, subject to specific guidelines and limits set out therein. It is expected that this provision, together with the proposals made by the Secretariat, for the handling of requests for special arrangements for member states that are in arrears and subject to Article 7, will assist countries in reducing their arrears.

## EXTRABUDGETARY CONTRIBUTIONS

### Trends

22. Figure 2 below presents the levels of regular budget funding and extrabudgetary income over the last three financial periods, as well as the budgeted figures for the 2000-2001 financial period.

Figure 2: Levels of regular budget and extrabudgetary income for the financial periods ending 1995 to 1999 and budgeted for 2000-2001



Note: \* excludes Global Programme on Aids  
 Programme budget 2000-2001 figures used for the financial period ending 2001. Expenditure to be funded from other sources used as in indication of the trend in extrabudgetary income.

23. As reflected in Figure 2, the amount of extrabudgetary income has continued to increase substantially, whilst the regular budget has remained static for the last three financial periods. The proposed programme budget for 2002-2003, as submitted to the Executive Board in January 2001, indicates that this trend will continue with planned expenditure in the region of USD 1 400 million to be funded from other sources.

24. The estimated expenditure to be funded from other sources included in the programme budget for the 2000-2001 financial period now exceeds the regular budget for the first time. As at 31 December 2000, a total amount of some USD 672,4 million in extrabudgetary

income had already been received, representing 70 per cent of the projected amount included in the programme budget.

### **Administrative and support costs**

25. The significant increase in extrabudgetary funds has an impact on the Organization. One of the implications is that an increase in the level of extrabudgetary resources, while the regular budget remains static, may have a disproportionate effect on the overall level of administrative and support work funded by the regular budget. It is recognised that the Secretariat has taken steps to become more efficient and has made efficiency shifts in the last two financial periods. However, given the trend above, unless an appropriate level of resources is made available for these administrative and support costs, further imbalances may become difficult to sustain.

26. In order to determine the real level of the administrative and support cost of the increase in extrabudgetary resources, more details of the costs incurred are necessary so that an evaluation can be made of the sustainability of the trend noted above.

### **Tracking of voluntary contributions**

27. Instances were noted where staff in accounts, treasury and the various clusters experienced difficulty in tracking or identifying revenue directly deposited by certain donors, mainly as a result of a lack of pertinent information from donors and banks. This led to significant follow-up work and delays in the final allocation of these contributions to the correct funds. This could delay the issue of allotments and consequently, the implementation of technical activities.

28. It is submitted that an integrated system to record details of voluntary contributions to which the various technical units, management support units, resource mobilisation and financial services have access, could improve efficiency in this area. The Secretariat's continued efforts to increase donor awareness and communication channels are encouraged.

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

29. The introduction of a strategic budgeting process, incorporating the principles of results-based budgeting, together with an integrated plan for monitoring, evaluating and reporting results, has been advocated by member states in recent years and WHO has initiated a number of reform processes in this regard with the aim of having fully implemented such a system for the 2002-2003 financial period. In previous audits, the progress made in the implementation of these measures was reported on and follow-up work in this regard continued during this interim audit.

30. The proposed programme budget for 2002-2003 has been compiled based on the principles of results-based budgeting. It sets out goals, objectives, expected results and performance indicators for each area of work.

31. Standardised business rules and procedures for programme implementation and monitoring were developed and implemented from January 2000. A review of a sample of work plans at headquarters and in the region was performed against these rules and procedures. While some work plans complied with the required minimum data set, others did not accurately reflect all the activities of the unit, had not been fully linked to expected results as included in the programme budget, or did not include sufficient performance indicators and

milestones. While it is recognised that 2000-2001 is a transitional financial period, compliance with the Operational Planning Guidelines for 2000-2001 could be improved.

32. At both headquarters and the region visited, the Activity Management System (AMS) is used for programme implementation and monitoring. One of the key features of the AMS is its integration with the Administration and Finance Information (AFI) system, whereby actual expenditures related to each expected result can be matched to planned expenditure. This is achieved by ensuring that each obligation is linked to a planning element in the work plan. Although all obligating documents require an AMS code for processing, a large number of unlinked obligations were noted indicating that the financial information recorded on the AMS was not always reliable. The Secretariat is performing an analysis of the coding practice, which should address certain of the issues related to rejected and unlinked obligations. Responsible components should also implement the necessary procedures for the regular and systematic review and clearing of rejected and unlinked obligations.

33. Staff costs comprise the largest individual expenditure type and therefore, in order to account for programme outputs in terms of costs, it is necessary that staff costs be appropriately allocated. This is usually done based on estimated percentage allocations in the planning stages. In order to ensure accurate financial reporting, consideration should be given to the implementation of measures to monitor, on a regular basis, whether the percentage allocations made in the planning phases are a true reflection of the actual time expended and to make adjustments where necessary.

34. In the Operational Planning Guidelines for 2000-2001, it was envisaged that monitoring reports would be prepared for Regional Directors and Executive Directors at six monthly intervals. It was noted that such reports had not been prepared for the first six months of 2000. The Secretariat has advised that the first monitoring reports will be prepared for the twelve month period ending 31 December 2000 and that they are due at the end of February 2001.

35. Some AMS users at headquarters and in the region expressed reservations about the system, which they felt was not user-friendly and too time consuming. This has resulted in low user acceptance of the system. The Secretariat has initiated a comprehensive review of the functionality of AMS.

36. In the previous year, it was reported that a project to develop a unified system for programme evaluations had been initiated and that in the interim, the Director-General had selected three areas where in-depth evaluations were to be performed during 2000-2001. The follow-up work carried out during the interim audit revealed that the Director-General had suspended one evaluation due to the receipt of donor funding for a similar exercise, while the other two are planned to be completed by November 2001. The proposed approach for future evaluations is detailed in EB107/INF.DOC./3.

37. The progress already made in the difficult area of programme implementation, monitoring and evaluation is recognised and the continued commitment of personnel throughout the Organization to its successful implementation is encouraged.

## **FINANCIAL AND OTHER MATTERS**

### **Delegations of authority**

38. The Financial Regulations have recently been revised and the Financial Rules reviewed accordingly and confirmed by the Executive Board at the 107<sup>th</sup> session in January 2001. The

Secretariat has indicated that the process of implementing the revised Financial Regulations and Rules, including a review of all delegations of authority, is in progress and is expected to be completed shortly. The completion of this process as soon as is possible is encouraged to ensure that actions taken are appropriately authorised and accountability relationships are clearly understood.

## **WHO Manual**

39. In my previous report I reported that the WHO Manual has become progressively outdated. It is acknowledged that short-term improvements have been made to update the human resources and financial administration sections. However, in view of the ongoing reform process, a more comprehensive review is necessary which also addresses important aspects such as, *inter alia*, organisational structures, modern management processes and practices and clear definitions of accountability. As an example, the Secretariat has advised that, as part of the process of complete review of the Organization's financial regulations, financial rules and administrative practices, the WHO Manual will be completely reviewed and revised to ensure it is comprehensive and reflects the new Financial Regulations and Rules within the devolved framework of WHO.

## **Inventory**

40. The recording and valuation of inventory was reported on in my previous report. Whilst it would be ideal in the longer term to introduce an integrated system, which can be reconciled to the accounting records, it was suggested that a number of improvements could be effected in the shorter term. The Secretariat has taken the matter up and guidance was issued *inter alia*, with regard to the closure of the accounts for 2000. The interim audit work which was carried out at the region was mainly systems orientated, although it did reveal that improvements would be advisable with regard to completeness, accuracy and valuation of the underlying inventory records. This will be audited in more detail, having regard to the substantive audit work which is planned for the remainder of the financial period.

## **Allotment control and review of unliquidated obligations**

41. In terms of the Financial Rules, obligations raised may not exceed the amount available in the allotment. A review of allotment management throughout the first year of the financial period revealed cases where allotments had been exceeded by obligations, although these had been considerably reduced by year end. Responsibility for the management of allotments has been clarified and additional reports are in the process of development which will further assist in the review of obligations.

42. The improvement in the management of unliquidated obligations has been significant and is evident by a reduction of the savings on unliquidated obligations processed during 2000. It appeared from the systems related audit work which was performed at both headquarters and in the region, however, that a more systematic and regular review of unliquidated obligations throughout the financial period, could enhance controls and the management of funds even further. The Secretariat has acknowledged the importance of this and will be considering ways to improve in this area.

## **Personal accounts**

43. A review of a sample of personal accounts at both headquarters and the region revealed a number of balances that had been outstanding for a long period of time. Steps have already been taken to ensure the more timely and thorough review of personal account balances.

## **Liaison offices**

44. A review of the arrangements in respect of the funds advanced to liaison offices in the region visited revealed certain weaknesses in the accountability processes. These included, *inter alia*, advances remaining outstanding for lengthy periods of time, statements not signed by the responsible officials, inadequate supporting vouchers and a lack of evidence that purchases are made on competitive bids. Regional management have initiated an exercise to review the role, responsibility and accountability arrangements for liaison officers and interim measures have also been introduced to improve financial accountability arrangements.

## **HUMAN RESOURCES**

### **Performance evaluations**

45. The development of a new performance management system as part of the larger reform of human resources which was outlined in document EB107/15, is acknowledged.

46. A review of the personnel files revealed many instances where the annual performance appraisal, required by the current system, had not been performed. In all these cases, the annual step within-grade salary increase was, however, awarded. The Secretariat has acknowledged this and has indicated that there will be increased coordination regarding improved notification, follow-up and accountability.

## **REVIEW OF THE INTERNAL AUDIT FUNCTION**

### **Scope and approach**

47. The purpose of the review was to provide an objective assessment of the Office of Internal Audit and Oversight (IAO) against generally accepted good practice. Quality assurance guidance based on the Standards for the Professional Practice of Internal Auditing as developed by the Institute of Internal Auditors (IIA), was utilised in this regard and is accepted by IAO. It should be noted that the review extended beyond the routine assessment of the level of reliance which can be placed on internal audit work with regard to the scope of the external audit.

48. IAO also performs oversight investigations in addition to internal auditing work. This function normally entails the investigation of wrongdoing, which includes violations of regulations and rules; acts of mismanagement, misconduct and waste; abuse of authority; and unlawful conduct by staff or persons or firms doing business with the Organization. Oversight investigations were, however, excluded from the scope of the review.

## **Definition of internal audit**

49. The IIA recently redefined internal audit as follows: “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

50. This represents a shift from the narrower role of control appraisal to encompass a broader role that includes process improvement framed against achievement of organisational objectives. The scope of internal auditing now also embraces wider concepts of corporate governance, risk and control, recognising that control exists within an organisation basically to manage risk and promote effective governance.

## **Recent initiatives**

51. In acknowledging the need to effect procedural improvements, IAO issued a number of directives during the past eighteen months. These have not all been fully implemented, but a limited review of current audit working files indicated that audit staff have effected improvements to varying degrees, although further improvement is generally still required.

52. In addition, IAO conducted a formal planning workshop during December 2000 at which matters ranging from administrative issues to technical, client service and quality assurance issues were discussed. This was supported by the participation of a number of auditees and while the decisions taken have not yet been formally recorded by way of action plans with responsible staff and time-frames, it appears as if IAO has identified a number of issues, some of which are reflected in this report.

## **Key findings**

53. The independence of IAO has been achieved through its organisational status and mandate, permitting it to render impartial and unbiased audit assessments. The qualifications, skills and experience of the staff are generally appropriate to fulfil its mandate, but need to be re-assessed as the assurance needs of senior management evolve. During the review, the majority of management interviewed expressed varying degrees of satisfaction with the range and quality of reports produced and gave them credit for recent improvements in their approach.

54. There are a number of areas where IAO has either not kept pace with developments in the internal auditing field, or where management expectations are such that IAO should reconsider some of its practices. Key examples are as follows:

- (a) The current risk assessment process, that forms the basis for the scheduling of resources, is inadequate in terms of modern auditing practices and IIA Standards. The risk assessment process does not include, for example, the formal identification of all auditable activities, identification of relevant risk factors and an assessment of their relative significance, in order to assign higher audit priority to activities with higher risks.
- (b) The focus of IAO is to a large extent still on financial and accounting risks, reflecting the traditional role of compliance and control appraisal, but it has started to move towards comprehensive assurance. In addition, IAO has neither fully expanded its focus to include governance and business risk management, nor has it started to align its

activities formally with organisational objectives. IAO also focuses generally on functional areas and not on processes cutting across functional boundaries.

- (c) The approach and methodology, including the use of technology, have not been formally documented. Consequently, the organisation, design and content of audit working papers are not standardised. Audit working papers are also not reviewed to ensure that they properly support the audit report and that all the necessary auditing procedures have been performed.
- (d) The general approach to reporting is exception based, i.e. to report weaknesses with accompanying recommendations. However, when conditions do meet specific criteria (prescribed rules, regulations, controls, standards, etc.), no specific assurance is provided to management to the extent that criteria are being met.
- (e) IAO has not adopted any formal continuous improvement techniques and approaches. No external, peer based quality assurance reviews have recently been undertaken and there is no development or use of appropriate formal key performance indicators to evaluate the effectiveness and efficiency of its activities.

### **High-level recommendations**

55. The following high-level recommendations should, if properly implemented, improve the efficiency and effectiveness of IAO, which in turn may result in value-added assistance to management in achieving their organisational objectives:

- (a) Clarity should be obtained on the nature and extent of assurance, as well as other possible advisory services, that the Director-General, Audit Committee and management expect. In addition, mechanisms should be implemented to ensure that governance and oversight structures are keeping pace with internationally accepted best practices.
- (b) The skills and experience of the available resources should be critically analysed to determine the extent to which they would be able to provide the required assurance. Any perceived skills or capacity of which there are shortages should then be procured in the most efficient and effective way.
- (c) The performing of internal audit activities, from entity-level risk assessments, execution of individual audits, reporting, follow-up procedures, to departmental management, should be done in accordance with, at least, the IIA Standards. Simultaneously, efforts should be made to identify and adhere to best practices not yet incorporated in IIA Standards.
- (d) Key performance indicators should be set and monitored, and continuous improvement techniques be implemented – not only for IAO but also for the individual professionals who comprise the function.
- (e) The existing communication processes should be expanded upon to ensure ongoing, transparent and constructive discussions between IAO and all key stakeholders, which include, *inter alia*, the Director-General, the Audit Committee and senior management. Communication may be further enhanced by way of consulting the auditees, on the level of individual audit, during the planning, fieldwork and reporting phases of the audits.

56. Some of the above-mentioned recommendations are relatively easy to address, while others are more fundamental and would require change management. Consequently, it is recommended that a formal project plan with specific deliverables, time-frames and responsible persons, including short-term resources be prepared, implemented and regularly monitored.

57. The Office of the Director-General has indicated that it will be studying the recommendations carefully, with a view to developing a plan for implementation based on that study.

## **COMPUTER AUDIT OF THE GENERAL CONTROL ENVIRONMENT AT A REGIONAL OFFICE**

58. A computer audit of general controls was carried out in the headquarters environment in 1998 and followed-up in 1999. The findings were included in my previous report and the Secretariat has kept me informed of the progress made in this regard. The specialist review work has now been taken further through the review of general controls in a regional office. This will also serve as a basis for more limited reviews during the audits of the remaining regions to establish the degree of commonality between regions in this regard.

59. General controls establish a framework of overall control over the information technology (IT) activities and provide reasonable assurance that the overall objectives of internal control are achieved. They serve as the foundation for the controls of all application systems and ensure the effective operation of programmed procedures including controls over the design, implementation, security, use and amendment of programs and files. If general controls are inadequate or ineffective, there is a material risk that application controls will be compromised.

60. The audit findings, which have been set out in detail in a comprehensive report, indicated that although some controls were in place in the general control environment, significant weaknesses existed in the control environment as a whole. A number of areas where improvements in the general control environment could fruitfully be implemented have been identified and are summarised below:

### **(a) Planning, policies, procedures and standards**

- The need for a formal security policy, disaster recovery plan, business continuity plan, information technology strategic plan, program change control procedures, operating procedures and data dictionary development and maintenance policies and procedures should be carefully considered and pursued.
- The system development life cycle methodology should be documented as well as the policy to control and manage application system development throughout the Organization.

### **(b) Physical access controls**

- Physical access and environment control could be improved to restrict access to the computer room and other related equipment to authorised personnel only.

**(c) Network controls**

The reports generated by the network monitoring packages to monitor network performance and faults on the system should be reviewed. The dial-back functionality of modems may also be considered to decrease the risk of unauthorized access via the modem.

**(d) Operations and backup procedures**

- Formal and approved backup and restore procedures, backup registers, operator run books and incident reporting procedures should be implemented.
- An off-site backup location should be used to store the backup tapes, backups of the operating procedures, the disaster recovery plan and systems documentation.

**(e) Logical access and security**

- Logical access controls within the Regional Office Administration and Finance (RO/AFI) System, the AMS, the Personnel System and Travel, Meetings and Administration System could be improved.
- A formal software piracy policy, termination procedures and user registration procedures should be developed. Furthermore, an anti-virus program should be run on the structured query language (SQL) servers.

**(f) Data**

- An archiving policy should be considered. Improved controls, such as hash totals, should be introduced to ensure that the RO/AFI dump created in the region is accurate and complete when headquarters updates the financial system.

**(g) Organisational structure**

- Programmers should not have full control access to the programs and data in the production environment on the Windows NT server. Responsibilities of short-term IT staff should be formally documented in a term of reference (job description).
- Segregation of duties should be implemented between the critical job functions of the database administrator and the application programmers. Furthermore, the high level of dependency on some key IT staff members should be addressed.
- The establishment of a management-level IT steering committee should be considered and meetings held on a regular basis to monitor the IT function.

**(h) Program change controls**

- The procedures in this regard should be properly documented. Quality assurance should form part of the program change process, and program changes should be logged and reviewed.

61. The comments of the Regional Director were received on 16 February 2001 in which he referred to various corrective steps taken or envisaged. The effectiveness of these steps will be evaluated in due course. Certain issues raised should be addressed by the Secretariat globally and these have been brought to the attention of management in order that they be addressed as part of the implementation of the recommendations made in the review of the general control environment at headquarters.

## **AUDIT CONDUCTED AT A REGIONAL OFFICE**

62. During the first year of the financial period, a regional office was visited to determine focus areas and the scope of the work to be performed at the regional level during the current financial period. In terms of our established practice it is intended that all regional offices will be visited during the current financial period as well as certain country offices.

## **ACKNOWLEDGEMENT**

63. I wish to record my appreciation for the cooperation and assistance extended by the Director-General, the Regional Directors and the staff of the World Health Organization during my audit.

S.A. Fakie

External Auditor

Auditor-General of the Republic of South Africa

Pretoria, South Africa

14 March 2001