



WORLD HEALTH ORGANIZATION

FIFTY-FOURTH WORLD HEALTH ASSEMBLY
Provisional agenda item 15.1

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Management and financial matters

Report of the Internal Auditor

MANDATE

1. The annual report of the Office of Internal Audit and Oversight for the calendar year 2000 is transmitted herewith for the information of the Health Assembly.
2. Rule XII of the Financial Rules – Internal Audit – establishes the mandate of the Office of Internal Audit and Oversight. Paragraph 112.3(e) of Rule XII requires the Office to submit a summary annual report to the Director-General on its activities, their orientation and scope, and on the implementation status of the recommendations made. Accordingly, the present report is submitted to the Health Assembly, together with any 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 without significant irregularities. 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 Office is authorized full, free and prompt access to all records, property, personnel, operations and functions within the Organization which, in its opinion, are relevant to the subject matter under review.

PRIORITIES, PROCESS AND PRODUCTS

5. The organizational structure and the corresponding business functions, together with a risk assessment process that includes both objective and subjective factors, continue to be the cornerstone of the Office's approach to its activities. As a result of the risk assessment process, the Office had identified the following general plan of work: (a) regional offices; (b) offices of WHO Representatives; (c) headquarters programmes; (d) management support units; (e) information systems; (f) investigation and oversight. Specific focus within each of those broad areas was then established through additional detailed risk assessment.

6. In each of these areas of work, the general approach was to conduct a review of selected systems of controls in operation that have been designed to help achieve the objectives stated in the plans of action. To this end, the review assessed the efficiency, effectiveness and economy of operations; compliance with rules and policies; and reliability of information as applicable in the particular area of work.

7. The Office reviewed the administrative, financial and managerial process at headquarters, regional offices and country offices. This included focused reviews of specific account balances and processes within Financial Services at headquarters. In the regional offices the review concentrated on value for money in regard to programme activities, procedural compliance, and strengthening of internal controls. In order to obtain a balanced mix in the depth of coverage, staff resources have been allocated in such a way that significantly more time is now given to regional office audits. The value-for-money approach applied equally to specific headquarters programmes that required it. In the country offices, the review focused on examining the effectiveness of operations in programme delivery as stated in the plan of action. The Office also took into account requests made by management for review of specific programmes or activities during the course of the year.

8. As a result of the work of the Office during 2000, recommendations were made to management at different levels of the Organization that were designed to achieve the following purposes:

- improve managerial approach, efficiency and effectiveness, and add value;
- increase economy in operations;
- comply with established rules and policies;
- improve the accuracy and reliability of financial and managerial information;
- take action on fraud and misconduct.

9. The Office also made a mid-year report to the Director-General highlighting the results of its activities and calling attention to specific risks.

MANAGEMENT OF THE OFFICE

10. The Office has a staffing resource of eight professional auditor posts and one Director's post. Under a traditional arrangement, two auditors continue to be based in Washington, D.C. to audit the Regional Office for the Americas and PAHO. The professional posts are supported by two general service staff, one of which is based in Washington, D.C. All the posts are currently filled.

11. In order to ensure full operational independence, Rule 112.3 of the Financial Rules states that the Office shall report directly to the Director-General. The Secretariat placed no limitations on the scope of the work of the Office in the course of conducting its business.

12. As part of the Office's efforts to enhance staff development and maintain its skill base, its staff have attended various in-house courses and external training programmes. Continuous professional education through the process of self-learning is also a major component of staff professional development.

13. The Office continues to participate in activities of the joint United Nations oversight body, including the 31st Annual Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (Rome, June 2000). The Office also participated in the second conference of Investigators of the United Nations system (Rome, June 2000). The Office has maintained contact with and responded to queries from representatives of Member States, including the "Geneva Group".

14. The Office maintains contact with the Organization's External Auditor. As in previous years, periodic consultations were held during the year to coordinate audit work and to avoid duplication and overlap in geographical coverage. The Office systematically provides to the External Auditor a copy of all internal audit reports and other relevant documents it produces.

AUDIT RESULTS FOR 2000

15. The results of the audit work undertaken during 2000 indicate that the overall system of internal control within WHO continues to provide reasonable assurance that, in the normal course of business, significant irregularities in the achievement of its objectives would be prevented or disclosed. At the same time it has to be recognized that there has been a shift in management philosophy and operating style towards programming based much more on results. Increasing attention must be given therefore to disseminating, Organization-wide, the concept of accountability. Accountability should be characterized as achieving desired results in an efficient, effective and economical manner within WHO's regulatory framework.

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

REGIONAL OFFICES

17. The audits of regional offices focused on attaining a balance between complying with procedures and enhancing efficiency, effectiveness and economy. Significant issues identified and the recommendations made by the Office are given below.

18. **Liaison offices** (Regional Office for Europe). The efficiency and effectiveness of liaison offices are affected by (a) their relationship with the organizational structure at the regional office; (b) involvement of the Ministry of Health in the process of selecting the officers; (c) their roles and functions when there is a dual WHO presence; (d) the extent and nature of budgetary support to the liaison office; and (e) their utilization as a focal point in the planning process for WHO input as a whole.

Recommendation. The Regional Office needs to gauge impact on the efficiency and effectiveness of liaison offices in terms of independence, status, objectivity and motivation.

19. **Emergency activities** (Regional Office for Europe). Although various resolutions have mandated involvement in emergency activities, the Regional Office needs (a) to clarify the extent to which it will be involved in operational activities in addition to its mandated role of technical coordination; (b) to develop response capacity with an organizational structure oriented towards development-based technical collaboration and normative functions; (c) to enhance interdepartmental coordination instead of relying on external resources such as consultants; (d) to ensure the efficiency

and effectiveness of WHO assistance relative to the status of an emergency, particularly in the context of complex emergencies and the development continuum; (e) to recognize the risk that staff individually can mobilize resources by overriding hierarchical structures, thus reshuffling priorities and producing donor-driven action; and (f) to review the managerial approach to handling emergencies through an appropriate delegation of authority, establishment of a field management-information system, documentation of lessons learned, and enforcement of compliance with WHO expenditure rules.

Recommendation. The Regional Office should (a) define clear rules of engagement at the onset of an emergency and periodically assess the nature of its involvement; (b) create a standby support team based on a roster system; (c) re-appraise the extent of interdepartmental coordination in order to draw upon internal advantages; (d) monitor the different phases of an emergency and apply relevant operational, financial and administrative procedures; (e) design clear guidelines on priorities, modalities, clearance procedures and accountability requirements for local resource mobilization; (f) address the issue of delegation of authority to the field, promptly initiate the provision of timely financial and activity reports to the field offices, draw up an information package based on existing guidelines and lessons learned, and train field staff to adhere to WHO rules, and (g) review for correctness expenditures returns submitted by field offices.

20. **Expenditure variances** (South-East Asia Region). Actual expenditure increased significantly over planned expenditure in the areas of contracts and of supplies and equipment during the last six months of the biennium, with no apparent justification. There was an increase of US\$ 3.04 million for contracts, i.e., 871% over planned expenditure, and an increase of US\$ 2.2 million in supplies, i.e., 327% over planned expenditure.

Recommendation. The Regional Office should critically review the variance in component delivery and establish a more stable and representative plan.

21. **Write-offs** (Regional Office for Africa). The Regional Office may need to write off an amount of approximately US\$ 1.06 million from its books. Write-offs identified to date can be summarized as approximately US\$ 500 000 in various receivable accounts, a missing bank transfer of US\$ 400 000, and US\$ 160 000 relating to loss of cash in the office. Some of the amounts identified can be attributed to uncontrollable external events. However, the lack of prompt and thorough follow-up of controllable events that would have identified the problem and increased the probability of recovery, is a cause of concern.

Recommendation. Increased emphasis should be laid on scrutinizing account balances for timely identification and disposition of problems. The underlying reasons should also be reviewed so that corrective action can be taken on control weaknesses that may continue to exist.

22. **Activity implementation.** Deficiencies were noted in implementation of the technical programme in several regional offices relating to (a) inadequate initial information on the justification for an activity; (b) inadequate monitoring of the status of the outcome of an activity; and (c) lack of formal evaluation of an activity after its completion.

Recommendation. Regional Offices should (a) prepare a detailed and purposeful technical justification under each planned component; and (b) establish and enforce guidelines to ensure that technical activities, once completed, are methodically evaluated.

23. **Cost of employment** (Regional Office for South-East Asia). Instances were noted where consultants were employed with terms of reference that were the same as regular staff. However, employment as short-term staff costs 26% less than employment as a consultant. This does not appear to have been taken into account when recruiting consultants.

Recommendation. Technical units should adjudicate as to the cost of hiring a consultant versus a short-term staff member, and provide the necessary justification when submitting a recruitment request.

24. **Contracts** (Regional Office for Europe). Contractual arrangements such as agreement for performance of work, technical service agreements, or consultancies form the basis of executing the bulk of the work in the Regional Office. At times contracts were not properly designed and executed in terms of quantifying the budget, outcomes, commencement of the activity, payment of instalments, lack of a mechanism to monitor and report on the status of the final product, lack of an audit clause, and lack of a systematic evaluation of technical reports submitted on contracted activities.

Recommendation. The regional office should (a) establish detailed guidelines to assist technical units in the proper completion of contractual agreements; (b) ensure that contracts are dated to commence after signature by both parties; (c) ensure that satisfactory completion of the contract through a review of the technical and financial report is formally documented before payment of the final instalment; (d) develop an information system database covering all contractual arrangements and related technical areas; and (e) provide for a methodical and written evaluation of contracted activities exceeding a prescribed dollar value.

25. **Delegation of authority** (Regional Office for the Western Pacific). The overall delegation of authority outlining the financial and administrative basis for executing the regional programme date back to February 1989. Systems, procedures and approaches have changed in the ensuing period. This has also affected delegation to the country level.

Recommendation. The Regional Office in consultation with headquarters should review and finalize the draft delegation of authority.

26. **Staff claims** (Regional Office for Africa). Several substantial medical costs paid to providers under the staff health insurance plan continue to remain in the claimant's personal account because the validity of the claim is under question. The length of time it has taken to account properly for these items is a matter of concern.

Recommendation. Corrective action should be taken.

27. **Expenditure control** (Regional Office for Africa). Various internal control weaknesses continue to exist in the area of expenditure in the Regional Office. These include lack of a panel of signatories for authorizing obligations, commencement of an activity before establishment of an obligation, timely recording of obligations, and inadequate verification of compliance with WHO rules.

Recommendation. The Regional Office should rectify the weaknesses, and issue a strong reminder to country offices to comply with WHO rules.

28. **Local cost subsidy** (Regional Office for South-East Asia). Advances made to collaborating partners for local cost subsidies remained outstanding from the previous biennium to the amount of US\$ 0.572 million.

Recommendation. The WHO Representative should advise the Ministry of Health that advances against future activities will be suspended until such time as the requisite financial statements have been submitted.

29. **Rental subsidy** (Regional Office for the Americas/PAHO). Rental subsidies paid to staff were incorrectly calculated, resulting in over- and under-payments. The calculation system was not programmed and changes in variables that affect the amount due were not taken into account.

Recommendation. The rental subsidy should be retroactively calculated and applied, and the system should be considered for automation.

30. **Informatics** (Regional Office for Africa). Opportunities were identified in the area of information technology for strengthening and improving staffing and direction, the planning process and managerial approach, and security and procurement of equipment and software.

Recommendation. The Regional office should (a) create an information steering committee to prioritize activities; (b) undertake a formal measurement of various informatics statistics and the development and reporting of work plans; (c) review and strengthen backup procedures; and (d) define the roles and responsibilities of Supply and Informatics in procurement and inventory of computers.

COUNTRY OFFICES

31. The Office views country offices as operational centres that act as facilitators as well as responding authoritatively to the needs of the country. The risks associated with the activities of such an office are therefore more operational in nature and revolve around the successful achievement of objectives as laid out in the plan of action. The audit of a country office involves a review of the efficiency, effectiveness and economy of programme delivery, managerial process and the support environment. Significant issues identified are set out below.

32. **Collaboration with countries** (Philippines). WHO's work in and with countries has been a focus of constant review and evaluation in order to give it a more strategic direction that will achieve greater impact. Factors such as fragmentation, emphasis on supplies and inadequate attention to the achievement of results have been identified as constraints in the past. An initial review was made in the country office to explore the extent of transformation and application into concrete action of the principles of working in and with countries.¹ The review was based on indications contained in policy documents, namely, a more strategic approach; an intersectoral approach; a unified WHO country cooperation strategy; a focus on sharing knowledge and health intelligence; an enhanced WHO country presence; and a more systematic and streamlined approach on the part of regional offices and headquarters.

¹ See document EB105/7.

Recommendation. The country office should make further effort to define clearly the process of translating into an action framework and applying the new corporate strategy on working with and in countries.

33. **WHO presence (Zambia).** In the audit of the country office several areas for improvement were identified that would strengthen WHO presence. In particular, (a) limited internal capacity hindered the office's ability to respond efficiently to the needs of the Government; (b) consolidation of 1998-1999 programmes into fewer budgetary headings in 2000-2001 did not achieve the desired objective of reducing fragmentation and sharpening focus through fewer priorities; (c) too much attention was given to general supplies: 55% of the supply expenditure related to computers and vehicles; and (d) there were inadequate records of justification, purpose, and shift in priorities when funds were reprogrammed.

Recommendation. The office of the WHO Representative should initiate measures in the managerial process in order to correct shortcomings and enhance effectiveness of WHO input.

34. **Effectiveness of operations (Mozambique).** Two factors were identified in the country office which would aid effectiveness of operations. In the absence of a systematized, evidence-based, national health plan, programmes were more activity oriented than goal oriented. A priority-setting framework was required that was based on needs and evidence; this would improve the effectiveness and sustainability of WHO's input. The process of evaluating results against the plan of action is a commendable development. It would be more effective if the process were extended to performing a field evaluation of the effectiveness of outcome, in addition to the desk review.

Recommendation. The office of the WHO Representative, in consultation with the Regional Office, should review its managerial process to take the above factors into account.

35. **Procurement (Honduras).** The practice had been adopted of fragmenting the value of a specific procurement by establishing separate purchase orders. This made it possible to circumvent limitations imposed on delegated authority.

Recommendation. The regional office should investigate the issue of country offices surpassing their delegation of authority.

36. **Monitoring (Mozambique and Zambia).** A fragmented approach exists to the implementation monitoring system, which results in information gaps. It does not allow for a systematic comparison of planned implementation with actual or timely and up-to-date information.

Recommendation. The financial and programme monitoring system should be consolidated and linked to the plan of action so that current implementation information is available for each programme area.

37. **Communication (Chile).** A lack of communication and coordination exists between the Regional Office and the field. Contracts were being entered into directly by the Regional Office without the involvement of the country office, even though it was given responsibility for administering them.

Recommendation. Formal procedures should be established that require technical units at the Regional Office to coordinate their efforts with the country office when contracting nationals of that country.

HEADQUARTERS

38. In addition to the review of specific processes and account balances, the Office also undertook a detailed review of three specific programme areas and functions at headquarters.

39. **Oil-for-food-programme.** An audit was performed of WHO's contribution to the oil-for-food programme for Iraq to review the organizational approach, managerial process and implementation of activities. As part of the United Nations Interagency Humanitarian Programme, WHO was charged with implementing the health component of United Nations Security Council resolution 986 (1995) in the three northern governorates, and procuring and observing distribution of medical supplies in the rest of the country. A number of issues were noted: (a) attempts to absorb all aspects of a long-term complex emergency into a corporate culture and practice dominated by development-oriented technical and normative functions constrained the efficiency and effectiveness of WHO's contribution. This resulted in segmentation in structure and process, with ownership spread among different layers of the Organization; (b) because of differing timing in the flow of information, WHO faced a risk of financing supplies for Iraq out of its own fund; (c) factors such as delays in recruitment, inadequate matching of terms of reference and qualifications, lack of an evidence-based planning and resource-allocation system, inadequate use of support services, and weak procurement planning hindered the effectiveness of WHO's contribution. This additionally impacted on WHO's regular programme, as WHO's activities in Iraq were drawing on support-service resources even though dedicated posts could have been obtained.

Recommendation. WHO should (a) adopt a "special project" approach in implementing the Iraq programme; it should include a development-oriented stance which deals with different levels and disciplines of the Organization on a cross-cutting basis, defining roles and responsibilities, as well as communication and reporting channels; and (b) establish a dedicated monitoring system in order to minimize timing differences. (c) The responsible units as identified should initiate action to rectify the noted weaknesses.

40. **Management support units.** Following evaluations performed on the management support units (MSU) in 1999, audits of all eight units were conducted. The purpose was to assess the effectiveness of operational controls. The basic control structure of the MSUs is operating effectively. However the following issues for improvement were noted: (a) conflicts can arise between the service and control functions of MSUs. The situation can be aggravated by the fact that MSU staff are part of the clusters they serve and report to the same Executive Director as their colleagues from the technical units; (b) no effective controls existed which could identify an unauthorized transaction relating to salary payments to short-term staff; (c) there were procedural weakness in individual cases on making advance payments, following up financial statements, monitoring and controlling allotments, monitoring obligations, monitoring extrabudgetary contributions, grading of short-term staff, and controlling posts of limited duration. This resulted in disparate practices among the different clusters, non-adherence to established limits and procedures, and non-implementation of controls in these areas. Some of these conditions have arisen because of a lack of clarity about responsibility and accountability of MSUs and lack of access to existing tools and facilities; (d) implementation of the Activity Management System is deficient, and reports generated from this system are therefore unreliable; and (e) in the absence of a central system to monitor voluntary contributions, partial overlap has occurred of separately developed systems.

Recommendation. MSUs should revise work practices and functions in the areas found to have weaknesses so that transactions and activities are in compliance with WHO rules, regulations and policies. In those areas where identified weaknesses in controls cannot be rectified by

MSUs themselves, guidance and direction should be given by senior management to mitigate the effects of the weaknesses.

41. **Private sector collaboration.** Decision-making for entering into private sector collaboration is quite decentralized and the related operational guidelines and related considerations can be very complex. Although the Legal Counsel and the Committee on Private Sector Collaboration can and do provide review and guidance, these voluntary mechanisms were not always used. WHO's external and internal financial reporting of the extent of financial contributions by the private sector requires more comprehensive definitions or criteria for valuation and classification. Cost/benefit analysis of proposals under assessment need to be improved.

Recommendation. Policies, procedures and practices need to be further developed and strengthened to help ensure the high level of control that needs to be exercised over this sensitive and expanding area.

OVERSIGHT

42. In accordance with its mandate 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. The results of the work done during the year have been communicated to the Director-General and the Office is monitoring the outcomes. By the nature of the work, products of investigations are subject to confidentiality and due process requirements so that their final disposition may not be prejudiced in any way.

AUDIT OF UNAIDS

43. During the year, in its capacity as the internal auditor of the host agency, the Office conducted an audit of the Programme Support Department of UNAIDS. The results of the audit together with recommendations have been communicated to the Executive Director of the Programme.

FOLLOW UP AND IMPLEMENTATION

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

45. The Annex to this document shows the status of reports issued during 2000. Comments on closure efforts have been included for reports issued during the first half of 2000. Except as mentioned below, all reports issued in 1999 and before have been cleared.

46. **Internet and Intranet.** A report from the 1999 work plan was issued in February 2000 which dealt with the internal control mechanisms related to the Organization's use of Internet and Intranet technologies. Several high-risk security issues were identified and immediate steps were taken to eliminate the operational risk. Other matters raised involved policy, prevailing and known weaknesses, problems between WHO locations, and other strategic concerns. Although several specific recommendations were included, the report clearly demonstrated that high-level decisions and

direction were required. The report is currently under study, but a specific implementation plan or other decisions have not been received. The audit remains open and the Office will continue to monitor this project.

47. **Country offices.** Status of implementation of audit reports issued on four selected country offices during the last two bienniums, which had been closed on the basis of a written plan of implementation, was reviewed. These country offices have not been revisited because of the level of risk associated with the recommendations and cost considerations. The WHO Representatives were requested to furnish the Office with supporting documentation or other such evidence on the actions taken to implement the recommendations. Some recommendations had not been dealt with, and one country office did not respond. The outstanding issues and recommendations have been reinstated and incorporated into the audit report of the concerned regional office. The Office will continue to monitor the status.

ACTION BY THE HEALTH ASSEMBLY

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

ANNEX

AUDIT REPORTS 2000 AND STATUS

Office/subject	Report date	Audit closure date	Comments
Office of the WHO Representative in Mozambique	27 April 2000	22 March 2001	
Office of the WHO Representative in Zambia	16 May 2000	22 March 2001	
MSU controls – Family and community health	25 May 2000	28 February 2001	
Regional Office for South-East Asia	25 May 2000	28 February 2001	A recommendation on programme monitoring requires more effective implementation. The issue will be incorporated into the 2001 audit.
Regional Office for the Americas/PAHO Payroll	7 June 2000		Awaiting disposition of rental subsidy payment discrepancies.
MSU controls – Evidence and information for policy	11 July 2000		
MSU controls – General management	26 July 2000	26 July 2000	
Collaboration with the private sector	3 August 2000	3 August 2000	
Office of the PAHO/WHO Representative in Costa Rica	15 August 2000	10 October 2000	
Office of the PAHO/WHO Representative in Chile	16 August 2000		
Office of the PAHO/WHO Representative in Honduras	16 August 2000	6 December 2000	
Bioethics programme, Chile	16 August 2000		
MSU controls – External relations and governing bodies	6 September 2000	15 January 2001	
Regional Office for Europe	18 September 2000		
Oil-for-food programme, Iraq	22 September 2000		
MSU controls – Sustainable development and healthy environments	25 September 2000		
Control self-assessment – Regional Office for the Western Pacific	8 November 2000		
MSU controls - Noncommunicable diseases and mental health	18 October 2000	4 December 2000	
UNAIDS Programme Support Department	15 November 2000		

Office/subject	Report date	Audit closure date	Comments
MSU controls - Health technology and pharmaceuticals	7 December 2000		
Office of the PAHO/WHO Representative in Mexico	15 December 2000		
MSU controls – Communicable diseases	24 January 2001		
Regional Office for the Western Pacific	30 January 2001		
Regional Office for Africa	9 February 2001		
MSU controls – summary report	9 February 2001		
Regional Office for the Eastern Mediterranean	23 February 2001		
Pan American Institute for Food Protection and Zoonoses, Argentina	(in draft)		
Office of the PAHO/WHO Representative in Colombia	(in draft)		
Geneva focused reviews: – Asset management system	3 May 2000		Response received; however it did not address key issues or provide evidence of implementation and was returned for clarification.
– Garage rentals	13 June 2000	7 February 2001	
– Personal accounts and standing advances	31 August 2000	16 November 2000	
– Suspense accounts	28 September 2000	28 September 2000	
– Imprest accounts	1 February 2001		
Washington focused reviews: – Reserve accounts	18 January 2000	18 January 2000	
– Personal accounts	14 March 2000		Response was received recently and is under review.
– Emergency revolving fund	22 May 2000	29 September 2000	
– Rental subsidies	22 February 2001		