



WORLD HEALTH ORGANIZATION

FIFTY-FIFTH 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 2001 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. The Financial Rules also state that this report shall be 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 overall risk assessment process, the Office had identified the following general plan of work: (a) regional offices; (b) offices of WHO Representatives; (c) headquarters programmes and functions; (d) information systems;

(e) 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. The value-for-money approach applied equally to specific headquarters programmes that required it. In the country offices, the review focused on examining the efficiency and effectiveness of operations in programme delivery as stated in the plan of action. The Office has now given concrete shape to an ongoing global project on reviewing the application of the corporate strategy at the country level. 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, recommendations were made to management at different levels of the Organization that were designed to improve managerial approach, efficiency and effectiveness, and add value; to increase economy in operations; to comply with established rules and policies; to improve the accuracy and reliability of financial and managerial information; and to take action on fraud and misconduct.

MANAGEMENT OF THE OFFICE

9. The Office has a staffing resource of eight professional auditor posts and one Director's post. Under a special arrangement, two auditors continue to be based in Washington, DC 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, DC. All the posts were filled throughout 2001.

10. 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. No limitations were placed on the scope of the work of the Office in the course of conducting its business.

11. 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.

12. 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 2001

13. The results of the audit work undertaken during 2001 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. The Office continues to maintain this as one of its principal priorities.

14. 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. The audit reports describe problem areas and no comment is made where test results showed adequate and effective controls.

Headquarters

15. **Travel.** An audit of duty travel at headquarters concluded that on the whole there were adequate controls to ensure compliance with established policies and procedures. However, further improvements could be made to maximize cost efficiencies and organizational usage of travel. Headquarters travel expenditure could be further reduced by better advance booking and use of more economical fares among the negotiated fares, particularly in the case of temporary advisers travel. The travel unit needed to have a more strategic focus and greater interaction with its partners. It should regularly obtain, analyse and follow up information on the extent and reasons for high airfares compared to normal fares obtainable. The possibility of extending the Travel and Meetings Administration System interfaces should be explored.

16. **Tobacco Free Initiative.** The audit revealed that as the project's activities evolved into the second biennium, timely progress had been made on specific deliverables such as the WHO framework convention for tobacco control. Strengthening national capacity continued to be a weak area of activity and was weighed down by inadequate project finances. In order to achieve the stated objectives, improvements could be made in the efficiency and effectiveness of the initiative's activities through a process of strategic programme integration supported by a programme-wide monitoring and review system. The project should develop a strategic map that lays out direction, roles and responsibilities of its main areas of work as well as of other stakeholders in order to increase integration. It should also formulate a strategic and medium-term fund-raising plan and adopt a programme-wide system for monitoring activities.

17. **Contract Review Committee.** An audit of the Contract Review Committee at headquarters concluded that its effectiveness, as currently functioning, needed improvement. General management at headquarters should streamline the scope, function and composition of the Contract Review Committee by prescribing objectives and a mandate for the committee; consolidating the different sets of committees into one body; establishing a central repository for the work of the committee; and reorganizing its composition in accordance with its stated mandate.

18. **Pharmaceutical procurement.** The Organization needs to strengthen the effective quality assurance system and the bidding and pre-qualification system needs improvement. Procurement Services should apply, as a matter of principle, the WHO certification scheme and obtain relevant batch certificates. It should also develop procedures for product-defect reporting and quality testing of

samples, and should maximize supplier competition. It should further develop a list of essential drugs for its own procurement purposes based on the WHO Model List of Essential Drugs.

19. **Overlapping employment contracts.** The results of the audit showed that some WHO short-term staff also held agreements for performance of work with the Organization covering the same periods. Current regulations did not state the restrictions on multiple contracts in a sufficiently clear manner. Interlinked computerized systems to detect such cases were not in place, and although the information was available separately it was seldom used. This gap should be closed.

Regional Offices

20. **Programme implementation** (Regional Office for South-East Asia). We noted weaknesses in programme implementation such as: (a) reprogrammed activities where there was a lack of linkage between the old and the new activity and their effect on expected results; (b) the situation regarding ability to fully utilize allocated resources was affected by the absorption capacity of collaborating partners and inaccuracy in the activity costing process; (c) it was not always apparent that the implementing partner selected is the most economical or the most appropriate. The Regional Office must initiate steps to strengthen programme implementation.

21. **Financial functions** (Regional Office for the Americas). A review of internal controls over some of the financial functions revealed: (a) a need for clearer assignment of authority and responsibility to the administrative units; (b) a need for better evidence of delegated authority; (c) in some instances obligations were raised and payments made without the support of a signed contract; (d) a better process of reviewing outstanding obligations; (e) a need for better costing in courses and seminar expenditure; (f) as a result of the use of blanket authorizations, it was difficult to ascertain whether individual payments are in accordance with conditions established. The Regional Office needs to enforce compliance with controls.

22. **Local cost subsidies** (Regional Office for Africa). The effectiveness of the internal control system over national immunization day expenditures needs improvement as (a) obligations were raised without reference to a specific work plan or budget; (b) when activities had been implemented, financial reports were not received in time or were incomplete; (c) there were significant over-expenditures beyond the initial authorization; (d) there was lack of segregation of duties among support personnel. Similarly, on advances made to the government, an improved monitoring system was needed for accountability of the funds. The Regional Office needs to strengthen procedural controls in order to enhance accountability.

23. **Expenditure control and recording** (Regional Office for Africa). Various internal control improvements are needed in the area of expenditure at the field level. There was significant delay sometimes in the processing of some imprest returns. Better follow-up on unresolved expenditure was needed and in the absence of a monitoring system, there was no reasonable assurance that advances were accounted for and unspent balances returned.

24. **Procurement** (Regional Office for Africa; Regional Office for Europe; Regional Office for South-East Asia). We noted examples, which should be rectified, of departure from established norms and routine practices in the purchasing function.

25. **Financial controls** (International Agency for Research on Cancer). Control over sale of publications was weak and did not provide adequate assurance that revenues were credited to bank

accounts. Use of formal competitive bidding procedures was very infrequent and negotiation was the preferred method. Controls need to be improved.

Country and other offices

26. **Country presence** (Liaison offices in Europe). The audit indicated that the liaison office concept was a viable strategy for country cooperation in the European Region. However procedures should be improved to both increase programme delivery and strengthen financial control over the liaison offices. The inadequacy of the format of the medium-term plan and the late signing of agreements caused delays in programme implementation. Responsibilities for plan implementation were not clearly assigned and the technical support provided by the Regional Office for Europe to the liaison offices was insufficient in some cases. Cash payments and use of hard currencies should be restricted and control over cash remitted to liaison offices needed to be strengthened. Plans should be finalized and concluded before the biennium end and resources needed to implement it should be assessed and prioritized. Roles and responsibilities of liaison office personnel should be clearly assigned.

27. **Operational relationship** (WHO Centre for Health Development, Kobe, Japan). The audit concluded that the relationship between the Centre and headquarters requires improvement. This state of affairs stemmed principally from an interpretation by the Centre on its reporting relationship as well as its status *vis à vis* its operational relationship with headquarters on such matters as authority, process, information and communication.

28. **Shared management** (El Paso, Texas, United States of America). The Field Office/U.S.-Mexico Border (a WHO/PAHO programme) shares office space, administrative and programme functions and management with the U.S.-Mexico Border Health Association (a nongovernmental organization). It was found that the shared management of operations resulted in difficulties in resolving competing priorities. This problem ranges from the highest programme levels down to individual transactions. Even though both programmes appear to be highly effective in their technical aspects, an effort is required to separate functionally the offices.

29. **Management controls** (Programme des Médicaments Essentiels, Haiti). There were several basic weaknesses in the management controls over the operations of the essential medicine distribution project. The project was not a legal entity and had neither host agreement nor written agreements with most donors. The accounting system and procedures were fragmented and not all costs were taken into account. Inadequate inventory control resulted in losses due to expiry or deterioration of drugs in store. The programme must formalize its institutional status and establish an integrated accounting system, as well as strengthened inventory management.

30. **Application of the corporate strategy** (Global). The Office is continuing to undertake a global project to assess WHO country presence in the context of its corporate strategy. The audit focuses on identifying the principles of working with and in countries as outlined in the strategy. The consolidated results of this audit will be communicated in the next annual report.

OVERSIGHT

31. 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

32. During the year, in its capacity as the internal auditor of the host agency, the Office conducted an audit of the office in New Delhi of the Joint United Nations Programme on HIV/AIDS. The results of the audit together with recommendations have been communicated to the Executive Director of the Programme.

FOLLOW-UP AND IMPLEMENTATION

33. The Office monitors the implementation of all its recommendations and verifies the reported implementation during subsequent audit visits. In 2001, recommendations made were accepted positively by senior management. The Office is generally satisfied with the overall disposition of the significant audit recommendations but notes an increasing delay in implementation.

34. The Annex to this document shows the status of reports issued during 2001. Comments on closure efforts have been included for reports issued up to the end of July 2001. Except as mentioned below, all reports issued in 2000 and before have been cleared.

35. **Management support units.** In response to the audits performed in 2000 of these units, all except that for the Health technology and pharmaceuticals (HTP) cluster replied satisfactorily to the recommendations made and the audits were subsequently closed. The audit of the HTP unit remains open as it has not adequately addressed all the issues.

36. A follow-up on the audit recommendations issued in 2000 was carried out to evaluate implementation status. The management support units have in general implemented controls in line with the recommendations, but implementation was not satisfactory in the areas of recruitment, processing of contracts and salary payments to short-term staff. The situation will remain under review as the units' functions are reorganized.

37. **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 usage of Internet and Intranet technologies. Several high-risk security issues were identified and immediate steps were taken to eliminate the operational risk. Other issues raised concerned policy, prevailing and known weaknesses, problems between WHO locations and other strategic matters. Although several specific recommendations were included, the report clearly demonstrated that high-level decisions and direction were required. The audit remains open.

38. **Oil-for-food programme for Iraq.** A report was issued in September 2000. Review of the replies received on the actions taken on some of the recommendations indicated that the organizational issues had been addressed but many of the operational issues relating to staffing, procurement and monitoring had yet to be implemented. Discussions have been held with the new Department of the Iraq Programme and the Office will continue to monitor the status. The audit remains open.

39. **Regional Office for Africa.** The audit performed in 2000 had identified that an amount totalling about US\$ 1.06 million, across various account balances, may need to be written off if recovery was not made. There has been no recovery as yet and the final disposition of the individual items remains outstanding. The audit remains open.

40. **Management support unit controls – common issues.** A summary audit report was issued highlighting control weaknesses identified in audits of the units carried out in 2000 which cannot be addressed effectively by the individual units. The Office still awaits an initial response to the report. It has to be noted that changes, both effected and planned, in General management may have delayed the response. The audit remains open.

ACTION BY THE HEALTH ASSEMBLY

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

ANNEX

2001 AUDIT REPORTS AND STATUS

Office/subject	Report date	Audit closure date	Comments
Bank accounts at Regional Office for the Americas/PAHO	15 March 2001	14 May 2001	
Programme des Médicaments Essentiels, Port-au-Prince, Haiti	21 March 2001	30 May 2001	
Headquarters building security	22 March 2001	17 May 2001	
Onchocerciasis Control Programme/African Programme for Onchocerciasis Control	30 March 2001		Awaiting the finalization of a Memorandum of Agreement between the African Programme for Onchocerciasis Control and the Special Programme for Research and Training in Tropical Diseases at headquarters.
Regional Office for South-East Asia	14 May 2001	17 October 2001	
Pharmaceutical procurement process	21 May 2001		Awaiting initial response.
Overlapping employment contracts at headquarters	1 June 2001		Awaiting initial response – Cluster Note explaining policy has been issued.
Office of the PAHO/WHO Representative in Argentina	11 June 2001	27 October 2001	
Headquarters Contract Review Committee	2 July 2001		Awaiting initial response.
Regional Office for Europe	2 July 2001	10 December 2001	
WHO Centre for Health Development, Kobe, Japan	6 July 2001		Awaiting initial response.
European Region Liaison Offices	10 July 2001	14 February 2002	
Water Supply and Sanitation Collaborative Council	13 July 2001	6 March 2002	
Office of the PAHO/WHO Representative in Panama	30 July 2001	4 October 2001	
Ex gratia payments, special awards, claims and uncollectable debts	13 September 2001	28 November 2001	

Office/subject	Report date	Audit closure date	Comments
Office of the PAHO/WHO Representative in Nicaragua	14 September 2001		
Programme on Chemical Safety	12 October 2001		
Voluntary Fund for Health Promotion	17 October 2001		
Staff health insurance – Regional Office for the Americas/PAHO	16 October 2001	20 February 2002	
Terminal payments account	23 October 2001	7 March 2002	
Headquarters travel	14 November 2001		
Regional Office for the Americas/PAHO purchasing card programme	22 November 2001	20 February 2002	
Regional Office for Africa	26 November 2001		
Tobacco Free Initiative	14 December 2001	13 February 2002	
PAHO Field Office/U.S.-Mexico Border, El Paso, Texas, United States of America	14 December 2001		
Office of the PAHO/WHO Representative in Trinidad and Tobago	5 December 2001		
Regional Office for the Americas/PAHO allotments, obligations and payment controls	21 December 2001		
Joint United Nations Programme on HIV/AIDS Office in India	21 December 2001		
International Agency for Research on Cancer	11 January 2002		
Office of the PAHO/WHO Representative in Jamaica	31 January 2002		
Regional Office for the Eastern Mediterranean	22 February 2002		
Management support unit audits – follow-up	1 March 2002		
United Nations Pension Fund	20 February 2002	20 February 2002	