



WORLD HEALTH ORGANIZATION

FIFTY-SIXTH WORLD HEALTH ASSEMBLY
Provisional agenda item 16.1

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Report of the Internal Auditor

MANDATE

1. The Office of Internal Audit and Oversight transmits herewith its annual report for the calendar year 2002 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 performs as an independent, objective, assurance and advisory activity designed to add value to and improve the Organization's operations. Using a systematic and disciplined approach, it helps the Organization to accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control, and governance.
4. The scope of work of the Office is to evaluate whether the network of risk management, control, and governance processes, as designed and implemented by the Organization's management, is adequate and functioning in a manner to ensure that: (a) risks are identified and managed; (b) financial, managerial, and operating information is accurate, reliable, and timely; (c) staff actions comply with policies, standards, procedures, and applicable laws and regulations; (d) resources are acquired economically, used efficiently, and protected adequately; (e) programmes, plans, and objectives are achieved; and (f) the Organization's control process fosters quality and continuous improvement.
5. The revised Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors, were adopted in June 2002 for use in the United Nations system by the thirty-third meeting of representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions. The Office accordingly implemented this updated guidance.
6. 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

7. The organizational structure and corresponding business functions, together with a risk assessment process, 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 areas of work:

(a) regional offices; (b) offices of WHO Representatives; (c) headquarters programmes and functions; (d) information systems; and (e) investigation and oversight. Specific priorities and focus within each of those broad areas were then established through additional detailed risk assessment. The Office also took into account requests made by management for review of specific programmes or activities during the course of the year.

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

9. The Office reviewed the administrative, financial and managerial processes at headquarters, regional offices and country offices. This included focused reviews of specific account balances and financial processes at headquarters. In the regional offices, the review concentrated on the achievement of objectives in regard to programme activities, procedural compliance, and strengthening of internal controls. The risk-based approach for reviewing achievement of objectives applied equally to specific headquarters programmes that required it. In the country offices, the review focused primarily on application of the corporate strategy at the country level. Lastly, the Office facilitated self-assessment of controls in several programmes where the respective staff evaluated risks associated with achievement of their objectives and identified means to mitigate the residual risk.

10. 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, increase economy in operations; comply with established rules and policies; improve the accuracy and reliability of financial and managerial information; and take action on fraud and misconduct.

MANAGEMENT OF THE OFFICE

11. The Office reports directly to the Director-General and has a staffing resource of six professional auditor posts and one Director's post. All the posts were filled throughout 2002.

12. From late 1995 until mid-2002, the Office maintained a presence in Washington, DC, under a special agreement to conduct a consolidated internal audit of the Regional Office for the Americas (PAHO). In mid-2002, the Director of PAHO decided to establish a separate internal audit function for PAHO. The Office will thus in future audit the Regional Office for the Americas in the same manner as the other regional offices, and efforts are under way to adjust Geneva-based professional staffing to meet the additional workload.

13. 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.

14. The Office maintains regular contact with the Organization's External Auditor. As in previous years, consultations were held during the year to coordinate audit work and to avoid overlap in coverage. The Office provides the External Auditor with a copy of all internal audit reports.

AUDIT RESULTS FOR 2002

15. In the opinion of the Office, the results of the audit work undertaken during 2002 indicate that overall, the control, risk management and governance processes within WHO continue to provide reasonable assurance that significant shortcomings in the achievement of the Organization's objectives would be prevented or disclosed.

16. There were no limitations placed on the scope of the work of the Office in the course of conducting its business. Nor are there any significant unresolved differences of opinion between the Office and the Organization's senior management in respect of acceptance of residual risk.

17. Major issues and areas of improvement that were identified during the audits undertaken in 2002 are described below, set out under the major groupings outlined in the plan of work.

Regional and country offices

18. **National Polio Surveillance Project.** Operating as a project under the WHO Representative in New Delhi, the Project's ultimate objective is to certify India as free of poliomyelitis. The Office's evaluation of the Project's financial, administrative and programme support functions, disclosed control weaknesses requiring attention. The lack of clearly defined responsibilities between the Project, the Regional Office and the office of the WHO Representative, as well as communication breakdowns, impacted on efficiency and accountability, and weakened programme delivery. There was a need for greater control over local cost subsidies, which accounted for approximately half of the Project's expenditures of US\$ 36 million in 2000-2001. Lastly, intensified oversight of the Project's 200 field units would help to mitigate the risks inherent in a decentralized structure.

19. **Regional Office for the Western Pacific.** The audit concentrated on areas of administration and finance identified through the risk-assessment process. The results of the audit indicated that the Regional Office has implemented effective controls to mitigate the major risks, but controls could be improved with respect to extrabudgetary contributions. An improved information system could aid in donor reporting and better financial monitoring of contributions.

20. **Regional Office for the Americas/PAHO.** Although the processes and controls employed by the Regional Office for the Americas/PAHO in obtaining and administering extrabudgetary-partner agreements were in general operating satisfactorily, the audit identified specific areas of residual risk. Setting targets for extrabudgetary funding could be a proactive measure for the Regional Office/PAHO to establish capacity and to keep donor needs in proper perspective. The Regional Office's involvement with a nonprofit public foundation should be critically reviewed in order to ensure the appropriateness of the relationship and compliance with legal restrictions. Greater coordination and information flow with WHO headquarters is also needed.

21. **Regional Office for Africa.** The audit placed substantial emphasis on implications of the split in operation of the financial functions after the return of the Regional Office to Brazzaville. It assessed the adequacy of measures taken to provide reasonable assurance that financial records have integrity and that monetary assets are reasonably safeguarded. The results of the audit indicated that the financial and accounting operations have been adversely affected by the split in operations between Harare and Brazzaville. The report recommends priority action to resolve the consequences of the unavailability of on-line access to the accounting system from the office in Brazzaville. It further identified the need for the Region's administration to apply a higher level of monitoring controls and mechanisms and recommended a full review of the control structure over payments made from the

Harare office. Lastly, attention is needed to clear a significant backlog of work in the accounting office relating to expenditures, suspense and personal accounts, and implementation of certain required procedures.

22. **Review of working in and with countries.** The review was undertaken in order to assess WHO's country presence in the context of country cooperation strategies. Visits were spread across five regions and included on-site work at 10 country offices, selected for their differences in size and complexity of operations. The review covered ways in which individual offices had translated into practice the principles of: (a) strategic approach; (b) intersectoral approach; (c) unified WHO country cooperation strategy; (d) knowledge sharing and health intelligence; (e) enhanced country presence; and (f) support from the regional office and headquarters. The message contained in the corporate strategy has impacted on the way of working in and with countries, although the extent to which the strategy is translated into practice varies among countries. Greater emphasis on the strategic approach, greater involvement in intersectoral partnerships, better use of tools and processes for information dissemination, and an enhanced country presence would ensure an effective translation of the corporate strategy into practice for working in and with countries.

Headquarters

23. **Contractual agreements at headquarters.** The audit concluded that a moderate risk exists in the activity-management process; consequently, the expected results as stated in certain contractual agreements may not always be realized. Procedures should be strengthened by developing a more comprehensive policy to manage the programme-related aspects of contractual agreements in terms of achievement of results.

24. **Department of Reproductive Health and Research.** Although the department has recognized and managed well the major risks inherent in its operations, the audit identified certain control weaknesses. The control environment and managerial processes should be strengthened by improving the working relationship with the relevant management support unit, and the governance process for the department's activities. Research partners could be selected in a more transparent manner, as could the award of capacity-strengthening grants.

25. **WHO's procurement of humanitarian supplies for Northern Iraq.** WHO's importation of medical supplies to Northern Iraq under the terms of the Memorandum of Understanding with the United Nations Office of the Iraq Programme accounts for approximately half of all expenditures authorized by the Programme. The evaluation disclosed that the Organization's programme delivery requires improvement in terms of efficiency and effectiveness. During the past six years, WHO has been authorized to procure over US\$ 225 million of imported goods. However, it has proved difficult both to deliver goods to Iraq and to install them. Various factors contributed to this situation, such as cumbersome procedures and regulations, and insufficient headquarters support and capacity, including the headquarters purchasing function. The audit revealed, however, that the staff in the field offices performed well in difficult circumstances and noted positively the need-assessment tools and the medical equipment database developed and used in Iraq.

26. **Global Tuberculosis Drug Facility.** As a relatively new mechanism developed by the Stop TB Partnership, the Global Tuberculosis Drug Facility has made progress since its inception in March 2001. The audit disclosed, however, the need for strengthening certain areas of the governance process, improved planning and monitoring of programme delivery, and intensified control over procurement contracts.

OVERSIGHT

27. 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 carried out investigations as warranted. Working closely with General Management and regional offices, the Office devoted approximately 15% of its available audit time to the cases which arose during 2002. 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 strict confidentiality and requirements of due process so that their final disposition may not be prejudiced in any way.

AUDIT OF UNAIDS

28. During 2002, in its capacity as the internal auditor of the host agency, the Office conducted an audit of contracting activity at UNAIDS. The results of the audit, together with recommendations, have been communicated to the Executive Director of the Programme.

FOLLOW-UP AND IMPLEMENTATION

29. The Office monitors implementation of all its recommendations and verifies the reported implementation, when possible, during subsequent audit visits. Recommendations have been accepted positively by senior management, and the Office is generally satisfied with the overall disposition of the significant audit recommendations. The Annex to this document contains the status of reports issued during 2002 and comments on closure.

30. All reports issued in 2001 and before have been cleared, except as mentioned below. In some of these areas, the topics are complex and implementation efforts may take time to complete. Nevertheless, for the work described below, the audits remain open.

31. **Internet and Intranet.** A report 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 issues raised concerned 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 Office has yet to receive a response to the audit, although it has noted progress in this area.

32. **Oil-for-food programme for Iraq.** A report was issued in September 2000 and information was subsequently received on the actions taken on some of the recommendations. A follow-up review indicated that some organizational issues had been addressed, but that many of the operational issues relating to staffing, procurement and monitoring had yet to be implemented. Discussions have been held with the Department of the Iraq Programme, and the Office will continue to monitor the status.

33. **Regional Office for Africa.** The audit, performed in late 2000, had identified a bank transfer of US\$ 400 000 from 1997 which was never credited to the Regional Office. There has been no recovery as yet and although efforts for recovery have been made, the final disposition of this matter remains outstanding.

34. **Management support unit controls: common issues.** A summary audit report was issued highlighting control weaknesses identified in the audits of the management support units carried out in 2000 which cannot be addressed effectively by the individual units. As the Office continues to await an initial response to the report, it has noted positive changes, both effected and planned, by General Management.

35. **Pharmaceutical procurement.** This audit report, issued in May 2001, discussed the need at headquarters for strengthening the quality assurance and testing system and contracting procedures. It also highlighted the need for compiling a list of essential drugs for WHO's procurement purposes based on the WHO Model List of Essential Medicines. No response has been received.

36. **Contract Review Committee.** In July 2001, this report concluded that the effectiveness of the Contract Review Committee at headquarters could be strengthened by (a) prescribing objectives and a mandate for the Committee; (b) consolidating the different sets of committees into one body; (c) establishing a central repository for the work of the Committee; and (d) reorganizing its composition in accordance with its stated mandate. Although a formal response has not yet been received, it is understood that a substantial project to reform the Committee is nearing completion.

37. **WHO Centre for Health Development, Kobe, Japan.** The audit report, issued in July 2001, disclosed that the relationship between the centre and headquarters requires improvement. The state of affairs stemmed principally from an interpretation by the Centre on its reporting relationship, and its operational relationship with headquarters on such matters as authority, process, information and communication. No response has been received, although it is understood that changes in the administrative arrangements with headquarters have now taken effect.

ACTION BY THE HEALTH ASSEMBLY

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

ANNEX

2002 AUDIT REPORTS AND STATUS

Office/subject	Report date	Audit closure date	Comments
Automation of obligating documents	25 March 2002	25 March 2002	Advisory review during system development; no formal recommendations issued that require responses.
Latin American and Caribbean Center on Health Sciences Information (BIREME), São Paulo, Brazil	23 April 2002	N/A	To be followed up by PAHO.
National Polio Surveillance Project, New Delhi	30 April 2002	25 June 2002	
Regional Office for the Western Pacific	14 May 2002	13 December 2002	
Agreements for performance of work and other agreements at headquarters	19 June 2002	Open	Initial response received and recommendations accepted. Complex issues will increase time needed to realize full implementation.
PAHO travel card controls	14 August 2002	N/A	To be followed up by PAHO.
Pan American Center for Sanitary Engineering and Environmental Sciences (CEPIS), Lima	15 August 2002	N/A	To be followed up by PAHO.
Office of the PAHO/WHO Representative in Peru	15 August 2002	N/A	To be followed up by PAHO.
Extrabudgetary partner agreements at the Regional Office for the Americas/PAHO	22 August 2002	Open	
Representation and advocacy allowance	27 September 2002	5 December 2002	
UNAIDS contracts	24 October 2002	Open	Initial response received and most recommendations accepted. Further study required on certain agreements with cosponsors.
Department of Reproductive Health and Research	30 October 2002	Open	
Rental subsidies at headquarters	5 December 2002	Open	

Office/subject	Report date	Audit closure date	Comments
Regional Office for Africa	11 December 2002	Open	
Review of working in and with countries	17 December 2002	17 December 2002	Formal recommendations were not made, but an indication of status in the field was presented.
Evaluation of WHO's procurement of humanitarian supplies for Northern Iraq	31 December 2002	Open	
Control of management support units over contracts	9 January 2003	Open	
Global Tuberculosis Drug Facility	5 February 2003	Open	
Review of collaborating partner product pricing	10 February 2003	Open	
Clearance accounts at headquarters	14 February 2003	Open	

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