



WORLD HEALTH ORGANIZATION

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Report of the Internal Auditor

INTRODUCTION

1. The Office of Internal Oversight Services transmits herewith its annual report for the calendar year 2004 for the information of the Health Assembly.
2. Rule XII of the Financial Rules – Internal Audit – establishes the mandate of the Office of Internal Oversight Services. 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 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. It is responsible for investigation of alleged irregular activity and it conducts programme evaluation. 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.
4. Under an agreement with PAHO, the Office operates a joint internal audit activity based in Washington, DC, to provide oversight services covering both PAHO and AMRO and the WHO Regional Office for the Americas. This report includes work related to the Regional Office and to PAHO.

PRIORITIES AND PRODUCTS

5. The Office views risk as the possibility of an event occurring that will influence the achievement of objectives. Risk is assessed in terms of degree of impact and likelihood of occurrence. Accordingly, a methodical risk assessment process guides the Office's prioritization of activities and provides a basis for work planning during engagements.
6. Although certain interventions were limited to very precise objectives, the general scope of work was to evaluate whether the network of processes for risk management, control, and governance, as designed and implemented by the Organization's management, was adequate and functioning in a manner to fulfil specific purposes. These were to ensure that: (a) risks were identified and managed; (b) financial, managerial, and operating information was accurate, reliable, and timely; (c) staff actions complied with WHO regulations, rules, policies, standards and procedures; (d) resources were acquired economically, used efficiently, and protected adequately; (e) programmes, plans, and

objectives were achieved; and (f) the Organization's control process fostered quality and continuous improvement.

7. At the conclusion of each assignment, the Office issued a detailed report and made recommendations to management that were designed to help manage risk, maintain effective controls and ensure effective governance within the Secretariat.

MANAGEMENT OF THE OFFICE

8. The Office reports directly to the Director-General and at year's end had a professional staffing resource of nine auditor posts, two evaluator posts, one medical officer post and one Director's post.

9. The priority work of the Office can be performed only within the limits of available resources. High-risk situations involving investigation of irregular activity, which develop unpredictably, may divert such resources away from identified priorities. Accordingly, the Office establishes priorities for scheduled work in order to compensate for any unexpected assignments.

10. The Office incurs such costs as travel, consultants and operating supplies in order to fulfil its terms of reference. During 2004, sufficient funds were allocated to the Office to cover necessary expenses and no work was deferred because of lack of funding.

11. The Office maintains regular contact with the Organization's External Auditor. 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 and evaluation reports.

AUDITS

12. In the opinion of the Office, the results of the audit work undertaken during 2004 indicate that overall, the processes for control, risk management and governance within WHO continue to provide reasonable assurance that significant shortcomings in the achievement of the Organization's objectives would be prevented or disclosed.

13. No limitations were placed on the scope of the work of the Office in the course of conducting its business; nor were there any significant unresolved differences of opinion between the Office and the Organization's senior management in respect of acceptance of residual risk.

14. Major issues and areas of improvement that were identified during the audits undertaken in 2004 are described below, set out under the major groupings outlined in the Office's plan of work.¹

Regional and country offices

15. **Procurement funds and linkages to technical cooperation in the Region of the Americas.** The results of the audit confirmed that the PAHO Revolving Fund for Vaccine Procurement had largely achieved its objectives, was acknowledged as a successful programme, and was considered a

¹ See document EBAC9/3.

major component of technical support to countries. The audit identified several risks to its continued success which require attention, including changes in suppliers affecting drug prices and availability; reorganization of the immunization unit; and availability of new, more expensive vaccines which may require an increase in the level of the Fund. The Regional Revolving Fund for Strategic Public Health Supplies was intended to mirror the success of the PAHO Revolving Fund for Vaccine Procurement, but it has not yet been effective in meeting its objectives. Its expenditure in the biennium 2002-2003 was almost wholly attributable to a purchase of insecticides. The audit identified the need to establish an effective revolving-fund mechanism and to improve links between the Fund and technical inputs.

16. **Public Health and Rehabilitation project for Eritrea.** A performance audit found that although the project is moving towards achieving its objectives, it is behind schedule. The Government of Eritrea and the project's donor both expressed satisfaction with the work, which involves facility construction, provision of equipment and supplies, and a technical component. The audit highlighted the need to augment the technical component and sustainability aspects, to strengthen project monitoring and reporting, and to increase technical support from headquarters. There was also a need for greater understanding of the project's technical component by the direction of the project at headquarters.

17. **Office of the PAHO/WHO Representative, Port-au-Prince.** The audit disclosed weaknesses in financial and administrative controls which pose an unacceptably high degree of risk to both the office of the PAHO/WHO Representative and the project *Programme des Médicaments essentiels*. There was a need to formalize controls over cash movements and fund balances for local-currency bank accounts, and compliance was weak with respect to controls over contracting activities. The project's accounting transactions did not appear to be accurately recorded or reported, and weaknesses in inventory controls called into question the validity of the project's inventory records.

18. **IARC.** A financial audit conducted just after the recent change of the Agency's Director disclosed weaknesses in the control environment, resource mobilization activities, and expenditure controls. The audit further revealed a pattern of contracting irregularities and disregard for regulation with respect to donor agreements, some of which allowed improper access by donors to the Agency's books of account. The present senior management at IARC has demonstrated a commitment to strengthening the control environment and tackling specific control weaknesses.

19. **Office of the WHO Representative, Addis Ababa.** The purpose of the audit was to appraise the managerial processes employed by the office of the WHO Representative, under the principle of results-based management, to demonstrate relevance of country cooperation, efficiency in implementation, effectiveness of results, and adequacy of the country presence. The audit determined that WHO has played a leadership role in many donor and technical groups and that the country cooperation strategy correlates well with the national health plan. However, the audit recommended increased access for direct involvement of WHO with subnational health units, augmentation of country-level resource mobilization, increased financial and technical monitoring of the workplan, and acceleration of support for the "3 by 5" initiative.

20. **Regional Office for the Western Pacific.** An assessment of risk management and controls over the budget and finance functions determined that, in general, the Regional Office had implemented effective processes to mitigate inherent risks. Nevertheless, the handling of extrabudgetary funds should be reviewed in order to ensure that all funds available for programme activities are placed at the technical units' disposal on a timely basis and that specific donor requirements are effectively met. The audit further noted the need for better compliance with policies and procedures related to handling of obligations and statements of expenditure for local-cost activities.

21. **Office of the PAHO/WHO Representative, Guatemala City.** An audit of the functions of budget, finance and administration disclosed weaknesses in two specific areas. There was a notable lack of compliance with controls over contracting activities which has resulted in a situation where obtaining value for money cannot be clearly demonstrated. The audit further disclosed that excessive access rights granted to staff conflicted with proper segregation of duties for major computer systems in use, and that there was no off-site storage of backup data.

22. **Office of the WHO Representative, Colombo.** A performance audit highlighted the need for an increase in WHO's direct involvement with provincial- and district-level health administrative units. Increased support from the regional office and headquarters is needed to foster better acceptance and implementation of the country cooperation strategy. Lastly, better use should be made of the system for monitoring implementation of technical work, and country-level resource mobilization requires attention in terms of policy and operational support from higher levels.

23. **Office of the WHO Representative, Islamabad.** An assessment of the Office's presence in the country determined that the staffing pattern of the office required attention. Additional training was needed on the results-based management framework, and greater use of information technology was recommended to increase office efficiency. Country-level resource mobilization required greater support from higher levels, and more effective self-evaluation as part of the mid-term and end of biennium reviews was needed in order to analyse unimplemented activities and identify lessons learnt. Analysis of data, however, showed evidence of an improvement in monitoring and financial implementation of activities during the last two bienniums.

Headquarters

24. **Department of Essential Drugs and Medicines Policy.** A performance audit disclosed that the results of the work of the Department have moved drug selection onto a basis that is more rational, efficient, and evidence-based. Nevertheless, further work is required to address the delayed progress of the prequalification process for critical drugs, intradepartmental communications, and the need to focus on improving drug supply at the local level in a feasible number of strategic, priority countries.

25. **Concessions at headquarters.** The audit disclosed that controls related to, and compliance with, contractual provisions over concession revenue at headquarters should be strengthened significantly. Concessionaires did not always comply with contract provisions and the absence of effective follow-up by WHO contributed to uncollected revenues valued at US\$ 160 000. The audit further identified a transaction dating to 2000 where a series of structural modifications to the cafeteria, financed by way of an interest-bearing loan of CHF 1 200 000 (US\$ 937 500) to the Organization, had not been recorded in the accounts nor had the contract been approved by the Contract Review Committee.

26. **Telephone expenses at headquarters.** The results of the audit disclosed that controls were either nonexistent or ineffective for major risk areas connected with telephone-call expense at headquarters. The audit determined that there were no effective controls to mitigate risks associated with reimbursement of personal telephone calls, and actual cases of significant nonreimbursement were identified. The review also noted the lack of supervisory review of telephone-call activity and ineffective procedures for recovery of mobile telephones at the time of separation of the staff member. Further, there is lack of clarity with respect to the reimbursement of personal telephone calls made to the local area, and the physical access control over desktop telephones was not enforced. The mechanics exist to control effectively telephone call expenses at headquarters, but policies, procedures

and implementation of controls were unsatisfactory, resulting in a missed opportunity to manage effectively the cost of telephone calls at headquarters.

27. **Printing services at headquarters.** The audit found that although external printing costs increased and in-house printing activity decreased during the past two bienniums, there was insufficient management information available to determine whether the trend is cost efficient. The audit noted a lack of competition in the award of printing contracts and found that the prequalification of external printers lacked transparency and full involvement of the regional offices. Further, some technical departments, management support units and printing services do not always comply with procedural controls, which increases the risk of publications not meeting WHO publishing standards. Nevertheless, client departments reported general satisfaction with the outcome of printing services, but expressed some concerns over efficiency and timeliness.

28. **UNICEF/UNDP/WORLD BANK/WHO Special Programme for Research and Training in Tropical Diseases.** The audit assessed the Programme's management of risk related to its administrative, budget and financial activities and determined that reasonable measures had been implemented to mitigate major inherent risks. However, the report noted the need to review the Programme's resource mobilization strategy, to address the closure of older projects, and to ensure effective compliance with rules, regulations and operating procedures of WHO. The report also recommended that the Programme should critically examine its systems in light of the development of the global management system project.

29. **Secretariats of UNAIDS and the United Nations System Standing Committee on Nutrition.** During 2004, the Office conducted audits of the UNAIDS Secretariat and the secretariat of the United Nations System Standing Committee on Nutrition. The results of the audits, together with recommendations, have been communicated to the bodies' Executive Director and Secretary, respectively.

EVALUATIONS

30. **Evaluation of the WHO fellowship programme.** The evaluation assessed the contribution of fellowships towards developing sustainable national capacities in the area of health and human resources and provided insight into the outcomes of the fellowship programme. The evaluation determined that the decentralization of the fellowship programme and the withdrawal of headquarters to a coordination role have led to different practices and generation of inconsistent data within the Organization. Although the evaluation noted an improved programmatic integration of fellowships as a training mechanism, objectivity in the selection of candidates is uncertain, evaluation of the results of individual fellowships is weak, and the utilization of fellows on their return receives insufficient attention. The evaluation concluded that WHO should undertake a systematic review at each level, and integrate fellowships better into an overall health and human resources perspective, as opposed to a stand-alone programme.

31. **Pilot country evaluations.** Country evaluations, conducted as pilots, were carried out in the offices of WHO Representatives in Mongolia, Myanmar and Uganda. The results of this work are expected to help to identify the issues that WHO needs to address in order to improve its performance at country level in the current changing environment.

32. The three country offices were using the country cooperation strategy as guidance for collaborative programmes, for advocacy purposes with stakeholders, and as background material for

planning. However, the strategy had been formally approved by headquarters in only one of the three countries. In future, the regional offices will be responsible for the approval of national strategies.

33. The impact of the strategy on the reorientation of collaborative country programmes varied. For example, in two countries there was general alignment of the operational workplan with the priority areas identified in the strategy. However, in the third country, where the number of stakeholders supporting the health sector is limited, the workplan was not fully aligned with the strategy. Because of the length of the planning cycle, the real effect of the strategy on operational planning will be fully reflected only in the biennium 2006-2007.

34. The evaluations determined that WHO is seen by stakeholders as effective in dealing with specific health issues and very efficient in the delivery of certain technical programmes. Such areas include those targeting specific diseases, strengthening of disease surveillance and response, and the management of health services. On the contrary, WHO is considered less effective by stakeholders in advising on broad health-sector issues such as development of human resources or reform of health-sector financing.

35. The evaluations identified the necessity for regional and global levels to tailor better their technical support to the needs identified in the strategy. Administrative support systems at these levels also need to be more responsive, including accelerating the recruitment process and improving the system to monitor financial and programmatic activity.

36. Although there has been no increase in the real level of regular budget allocations to country offices in the recent past, the level of extrabudgetary resources has grown considerably. The extrabudgetary resources are earmarked largely for programmes aimed at limiting excess disease morbidity and mortality of vulnerable populations. The implications of increased reliance on extrabudgetary financing on maintaining a balanced, forward-looking, strengthened country presence will require further study.

INVESTIGATIONS

37. The volume of investigative activity during 2004 decreased in comparison with the previous year. Certain follow-up work continues on cases from 2003; however, only two new cases arose during 2004.

38. **A WHO Representative's Office.** A WHO Representative allegedly (i) made threatening comments to other staff; (ii) regularly used an official vehicle for private purposes; (iii) purchased airline tickets at a class of travel above the entitlement; and (iv) failed to reimburse the Organization for private telephone calls. The Regional Director accepted the Representative's resignation while the disciplinary review is under way. Any indebtedness to WHO will be recovered as part of the staff member's separation.

39. **A WHO centre.** An administrative staff member allegedly misappropriated funds through a variety of means, including diverting funds destined to reimburse travel costs or to pay unused leave. The staff member allegedly gained more than US\$ 31 000. A disciplinary review is under way and the matter has been referred to the judicial system of the host country.

40. **A WHO Representative's Office.** A disciplinary review following a previously reported investigation disclosed weaknesses in the Organization's handling of fraud cases outside

headquarters.¹ Responsibilities between headquarters and the regional offices are not clearly established and, in this instance, the situation was further complicated by a lack of involvement of senior administrative staff in the Regional Office. The case further highlighted the lack of basic competencies of administrative staff in the Regional Office which are needed to handle effectively disciplinary cases after a fraud investigation. The Office has recommended that the policies and procedures regarding disciplinary reviews should be strengthened through centralization of case-handling and decision-making authority.

FOLLOW-UP AND IMPLEMENTATION

41. The Office monitors the implementation of all its recommendations and verifies the reported implementation during subsequent audit visits. Although the Office is generally satisfied with the overall disposition of significant audit recommendations, there is a growing backlog of audit recommendations for which there is no reported implementation. The Annex to this document contains the status of reports issued during 2004 and includes information on closure.

42. All reports issued before 2004 have been cleared, except as mentioned below. In some of these areas the topics are complex and implementation efforts may take time to complete.

43. **Pharmaceutical procurement.** The majority of the recommendations from this audit, which were issued in May 2001 to General Management, have been implemented. However, certain recommendations involving prequalification of procurement agents and preselection of suppliers have not yet been effectively implemented.

44. **Administrative services agreement between WHO and the Global Fund to Fight AIDS, Tuberculosis and Malaria.** The audit report, issued in June 2003, discussed the difficulty WHO faces in facilitating the work of the Fund while remaining a responsible and transparent entity. No response has been received.

45. **Regional Office for Africa.** The audit report, issued in October 2003, discussed flaws in the Office's handling of the expenditure cycle which represents a serious financial risk to the Organization. The Regional Office issued a response to the audit; it failed, however, to address in substance all the major issues raised in the report. Subsequently, an external consulting firm completed a review to determine the optimal manner for provision of financial services for the Region and made a number of recommendations for improvement. However, implementation is stalled at present. This audit will remain open until substantive progress is made on all the issues raised in the report.

46. **Regional Office for the Eastern Mediterranean.** The audit report, issued in February 2004, discussed managerial issues for selected areas of work within the Division of Communicable Disease Control. No response has been received.

¹ See document A57/19, paragraph 29.

ACTION BY THE HEALTH ASSEMBLY

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

ANNEX

2004 AUDIT, INVESTIGATION AND EVALUATION REPORTS AND STATUS

Report title	Report date	Closure date	Comments
AUDITS			
WHO Centre for Health Development, Kobe, Japan	12.03.04		A response has been received and is currently under study. Reportedly, major risk areas have been corrected.
Agreements for Performance of Work at the Regional Office for Europe	21.05.04	26.08.04	
Procurement funds and linkages to technical cooperation in the Americas	04.06.04		
Programme funding agreements - UNAIDS	21.06.04		
Department of Essential Drugs and Medicines Policy	25.08.04		
Public Health and Rehabilitation project for Eritrea	08.09.04		
IARC	17.08.04		An interim response which addresses most substantive issues has been received. A final response and closure is expected in the near term.
Concessions at headquarters	14.07.04		An interim response states that responsibilities have been clarified for financial management of infrastructure contracts and accounting entries have been made to record the interest-bearing loan in the accounts.
Office of the PAHO/WHO Representative, Port-au-Prince	29.07.04		A response has been received that effectively addresses the substantive points raised. Clarification is awaited on several issues.
Office of the WHO Representative, Addis Ababa	28.07.04		
Regional Office for Europe - Division of Country Support, European Centre for Integrated Health Care Services	16.08.04		

Report title	Report date	Closure date	Comments
Regional Office for the Western Pacific	28.10.04		
Office of the PAHO/WHO Representative, Guatemala City	08.11.04		
Printing at headquarters	13.12.04		
Secretariat to the United Nations System Standing Committee on Nutrition	17.11.04		
Telephone expenses at headquarters	19.01.05		
Office of the WHO Representative, Colombo	04.03.05		
UNICEF/UNDP/World Bank/WHO Special Programme for Research and Training in Tropical Diseases	09.03.05		
Office of the WHO Representative, Islamabad	In draft		
INVESTIGATIONS			
Investigation at a WHO Representative Office	24.06.04		<i>Sub judice</i>
Investigation at a WHO Centre	26.07.04		<i>Sub judice</i>
EVALUATIONS			
Evaluation of the WHO Fellowship Programme	22.12.04		
Country Evaluation Report – WHO, Mongolia	24.12.04		
Country Evaluation Report – WHO, Myanmar	24.12.04		
Country Evaluation Report – WHO, Uganda	24.12.04		