



# **WORLD HEALTH ORGANIZATION**

**FIFTY-EIGHTH WORLD HEALTH ASSEMBLY**  
**Provisional agenda item 17.2**

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## **Interim report of the External Auditor**

The Director-General has the honour to transmit herewith to the Fifty-eighth World Health Assembly the interim report of the External Auditor on the World Health Organization for the financial period 2004-2005 (Annex).



## ANNEX

**INTERIM REPORT OF THE EXTERNAL AUDITOR TO THE FIFTY-EIGHTH  
WORLD HEALTH ASSEMBLY: AUDIT OF THE WORLD HEALTH  
ORGANIZATION FOR THE FINANCIAL PERIOD 2004-2005****INTRODUCTION**

1. The audit of the World Health Organization (WHO) was assigned to the Comptroller and Auditor-General of India for the financial periods 2004-2005 and 2006-2007, in terms of resolution WHA56.8 of the Fifty-sixth World Health Assembly.
2. A practice of reporting in the interim period had been introduced in 1997 by the previous External Auditor, the Auditor-General of the Republic of South Africa. I propose to continue the practice, which enables me to inform the World Health Assembly of the significant findings arising from the external audit on a timely basis.
3. I am pleased to report that a constructive working relationship has been established with the Secretariat and that I have received an excellent level of cooperation in the first year of the audit assignment. Effective coordination has also been established with the Office of Internal Oversight Services in order to avoid duplication or overlapping of activities. Reliance will continue to be placed on the work performed by internal audit to the extent it relates to the audit objectives of the external audit process.
4. The scope of the audit is in accordance with Regulation XIV of the Financial Regulations and the Additional Terms of Reference Governing the External Audit appended thereto. In accordance with these terms of reference, the auditor shall express an opinion on the financial statements for the financial period and report on the financial operations and various other matters set out therein.
5. The audit is conducted in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency.
6. The audit procedures that were carried out to date were not performed with the intention of expressing an audit opinion on the interim financial statements that are included in the Unaudited Interim Financial Report for the year 2004.
7. In the first year of the audit assignment and following a comprehensive planning process, audits were performed in the regional offices for Africa (AFRO), the Western Pacific (WPRO) and the Eastern Mediterranean (EMRO), in addition to two country offices. Increasing decentralization and the consequent need for enhanced accountability were factors that were borne in mind while planning these audits. In addition, an audit was performed at headquarters in the interim period. Certain matters, which have been previously reported to the Health Assembly, have also been followed up. In the remaining part of the financial period, audit visits will be undertaken to other regional and country offices, in addition to management reviews on some aspects of the Organization's working.

8. The findings arising from the audits performed so far have been conveyed to the relevant managements through management letters. The results of these audits, appropriately aggregated, have been taken into consideration while framing this report.

## FINANCIAL MATTERS

9. As of 31 December 2004, out of the total budgeted contribution of US\$ 431.55 million, a sum of US\$ 388.24 million had been collected. This represents a rate of collection of 90%, which was the same as at 31 December 2003.

10. The Organization continues to receive a significant level of extrabudgetary funding. In 2004, the total amount received for WHO programme activities was US\$ 817 million.

11. The Fifty-seventh World Health Assembly decided<sup>1</sup> to request the Director-General to draw up, in consultation with Member States and regions, guiding principles, based on objective criteria, to be applied in the allocation of funds from all sources, taking into account equity, efficiency and performance, and support to countries in greatest need, in particular least developed countries, which would be considered by the Executive Board at its 115th session.

12. It is noted that the Secretariat has developed draft guiding principles to support the strategic allocation of resources across the Organization. These draft guiding principles envisage, inter alia, the strategic allocation of resources to be driven by results-based budgeting, with expected results being first determined and budgets being prepared in a bottom-up manner to deliver those expected results. The budget would encompass all WHO's financial resources, and resource requirements would be considered in an integrated manner, including income from all sources of funding. The draft guiding principles were considered by the Executive Board and it was decided that the Secretariat should continue the consultative process with Member States and that a new draft be submitted to the Executive Board at its 116th session.

## ALLOTMENT AND EXPENDITURE CONTROL

13. Allotment and expenditure control is an integral component of financial discipline. In terms of the Financial Rules of the Organization, obligations are to be raised only for the purpose indicated and up to the amount indicated in the allotments. The designated officials to whom allotments are made available are accountable for the correct use of the resources made available.

14. However, cases were noticed where allotments were exceeded, giving rise to red balances. A greater degree of coordination between the allotment holders and the budget and finance staff may help to obviate the possibility of such instances arising and would enhance expenditure control.

15. A related issue is the framing of accurate estimates which would ensure that allotments reflect actual requirements. It was noticed in AFRO that there were instances of salaries and common services costs being underestimated, resulting in allocations being exceeded. While this was expected to be resolved through reprogramming at the end of the first year of the biennium viz 2004, covering

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<sup>1</sup> Decision WHA57(10).

these underestimated costs would require the use of funds available in 2005, which could have implications on other activities already planned for the remaining portion of the financial period.

16. I *recommend* that the Organization enhance coordination between allotment holders and the budget and finance staff to ensure that allotments are respected and the possibility of red balances arising minimized. A close scrutiny of estimates will also assist in ensuring that estimates reflect actual requirements.

## UNLIQUIDATED OBLIGATIONS

17. Obligations are commitments or undertakings that create liabilities against the resources of the Organization. An unliquidated obligation is that part of an obligation that has not yet been disbursed and represents an outstanding liability. Specific procedures exist for the treatment of unliquidated obligations, created from the regular budget and from extrabudgetary funds.

18. Periodic and thorough review of unliquidated obligations is essential to ensure that these obligations are still required to be maintained. In the audits performed so far, cases were noticed where the last disbursement against certain obligations had been made in the year 2002, while in some cases there had been no disbursement since their creation in 2002. Enhanced monitoring of the status of these obligations, including by the allotment holders is *recommended* in order to review whether such obligations still require to be maintained.

## IMPREST ACCOUNTS

19. Country offices are required to send monthly statements of imprest accounts to the regional offices in terms of a prescribed time-schedule. The control records also stipulate the submission of supporting documentation. Instances of the monthly statements being received late or without the required supporting documentation were noticed during the audits performed. It was also noticed that, in some cases, the ceilings prescribed for imprests at headquarters required review keeping in view the trend of actual expenditure.

## STAFF ADVANCES

20. Travel advances are required to be recovered from salaries of staff members in case claims are not submitted within thirty days of the completion of each trip. The audits performed brought out many cases of outstanding travel advances. Travel claims had neither been submitted nor were the advances recovered. In some cases, the advances pertained to short-term consultants. At headquarters, complete information regarding travel advances granted prior to 15 October 2004 was not available. It is recognized that efforts are already being made to review these cases with a view to their final settlement. I *recommend* that the Organization continue its efforts to review and expeditiously settle such outstanding advances.

21. The period of repayment of salary advances should not be more than three months from the date of granting such advance. Cases were noticed where salary advances had been outstanding for periods exceeding six months and were yet to be recovered. Periodic review of such advances is *recommended* to ensure compliance with the stipulated procedure.

## BUDGET AND FINANCE UNIT IN THE REGIONAL OFFICE FOR AFRICA

22. The operating environment of the Regional Office for Africa is complex and the division of its operations between Brazzaville and Harare is a factor contributing to this complexity. The Report of the External Auditor for the financial period 2002-2003 had also pointed out that difficulties were being experienced with operating the budget control and financial accounting system in two locations.

23. Actions were initiated by the regional management and by headquarters in the year 2004 to address this issue. An external consulting firm was engaged to review the budget and finance functions and to reengineer existing processes. The terms of reference, *inter alia*, included reviewing the structure of the budget and finance unit and its operations; policies and procedures for budget planning; implementation and monitoring at regional and country levels; policies and procedures for expenditure accounting; internal control systems on financial procedures etc.

24. The recommendations of the external consulting firm were examined in the African Region. After analysis and keeping in view their requirements, a final course of action was suggested to senior management. Implementation of key recommendations would require a revised organizational structure, with staff implications. Meanwhile, a significant change has occurred with the leadership of the Region having been assumed by the new Regional Director. The further course of action would now have to be decided and implemented. Given that considerable work has already been done in the last year by the Region, I *recommend* that a time-bound plan of action be implemented so as to give effect to the changes being proposed.

## PROGRAMME MANAGEMENT

25. A results-based management approach is being implemented by the Organization, with the programme budget based on specific objectives, strategies and Organization-wide expected results, including office-specific expected results.

26. An integrated approach has been followed with respect to the sources of funding, in that the objectives and expected results are defined irrespective of whether the funds are from the regular budget or other sources. The allocation of funds at three levels, headquarters, regions and countries is also depicted in the programme budget for the biennium.

27. It is noted that the Secretariat has made available a performance assessment report in final form, for the biennium 2002-2003, to the Executive Board at its 115th session in January 2005. The report identifies specific lessons that have been derived from the experience of implementing results-based budgeting. The Secretariat has recognized that it is imperative that actual resource allocation at the three levels of the Organization is consistent with the resource requirement for achieving the contribution of regional and country offices to Organization-wide expected results. The report also acknowledges certain issues like weak baseline data, quality of indicators chosen, framing of some expected results in a highly abstract manner making it difficult to provide sufficient guidance for developing workplans or assessing the success of the Organization's efforts. The efforts being made by the Secretariat to address these issues are *supported*.

28. The audits performed also point to the need for improved definition of indicators and milestones as also setting of target dates.

29. There is scope for further improvement in the use of the Activity Management System (AMS), which is the application for programme planning, implementation and monitoring being used in the Organization. It was also noticed, in some cases, that capacity building in the use of AMS may be required at country office level. In AFRO, it was noticed that the link between the AMS and the Regional Office Administration and Finance System was not functioning optimally.

30. Reprogramming affords a degree of flexibility to programme managers in effecting timely mid-course corrections. Its optimal utilization will enhance operational planning practices. Instances were noticed of frequent reprogramming requests being made. While they were often required by circumstantial developments beyond the control of the Organization, it is necessary to identify avoidable factors that lead to reprogramming.

## STAFF MATTERS

31. In terms of the existing procedure, the offer of appointment and the letter of acceptance constitute the contract of employment. In reviews conducted of short-term contracts, it was noticed that in some cases, contracts relating to short-term staff had not been signed before the commencement of the employment. As this could have possible legal implications, it is *recommended* that all prescribed formalities be completed before the commencement of employment.

32. The Staff Rules provide for evaluation of staff members at least once a year. The Performance Management Development System (PMDS) is a three-stage process whereby workplans, based on individual objectives had to be recorded, followed by a mid-term review and a year end review. The audits performed noticed many instances where appraisals of staff members for the year 2003 were yet to be completed. In other cases, the mid-term review for 2004 had also not been completed. Given the importance of appraisal and development of staff, it is *recommended* that the timely completion of the appraisal process be reiterated. It is also noted that a revised version of the PMDS has been prepared and is to be implemented in stages starting from January 2005.

## FELLOWSHIPS

33. The WHO Manual defines a WHO Fellowship as “a significant component of human resource development, encompasses a range of specific learning objectives, corresponding to approved health and health-related plans, policies and priorities, and aiming at relevant impact in the context of national capacity building.”

34. The submission of specified termination and utilization reports by fellows and national health administrations is an integral part of the reporting system envisaged in the WHO Manual. Fellows are required to continue in or place their services at the disposal of the national health administrations for specified minimum periods that are related to the duration of the fellowship granted. The timely submission of Utilization of Fellows' Services reports would help in assessing whether their services are being utilized in the envisaged manner, especially in the context of national capacity building.

35. Instances were noticed where the required reports were not submitted within the stipulated timeframes. Reminders are also required to be sent to fellows and national governments. In some instances, it was noticed that such follow-up action required to be strengthened. It is *recommended* that efforts be continued to obtain the required termination and utilization of services reports as stipulated in the existing procedures.

36. The Office of Internal Oversight Services carried out an Organization-wide thematic evaluation of the Fellowship Programme in 2004, which included a review of the practices followed in all regional offices. The overall conclusion drawn in the evaluation was that it would be appropriate to place the Fellowship Programme in the human resource for health perspective. The evaluation report is now under the consideration of the Secretariat.

## LOCAL COST SUBSIDIES

37. The WHO Manual defines local cost subsidies as payments made by the Organization to cover the cost of items that would otherwise be borne by governments, in order to strengthen their health development capacity and ability to participate more effectively in, or to meet their commitments to, WHO technical cooperation at country level.

38. Funds for local cost activities are usually provided by way of advances to the respective government. A formal agreement, which includes costing details and specifies the categories of expenditure to be incurred, supports such funding. Financial reports, on the expenditure incurred, are required to be submitted by the concerned governments to the responsible WHO official who subsequently certifies that the expenditure incurred was in conformity with the objectives indicated in the agreement and that the expenditure was included in the items listed in the agreement. This is part of the envisaged accountability process.

39. As mentioned in the Financial Report for 2002-2003, local cost subsidies, as a category of expenditure, accounted for 13.7% of total expenditure incurred from all sources of funds. This, therefore, constitutes a significant component of expenditure and it is essential to monitor the proper use of funds made available for local cost activities.

40. Instances continued to be noticed where the stipulated financial returns were not being received from the concerned governments, as was also mentioned in previous reports of the External Auditor. The financial returns would help in assessing whether the activities and expenditures thereon were in conformity with the related programme objectives.

41. The Secretariat had established a working group in the year 2001 to review the existing policy and procedures in relation to the issue of local cost subsidies. Work on this has continued for some time and the Secretariat has indicated that a framework has been developed to streamline accountability for financial support to governments, placing emphasis on achievement of results. The revised policy aims to narrow the scope of local costs and focus allowable expenditures on local capacity building. The Secretariat has also indicated that the revised policy, laying down the revised principles for funding support to countries is expected to be issued shortly. While the emphasis on achievement of results is appreciated, given the results-based management framework, I *recommend* that adequate safeguards be provided so that accountability for the use of resources is also ensured.

## NON-EXPENDABLE EQUIPMENT

42. According to the United Nations System Accounting Standards (UNSAS), the costs of non-expendable equipment should be charged to expenditure or expensed in the period of acquisition. The total value is to be disclosed, along with the method of valuation, by way of a note to the financial statements at the end of the financial period. The Financial Rules also prescribe that an asset management system shall be maintained for property, other than capitalized assets.



43. The question of maintenance of updated and complete inventory records had been discussed in previous reports of the External Auditor. Instances of incomplete or inaccurately maintained inventory records continued to be noticed in the audits that were performed. In some cases the records had not been updated with details of all acquisitions and disposals, values of items had not always been recorded or did not contain sufficient information like the serial number and purchase dates. In some cases, items that had already been approved for disposal continued to be reflected in the inventory records. Archiving of details of items deleted from the inventory records could serve as a control to ensure that only those items, which have been disposed of after securing the required approvals, are deleted from the inventory records.

44. In some instances, the inventory counts conducted did not contain the dates of verification and the signatures of the person who performed or reviewed the inventory count.

45. The inventory of non-project equipment in the offices of the WHO Representatives is required to be kept in the regional office. In the Regional Office for Africa, information related to the country offices had been lost in a system crash in the year 2001. The records were recreated in 2003 and sent to the country offices for confirmation and updating. The records for 46 countries were not complete and the available data for 10 countries was yet to be recorded in the system. The bar-coding system was yet to be used at Harare.

46. It is also noted that the inventory count at headquarters, which had not been conducted during the financial period 2002-2003, is in progress and is expected to be completed by June 2005.

47. It is recognized that the Secretariat has reviewed the current provisions in the WHO Manual relating to the custody and disposal of inventories. A revised version of the relevant chapter of the Manual, which is effective from 1 January 2005, has been circulated across the Organization and is expected to be refined in the light of the experience gained. The Global Management System is expected to contain an integrated asset management module. While this may be rolled out subsequently, I *recommend* that it would be prudent to first establish a consistent and complete set of records of inventories, as has been envisaged in the revised version of the Manual. This would facilitate the subsequent transition to the contemplated asset management module in the Global Management System.

## CONTRACTS FOR SERVICES

48. Contracts for miscellaneous short-term or technical services with firms or individuals are formalized through the instrument of an Agreement for Performance of Work. The WHO Manual specifies the procedures to be followed while concluding an Agreement for Performance of Work.

49. For contracts of value of US\$ 15 000 and above, adjudication reports are required, which in a substantive and detailed manner, are to demonstrate the objectivity and fairness of the process undertaken to select the contractual partner. Detailed guidelines on adjudication reports were also issued by the Secretariat in November 2003. Costing details are also required to be furnished while processing such contracts for services.

50. Instances were noticed where neither costing details were submitted nor adjudication reports prepared, though the contractual value exceeded US\$ 15 000. There were also cases where advance payments were made in excess of the limits stipulated. In some cases the contractual partners had not signed the agreements, while in yet other cases the agreements were signed by the contractual partners

after the dates of commencement of the contracts. This can pose potential risks since such contracts represent legal obligations. In some cases, all prescribed internal approvals had not been obtained. I *recommend* that compliance with the existing instructions relating to such contracts be strictly enforced to ensure transparency and objectivity of the selection process. The formalities associated with the process must be completed before entering into contracts.

## KNOWLEDGE MANAGEMENT

51. WHO is a knowledge-based organization and it is essential that its knowledge assets are systematically managed for them to be shared by internal and external users. Knowledge management had earlier been identified as an institutional priority by the Organization.

52. A department for Knowledge Management and Sharing was established in 2004 within the Evidence and Information for Policy cluster. The mission of the department aims at bridging the “know-do” gap by, inter alia, fostering a knowledge management culture within the Organization and in the field of public health; creating an environment that encourages the sharing and effective application of knowledge to improve health outcomes in member-states; developing useful knowledge management tools and effective practices in health systems and building capabilities in developing countries for more effective dissemination of health and health systems knowledge.

53. In order to realize its objectives and mission, it is essential for the department to develop an underlying strategy. The strategy development process is currently ongoing and it is targeted to issue the final strategy document by May 2005.

## POLICIES AND PROCEDURES

54. The report of the External Auditor for the financial period 2002-2003 had highlighted certain areas where the development of specific and formalized policies and procedures could be fruitfully attempted. These included the areas of risk management, a fraud prevention policy, a code of ethics and conduct, a consolidated and comprehensive framework for delegation of authority and an environmental policy.

55. The Secretariat has stated that it has taken steps to increase focus on risk management within the areas of Oversight, Security Coordination and Treasury and that WHO intends to further address this issue during the current biennium, with a view to develop a comprehensive enterprise-wide risk management policy and strategy.

56. A document on fraud prevention policy has also been developed, supported by specific guidelines for managers and the offices of WHO Representatives and Liaison Officers, which is expected to be issued shortly.

57. Work on developing a comprehensive ethics policy as also the framework on the delegation of authority is currently under way.

58. The Secretariat has also indicated that a draft environmental policy has been drafted and that it is now undergoing technical review. Once finalized, it would be submitted to the Director-General for

endorsement Organization-wide. Thereafter, an environmental management system would be developed by each location, taking into account local conditions and legislation.

59. It is also noted that the WHO Manual, outlining financial and administrative procedures of the Organization, is being revised with the intention of developing a new e-Manual. The suggested structure of the revised Manual has been circulated in December 2004. Once feedback is received, the next phase of rewriting the Manual and placing it on a user-friendly web site will commence. Close monitoring would be required in order to ensure that the task is completed at the earliest.

60. The efforts being made by the Secretariat to address these issues are encouraging and I *recommend* that these policies be finalized and formalized at the earliest.

## ACKNOWLEDGEMENT

61. I wish to record my appreciation for the co-operation and assistance extended by the Director-General, the Regional Directors and the staff of the World Health Organization during my audits.



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