



**World Health  
Organization**

**SIXTY-SIXTH WORLD HEALTH ASSEMBLY**  
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## **Report of the External Auditor**

The Director-General has the honour to transmit to the Sixty-sixth World Health Assembly the report of the External Auditor on the financial operations of the World Health Organization for the financial year ended 31 December 2012 (see Annex).



ANNEX



**REPORT OF THE EXTERNAL AUDITOR  
TO THE SIXTY-SIXTH WORLD HEALTH ASSEMBLY  
ON THE FINANCIAL OPERATIONS OF  
THE WORLD HEALTH ORGANIZATION  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

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## EXECUTIVE SUMMARY

### Introduction

1. This Report of the External Auditor on the audit of the financial statements and operations of the World Health Organization (WHO) is issued pursuant to Regulation XIV of the Financial Regulations of WHO and is presented to the Sixty-sixth World Health Assembly.

2. This is the first long-form report to the World Health Assembly by the Chairperson of the Commission on Audit of the Republic of the Philippines who was elected by the Sixty-fourth World Health Assembly as the External Auditor of WHO for the financial periods 2012-2015. The terms of reference are contained in the engagement letter signed between the Chairperson and the Director-General on 27 March 2012.

3. We wish to record our appreciation and thanks to the Member States, first, for giving the Philippines the opportunity of serving as External Auditor of WHO and second, for their strong support during this assignment. We wish also to thank the Secretariat for their cooperation and assistance to the External Auditor during the performance of its mandate

### Audit Scope and Objective

4. The scope of our audit is defined in Regulation XIV of the Financial Regulations and the Additional Terms of Reference Governing the External Audit appended thereto, and in the engagement letter. Our audit focused on the review of financial statements, the compliance with regulations and rules, and the review of selected management and governance areas.

5. The objective of the audit is to provide independent assurance to Member States, to add value to the Organization's financial management and governance, and to support the objectives of the Organization's work through the external audit process.

6. During the financial year 2012, we audited the Headquarters (HQ), Global Service Centre (GSC), two regional offices (RO) namely, the Western Pacific Regional Office (WPRO), the Regional Office for Africa (AFRO), and two country offices (CO), the Philippines and Ghana. In addition, we visited the United Nations Humanitarian Response Depot (UNHRD) in Dubai, United Arab Emirates to confirm inventory items.

7. In addition to the audit of WHO, we also audited the financial accounts of six non-consolidated entities, namely: the African Programme for Onchocerciasis Control (APOC); the Trust Fund for the Joint United Nations Programme on HIV/AIDS (UNAIDS); the United Nations International Computing Centre (ICC); the International Agency for Research in Cancer (IARC); the International Drug Purchase Facility (UNITAID); and Staff Health Insurance Fund (SHI). We rendered separate Independent Auditor's Report on the financial statements of these entities.

8. This is the first year of implementation of the International Public Sector Accounting Standards (IPSAS) in WHO, and our audit resources were focused primarily on the review of its implementation to enable Management to prepare IPSAS-compliant financial statements.

## Overall Result of the Audit

9. We audited the financial statements of WHO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

10. Our audit of the financial statements revealed findings requiring adjustments which were accordingly done by Management. After effecting the audit adjustments required for initial IPSAS implementation, no material weaknesses or errors were further noted that affected the accuracy, completeness and validity of the financial statements as a whole. As such, we issued an unqualified audit opinion on the Organization's financial statements for the financial year ended 31 December 2012. We are of the opinion that the financial statements present fairly, in all material respects, the financial position of WHO for the financial year ended 31 December 2012, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS.

11. We have detailed in this Long-form Report the financial and governance matters that we believe should be brought to the attention of the World Health Assembly. We have recommended to Management value-adding measures to improve the financial management and governance in WHO.

## Summary of Recommendations

12. The following audit recommendations which are discussed in detail in this report are provided to Management to further improve its financial management and governance:

- a. **Include specific operating standards in the area of logistics in the WHO Emergency Response Framework for accountability in managing the inventory resources including the risks involved in specific arrangements with suppliers and donors (para. 64.a)**
- b. **Design strategies in stockpile deployment that maintain a balance among *No Regrets Policy*, the expectations of stakeholders and the optimal inventory management to avoid occurrence of expired medicines (para. 64.b)**
- c. **Develop one global inventory management system that is integrated with the GSM (para. 76)**
- d. **Formalize through a written policy the adoption of the preferred and most optimal ERM Framework applicable to WHO for a holistic approach to risk management (para. 87.a)**
- e. **Adopt a more structured approach to SOP Development (para. 97)**
- f. **Ensure that Expected Results at all levels of the Organization are stated as intended outcomes or improvements over a baseline situation with relevant indicators to adequately measure their attainment (para. 115.a)**
- g. **Review the existing Results-based Management (RBM) Framework to ensure compliance with RBM principles (para. 115.b)**
- h. **Undertake workplan monitoring in GSM regularly (para. 124)**

- i. Conduct concrete assessment of the needs of the technical departments in the WHO programme management process (para. 137)
- j. Ensure that the implementation of the Human Resource strategies/initiatives undergo a structured implementation planning process (para. 142)
- k. Develop a harmonized recruitment policy and recruitment processes based on competency approach for global implementation (para. 146)
- l. Evaluate the effectiveness of the recruitment strategy and its relevance to the prevailing situation in WHO in sustaining gender equity and equitable geographical representation (para. 157)
- m. Strengthen the monitoring of PMDS compliance by all major offices to ensure that all staff are properly evaluated (para. 162)
- n. Improve the financial and administrative controls on imprest accounts, DFC activities, awards-in-kind, inventory and asset management, and procurement including service contracts in AFRO. Also, ensure the reliability and accuracy of the reported progress of programme accomplishments (para. 171).
- o. Enhance further the controls and processes on DFC, donor reporting, asset management, and procurement of service contracts in WPRO (para. 177)
- p. Improve the financial and administrative controls on asset management, contracting services, awards, duty travels and DFC activities in WHO Country Office Ghana. Also, provide indicators, baselines and targets in some Country Specific Expected Results for ease in measuring the expected results under the Results-based Management (para. 183)
- q. Improve the financial and administrative controls on imprest accounts, DFC activities, asset management, awards-in-kind, SSAs and procurement in WHO Country Office Philippines. Also, expedite the implementation of planned activities to achieve desired outputs (para. 190)

13. Other recommendations are presented in paragraphs 29, 39, 44, 47, 48, 53, 87.b and 97.b. We encourage Management to implement the foregoing recommendations.

#### **A. Mandate, Scope and Methodology**

14. The External Auditor has audited the financial statements of WHO for the financial year ended 31 December 2012 in accordance with Regulation XIV of the WHO Financial Regulations.

15. The Risk-based Audit Approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessments of material misstatements at the financial statements and assertions levels based on an appropriate understanding of the entity and its environment including internal control.

16. Our audit was conducted in conformity with Financial Regulations 14.1 to 14.9 of WHO, and the additional Terms of Reference governing External Audit which was appended to said Financial Regulations and the International Standards on Auditing. Those standards require that the External

Auditor comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

17. The audit was conducted primarily to enable the External Auditor to form an opinion as to whether the financial statements presented fairly the financial position of WHO as at 31 December 2012, the results of its financial performance, changes in net assets/equity, cash flows, and comparison of actual amounts and budget for the financial year ended 31 December 2012 in accordance with IPSAS. This included an assessment as to whether the expenditures recorded in the financial statements were incurred for the purposes approved by the Governing Body, and whether income and expenditures were properly classified and recorded in accordance with the WHO Financial Regulations. Our audit included a general review of financial systems and internal controls, and a test examination of the accounting records and other supporting evidence to the extent that the External Auditor considered necessary to form an opinion on the financial statements.

18. Our audit included examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. It also included the assessment of the accounting principles used and the significant estimates made by the Organization as well as the overall presentation of the financial statements.

19. We also carried out a review of WHO operations under Financial Regulation XIV which required the External Auditor to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of WHO operations. These matters are addressed in the relevant sections of this report.

20. This report does not include any comments on the Pan American Health Organization which is being audited by another External Auditor. We placed reliance on their audit based on the Comfort Letter presented to us.

21. The External Auditor coordinates planned audit areas with the Office of Internal Oversight Services (IOS) to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on the latter's work. The External Auditor also collaborates with the Independent Expert Oversight Advisory Committee (IEOAC) to further enhance its audit work.

22. We continued to report audit results to WHO Management in the form of management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management. The present report covers matters that, in the opinion of the External Auditor, should be brought to the attention of the World Health Assembly.

## **B. Results of Audit**

### **FINANCIAL MATTERS**

#### **1. Implementation of IPSAS**

23. This is the first set of accounts prepared by WHO under the IPSAS financial reporting framework which incorporates the latest methods and practices in accountancy. This is in compliance with the approved adoption of IPSAS in the United Nations (UN) system during the UN General Assembly in August 2006.



24. As WHO's External Auditor, we continuously provided guidance to WHO Management throughout the process of implementing IPSAS to ensure effective compliance. Among the key activities we undertook were the reviews of: a) the IPSAS Accounting Policies in November 2011 upon the request of Management; b) the opening balances in July 2012 to check on the mapping and restatements of accounts; and c) the financial statements as at 31 July 2012. A full review of the IPSAS financial statements as at 31 December 2012 was undertaken from February to March 2013.

25. Our year-end audit processes included the review of the draft annual financial statements to ensure that there were no material errors in the amounts, and that the requirements of IPSAS had been met. This review led to numerous adjustments and amendments to the classification and disclosure of information in the accounts in accordance with the requirements of IPSAS and in support of better governance and management of funds. We recognized the commitment and professionalism of the WHO Secretariat and the Finance staff in the pursuit of producing IPSAS-compliant financial statements.

## **2. Audit of Financial Statements**

26. In the audit of WHO for the financial year 2012, a number of recommendations were made to improve the presentation and disclosure requirements in compliance with IPSAS. Management agreed with our recommendations and accordingly restated the financial statements including the accompanying notes as at 31 December 2012. We have issued an unqualified opinion on the fair presentation of WHO's financial statements. As such, we are of the opinion that the financial statements present fairly, in all material respects, the financial position of WHO for the financial year ended 31 December 2012, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS.

27. Our review of the first IPSAS-based financial statements of the Organization as at 31 December 2012 resulted in significant adjustments of the balances of several accounts mainly between the opening adjustments and 2012 figures; alignment of presentation of accounts with the WHO IPSAS Manual; and inclusion of additional information in the note disclosures for clarity and understanding by users of the financial statements. These include, among others, the following recommended adjustments which were effected by Management in the course of our audit:

- a. the adjustment for Reimbursable Procurement as an exchange transaction: Increase in revenue from Reimbursable Procurement of US\$ 58.37 million and entering opening and closing deferred revenue balances of US\$ 136.24 million and US\$ 77.87 million, respectively
- b. the adjustment of US\$ 15.66 million to recognize the understatement of the Accumulated Depreciation account for the initial entry of accumulated depreciation, thereby increasing the beginning and ending balances of Property, Plant and Equipment (PPE) - net by the same amount
- c. the adjustment of the opening net assets balance due to the change in policy for the Allowance for Doubtful Accounts Receivable by US\$ 62.60 million instead of being reflected in the current year's financial performance
- d. the additional disclosures in the Notes to the Financial Statements and enhancements in the financial statements presentation as follows:
  - i. the recognition, initial measurement, and classification of exchange and non-exchange transactions on Accounts Receivable

- ii. the presentation of information on the reconciliations and computations of the Defined Benefit Obligations (DBO), plan assets, costs and gains/losses in a concise manner including all required disclosures required under IPSAS 25 on Accrued Staff Benefits
- iii. the additional disclosure of adjustments to revenues in prior years, the refunds to donors and its accruals, and the increase in allowance for doubtful accounts brought about by the change in estimation
- iv. the split of deferred revenues and related supplies and materials expense from reimbursable procurement from other deferred revenues reported in Statement I and supplies and materials presented in Statement II
- v. the explanation on the reversal of the opening balance adjustment on the US\$ 22.85 million unrealized foreign exchange loss for proper disclosure of the movements in the Fund
- vi. the presentation of Statement of Cash Flows to conform with the indirect method as stated in the significant accounting policies in Note 2 and IPSAS
- vii. the definition of all the differences presented in Statement V and a reconciliation between the actual amounts presented on a comparable basis to the budget and net cash flows from operating, investing and financing activities identifying separately any basis, timing, entity and presentation differences.

28. We also noted other issues which need to be addressed by Management to ensure the fair presentation of the financial statements in the next reporting period. Such issues include reconciliations, proper cut-off procedures, accrual processes, clearing of negative balances, inventory costing, and proper accounts classification. Management agreed to the recommendations for these issues based on their comments in the Management Letter dated 28 March 2013.

**29. We encourage Management to implement all agreed recommendations to ensure that financial statements are fairly presented in the next reporting period.**

***Reversal of IPSAS opening adjustment for unrealized foreign exchange loss***

30. The 01 January 2012 IPSAS opening balance adjustments to net assets/equity as disclosed in Note 3.1 included US\$ 22.9 million for the unrealized exchange losses on foreign exchange, swaps and hedging as at 31 December 2011 from financial instruments. The manual adjustment became a reduction in the net assets/equity balance of the Common Fund under the Member States-Other, additions to the financial liabilities and reductions in financial assets at the beginning of 2012.

31. Under IPSAS 29, the unrealized foreign exchange gains or losses for hedging foreign exchange exposures are presented as either financial assets (gains) or liabilities (losses) at fair value through surplus or deficit. Since IPSAS was not in place in 2011, no such unrealized gains or losses were recorded, and the WHO statement of financial position did not show any unrealized gains or losses at 31 December 2011. This therefore necessitated an opening adjustment for the 2012 IPSAS financial statements, to reduce opening equity and increase opening liabilities by US\$ 22.9 million.

32. During the 2012 financial period, GSM calculated the realized gains/losses as these hedging transactions matured, and calculated the adjusted unrealized gains and losses on those transactions yet to mature. The unrealized foreign exchange gains and losses for hedging transactions outstanding at 31 December 2012 were disclosed in the notes to the financial statements, and were recognized in the financial statements in 2012. These unrealized gains or losses will be reversed in 2013, at the time that the transactions mature, and realized gains and losses are recorded in place.

33. Management explained that to avoid recognizing the exchange losses twice, once as unrealized and then again as realized, when the transactions matured, the said opening balance adjustment of US\$ 22.9 million was reversed in the 2012 accounting period.

34. The reversal entry cancelled the original adjustment as if there was no recognition of the unrealized loss included at the end of 2011. The full recognition of the realized gains or losses as calculated by GSM upon maturity of the financial instruments in 2012 was without any offset from carried forward balances of unrealized gains or losses from 2011. Thus, the reversal was presented as a line item in the cash flows from investing activities in Statement IV. In the end, the Net Asset/Equity remains correctly stated as at 31 December 2012.

35. We recognize that the reversal was a one-time off entry brought about by the first year of implementation of IPSAS. We encourage Management to ensure the proper accounting and reporting of exchange gains and losses for the fair presentation of the Financial Statements.

#### ***Comparability of Budget and Actual Amounts presented in Statement V***

36. Paragraph 14 of IPSAS 24 - Presentation of Budget Information in Financial Statements requires an entity to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS. In case of government or entity that prepares biennial or other multi-period budget, Paragraph 38 requires judgment in identifying which amounts are attributable to each annual period in determining annual budgets for the purposes of complying with IPSAS.

37. We noted that Statement V – Comparison of Budget and Actual Amounts presents the programme budget for biennium 2012-2013 with the expenses of WHO as at 31 December 2012. A comparative analysis between the budgeted and the actual amounts may not be appropriate since the former covers a two-year period while the latter is for one year only.

38. The purpose of Statement V is to provide readers of the financial statements a means to assess whether WHO achieved results in accordance with the approved budget or not. When the budget and the actual amounts are not comparable, readers may misinterpret the financial information presented, leading to a misguided conclusion on the performance of WHO with regard to the utilization of the budget for which it is held accountable.

39. **We recommended that Management coordinate with the concerned departments/offices responsible for preparing and monitoring the Programme Budget by strategic objective presented in Statement V to devise a sound basis for expressing the approved biennial budget in annual terms. This will result to a meaningful analysis of the actual expenses and encumbrances incurred during the year against the corresponding budget for the same year.**

40. Management informed us that WHO presents the budget on a biennial basis since this is based on the Programme Budget approved by the World Health Assembly. Management reasoned that if they halve the biennial budget to convert it into annual terms, this could create confusion because the split was not approved by the Member States. Management also justified that other agencies within the United Nations such as the World Meteorological Organization (WMO) have done the same and yet still received unqualified audit opinion. Management further informed us that WHO committed to provide adequate disclosure in the year-end financial statements.

41. We reiterate that Management adopt the most appropriate strategy to present the budget and the actual amounts on a comparable basis.

### ***Enhancement of the Chart of Accounts***

42. A successful transition towards full IPSAS compliance requires a strong financial reporting framework, comprehensive accounting policies and reporting guidelines, and a well-structured chart of accounts. The chart of accounts serves as a tool in keeping track all transactions and events of an entity particularly in the recording and reporting components of financial management as well as in the achievement of uniform representation. An effective chart of accounts provides transparency, accountability and comparability regarding the financial operations of an entity. To attain its purpose, the chart of accounts must support easy understanding and efficient application.

43. The WHO Chart of Accounts has five levels of accounts with each account assigned a corresponding segment value description and account type. The description, however, is neither a definition nor a brief explanation of the account but only an account title or account name. This hinders easy understanding of the accounts and evaluation of the transactions behind the accounts. With only the account title presented and without any description as to the nature of the account, Management faces the risk of varied interpretations and consequently, the risk of possible misclassification of financial transactions.

44. **We recommended that Management update the Chart of Accounts to include account definitions that are descriptive and instructive of the actual financial transactions of WHO. A description or definition guides the personnel involved in recording WHO transactions and events for uniform application, promotes clear understanding, assures proper perspective in the financial data presented and facilitates responsive decisions from Management.**

## **3. Global Management System**

### ***Quality of inputs to GSM and control processes at the GSC***

45. We reviewed the control processes at the GSC and noted that the efficiency and effectiveness of the GSC to provide services using GSM is affected by the poor quality of inputs provided by the different offices, lapses in the observance of manual controls, and the admitted lack of system control in some of the processes in GSM that were covered by the review.

46. We noted incomplete and inaccurate or deficient inputs in the creation of award records; approval of work plan funding; supplier management; Purchase Order (PO) and Invoice approval; and quality check on travel claim submission. We further noted that the manual mitigating controls on the approval of work plan funding within the award distribution and the logical dependency check on dates of PO approval, PO delivery and Invoice were not consistently applied resulting in processed transactions not aligned with the business rules.

47. We recommended that Management ensure that business rules and procedures which are not yet present in the eManual and the Standard Operating Procedures (SOP) have to be defined to provide control measures in the GSC processes in GSM. Proposed enhancements to embed system controls in GSM need to be considered by GSC as preventive controls rather than relying on manual controls which are detective in nature. It is expected that enhancements will be undertaken after the implementation of the R12 upgrade starting May 2013.

48. We further recommended that Management impress on the clients the importance of providing complete and correct information in a timely manner when entering a transaction in GSM. This is one of the common service elements of the performance and control services domain as embodied in the GSC Service Catalogue. On the other hand, GSC needs to enhance its performance and control services to further improve value-added services to its clients.

49. We maintained that these business rules should be laid out in the eManual to serve as basis for the relevant SOP in order to ensure alignment of actual transactional process in GSM. The WHO eManual takes precedence over the SOP, i.e., in case of a conflict between the WHO eManual provisions and the SOPs, the former prevails. Management explained that the necessary actions and remedies are being undertaken to address the noted deficiencies.

#### ***Direct Financial Cooperation (DFC) Monitoring Report in the GSM***

50. We noted that the WHO FIN-DFC Monitoring Report in GSM showed that 2 810 out of 4 969 POs were already classified as “Finally Closed” but the final deliverables or DFC reports were not yet submitted as at 31 December 2012. Our analysis revealed that on the DFCs granted to governments of 146 Member States, 75 governments had overdue reports.

51. Management explained that the report only indicates whether the final deliverable has been registered in GSM or not. It would be possible that DFC reports received have yet to be registered in GSM. The limitation in the report has impacted the reliability of the GSM monitoring report and the integrity of the information it contains. It is required that RO and CO perform manual monitoring of their DFCs.

52. We also noted that HQ-funded DFCs totalling US\$ 8.75 million for 2012 were not managed and monitored by the HQ but by the regions/country as explained by Management. However, our verification at AFRO revealed that from the 36 sample DFCs funded by HQ, only one was included in the monitoring report of that region which indicates the need to improve the monitoring of HQ-funded DFCs.

53. We recommended and Management agreed to:

- a. **strictly monitor the requirements of the DFC agreements to ensure that DFC-funded activities including those HQ-funded DFCs are implemented as planned, and the technical report and financial certification are submitted within the time frame;**
- b. **enhance the DFC Monitoring Report in GSM by providing the complete information necessary for monitoring purposes to have an accurate and reliable data for decision making.**

54. Management commented that the Finance department is currently reviewing the account code/contract type matrix in collaboration with Procurement Specialist. It was added that necessary

actions will be taken to ensure HQ-funded DFC activities are properly monitored. Furthermore, work will be done to enhance the DFC monitoring report.

## GOVERNANCE MATTERS

### 4. Inventory Management

55. Our audit covered the assessment of strategies and controls with respect to effective management of WHO inventory. It included a visit to the UNHRD Dubai Warehouse to verify the existence of reported expired items.

#### *WHO Emergency Response Strategy and Framework*

56. We noted that medicines with a total cost of US\$ 13 361 485.00 expired in 2011. Of the US\$ 13 361 485 expired items, US\$ 12 711 065 or 95.14% is attributed to HQ accounts which include the US\$ 10 354 158.30 worth of Oseltamivir (Tamiflu) warehoused in UNHRD, Dubai, UAE, as accounted below:

Table 1.

#### **Expired inventories – Tamiflu Tablets**

Region	Description	Expiry Dates	Valuation (US\$)
AFRO	10 tablets course, 75mg	2011-08-01	4 673 921.50
EMRO	10 tablets course, 75mg	2011-08-01 2011-07-01	2 971 667.90 2 708 568.90
<b>Total</b>			<b>10 354 158.30</b>

57. In recognition of WHO's exemplary leadership and direction in addressing global influenza pandemic preparedness, F. Hoffman-La Roche Ltd. (Roche), entered into a letter of agreement (LOA) with WHO in 2005 for a total reserve for donation of 3 million treatment courses of Tamiflu (or an equivalent of 30 million capsules) to WHO as a "Rapid Response Stockpile" for a period of five years upon signing of the LOA by both parties. Roche committed to provide Tamiflu to WHO that is within the specification limits approved by major national regulatory authorities and has shelf life of no less than six months at the time of delivery. WHO was given full discretion on the disposal and utilization of the Rapid Response Stockpile in accordance with its own assessment of any possible outbreak of influenza pandemic.

58. The agreement also stipulates that until WHO requests Roche to ship the Tamiflu to the major international airport nearest to the site of infection outbreak, the Rapid Response Stockpile will be stored by Roche or by any designated storage company. Roche agreed to take full responsibility for whatever claims and/or liabilities that may arise from improper storage, transportation and handling of the donated quantity of the drugs until such drugs are delivered to the international airport specified by WHO. Ownership of the drugs will be transferred from Roche to WHO only after the appropriate delivery has been made.

59. On 16 September 2009, WHO received a Memorandum from Roche informing Management that it was planning to replenish the Regional Stockpiles with a further 2 million treatments of Tamiflu (or an equivalent of 20 million 75 mg-capsules) with an expiry date of 2013.

60. Taking off from that Memorandum, the Department of Epidemic and Pandemic Alert and Response (EPR) issued the *Guidelines on the management of Oseltamivir (Tamiflu) stockpile to assist Member States in outbreak response during Pandemic Alert Phases 3-5*. To ensure ready access to the international stockpile as and when required by beneficiaries, it is proposed that 300 000 therapeutic courses be pre-positioned at strategic locations in each of the WHO regions.

61. In consonance with the EPR Guidelines, a Memorandum was sent by Global Alert and Response Department to six Regional Directors to inform them about Roche's donation. Each Regional Office (RO) will receive an equal stock of 300 000 therapeutic courses of Tamiflu (or an equivalent of 3 million 75 mg-capsules) while HQ will retain the balance of 200 000 therapeutic courses as a strategic reserve for international response.

62. The WHO Emergency Response Framework (ERF) was issued in November 2011. The fifth component of the ERF mentions the *No Regrets Policy* which supports WHO's commitment to ensure immediate and sufficient human and financial resources for emergency response even if in the end, the resources are not required and are returned, and with full support from the Organization and without blame or regret. Moreover, WHO recognizes Reputational Risk as one of the criteria for grading the Organization's Response Requirements in Acute Emergencies. Management puts emphasis on public and media attention, the visibility of WHO's response, and donors' expectations among others. It asserts that judgment must be exercised in grading emergencies. These criteria have to be considered altogether without quantifying the capacity of the Member State and WHO to respond in keeping with the *No Regrets Policy* although WHO might err on the side of over-responding rather than under-responding.

63. Based on our audit review, we have drawn the following audit conclusions:

a. The strategic decision of WHO in terms of equal distribution of donated drugs may have contributed to the high rate of obsolescence owing to the fact that the regions have varying degrees of need and demand. Tamiflu stockpile intended for AFRO and EMRO experienced the highest rates of expiration. Maintaining one global stockpile, whether it is situated in HQ or in other UNHRD across the globe, may lessen the risk of obsolescence of drugs. Receipt and disposal of donated drugs in one location will be easier to monitor including the expiry dates of such stocks. Also, ready access to the stockpile will not be an issue because of Roche's commitment to make Tamiflu available at any given time and to deliver them to wherever WHO decides.

b. We commend Management's progressive stance to strengthen emergency responses commencing with the preparation of the ERF. While resource mobilization and stockpiling were included in the Framework, we noted that the strategies as well as the standard procedures for stockpiling were not considered. Stockpiling and inventory management are integral activities in emergency responses apart from human resource and services.

64. **We recommended that Management:**

a. **include specific operating standards in the area of logistics in the ERF taking into account the accountability in managing resources and the risks involved in specific arrangements with suppliers and donors;**

**b. design strategies in stockpile deployment that maintain a balance among the *No Regrets Policy*, the expectations of stakeholders and the optimal inventory management to avoid occurrence of expired medicines.**

65. Management informed us that discussion and propositions to improve the management and use of the stockpiles have already started in the past months between GCR/ARO, PED and some manufacturers primarily Hoffman La Roche. According them, the SOP for stockpile management will be integrated in the ERF including Antiviral stockpiles in accordance with the Pandemic Influenza Preparedness (PIP) Framework.

66. Management added that it will amend Chapter 6 of the Essential Policies for Optimizing WHO's Emergency Response in the next version of the ERF and the SOPs by adding a portion that will describe the emergency stockpile policy. All proposed changes will be discussed during the GEMT meeting in April 2013. As regards the agreement with Roche, Management explained that it is currently being re-discussed to prioritize the creation of one global antiviral stockpile centralized under WHO/HQ Management and physically kept by the manufacturer including all Regional stocks. The SOPs for release will be revised and adapted accordingly.

***Global Inventory Management System***

67. With the advent of IPSAS, inventory reports from different warehouses across the globe are now being submitted to HQ. These include WHO inventory in warehouses managed by the World Food Programme (WFP) through the UNHRD and various procurement agents' warehouses strategically located worldwide. Custodians are required to maintain systems and appropriate reports to track movements of inventory such as opening balance of inventory, additions to inventory, shipped items, impairments and closing balance of inventory. This reporting should be performed at least monthly and certified by the warehouse manager.

68. We noted that at present, WHO does not have one global standardized inventory management system that can facilitate generation of information required in tracking and reporting inventory movements. There are, however, stand-alone systems populating its management of inventory.

69. The Surge and Crisis Support Team, Department of Emergency, Risk Management and Humanitarian Response adopts a manual inventory tracking method through the use of a Microsoft Excel spreadsheet application. They devised a tracking table that displays inventory quantity and dollar value balances and its location as at a given date. The inventory report is then extracted from the tracking table.

70. The Global Drug Facility (GDF) also uses a stand-alone information system called Order Management System (OMS). OMS has capabilities and functionalities in collecting inputs from all stakeholders in various controlled processes, contractual and operational information storage, stock inventory management, and collection and management of deviations.

71. On the other hand, the Alert Response and Operations, Global Capacities, Alert and Response, Health Security and Environment uses another stand-alone information system, the Stock and Inventory Management System (SIMS). SIMS has certain capabilities such as: a) managing stocks in multiple locations with different ownerships; b) moving items between locations; c) providing operational and financial information; and c) extensive reporting and cataloguing of items.



72. We noted that both OMS and SIMS can extract key information on inventory pertinent to inventory management reporting and accounting requirements. However, we observed that OMS is being used solely in tracking drug inventory stored by the different procurement agents. On the other hand, we observed that SIMS was built around the requirements of IPSAS adoption in WHO.

73. The inventories are managed by WHO from different locations across the globe with varying individual management strategies, needs and demands. We observed that each of the concerned offices dealing with inventory management adopts its own systems and procedures independently from the other offices. Such systems operate differently and others are still done manually. With such an arrangement, the Organization faces the risks of possible misuse of strategic resources and misguided decisions due to uncoordinated inventory management systems maintained by different offices.

74. The Operational Support and Services (OSS) Coordinator acknowledged our audit observations and informed that a project has been initiated to study available options that can improve WHO's inventory management and reporting processes, and its integration into GSM.

75. Management also informed us that at Alert and Response Operations Logistics' initiative, the SIMS is being implemented in several countries as a stand-alone option to facilitate tracking and reporting on stock inventory. Management further commented that the development of a global, web-based solution is proposed by OSS but a timeline has yet to be established.

76. **We recommended and Management agreed to:**

- a. **develop one global inventory management system that will contain features common to all users and yet address the specific needs of each concerned department with due consideration to the requirements of financial reporting framework, and the nature of business of each concerned department in the design of the new system;**
- b. **ensure that the new inventory management system is integrated with the GSM, or at least contains a system interface to ensure ease and coherence in financial reporting and consider its development as a top priority owing to the high degree of its exigency.**

## **5. Enterprise Risk Management**

77. We reviewed the current status of Enterprise Risk Management (ERM) implementation and noted that there is no formal written policy adopted and no clear guidelines were embedded in the framework.

### ***ERM Framework and Related Activities***

78. The Joint Inspection Unit (JIU) 2010-4 report declared that WHO is at the beginning of ERM implementation and has started its implementation in one cluster. The report also proceeded to state that the ERM concept and framework covered Financial Organizational Operational External agents and stakeholder will be expanded to entire Organization in future: however, no fixed time frame has been determined yet. WHO spent a total of US\$ 195 000 for the support of external consultants involved in ERM development and implementation.

79. The reported improvements in the area of risk management for GMG were borne out of its initiative over the past years. But as early as 2006, realizing that little progress has been made in the

area of ERM, the IOS commissioned an external advisor for the project to aid management in understanding the need for ERM and to facilitate action towards creating and implementing an effective policy and strategy for the Organization. The output of said project was a report from the external advisor consisting of conclusions and recommendations on the existing risk management at GMG and included an 8-month work plan with templates for the ERM umbrella at WHO-GMG.

80. In 2009, a more structured risk management approach was commenced with the assistance of another external consultancy company. The project, however, focused initially on the GMG at HQ. Management informed us that it developed further the above framework which involved:

- a. the expansion of the framework to include the administrative region
- b. the definition of the governance structure
- c. the review and further clarification of the risk assessment process
- d. the definition of the roles and responsibilities of risk owners.

81. Management further reported that some developments were gained for Corporate Risk Management. It reported that:

- a. the Terms of Reference was already discussed for setting up a dedicated unit for risk management within the Office of the Director-General;
- b. the risk management is fully embedded in the efforts of determining an internal control framework;
- c. all WHO offices have been mandated to develop and maintain risk registers which will be reviewed by Senior Management of WHO;
- d. the regular briefing of the GPG is conducted to highlight risks.

82. Based on the above representation by Management and the results of our examination, we noted that:

- a. the formal WHO-wide ERM framework and implementation plan are not yet documented which prevents WHO from creating a holistic approach to risk management;
- b. of the 11 offices at the HQ, only the risk registers of GMG and IOS were documented. The risk registers of other offices are still in the initial stages of development.

83. Management declared that the plan of action for WHO-wide ERM will soon be developed. According to them, the WHO risk management framework, including the processes developed for the administration, will be used as the model for the organization-wide ERM framework. But this intention has yet to be translated into a formal written policy. Without such policy, Management faces the risk of probable delay in the WHO-wide ERM implementation due to the lack of a common direction and reference understood by all levels and concerned risk owners across the whole organization.

84. We likewise believe that an ERM work plan should be drawn up to ensure its proper implementation, and should therefore be given priority. The work plan should include objectives, specific activities and processes with corresponding timelines, accountabilities and relationships, required resources and expected output, and monitoring guides for all key stakeholders across the

Organization. The JIU 2010 report states that one of the main reasons for the slow progress of ERM in the United Nations organizations is the lack of documented and time-bound implementation plans.

85. With respect to the matter of all WHO offices being mandated to develop and maintain risk registers, we noted that except for GMG, IOS, and PEC, the other WHO HQ offices have prepared their own risk registers utilizing their own methods to identify and manage risks. This arrangement brings forth the risk of having a misinformed decision base owing to the differences in the understanding of risks from independent risk registers. This further prevents WHO from creating an organization-wide risk profile which is a necessary input in strategy development.

86. Management informed that the new unit on compliance and risk management will review the situation and address the recommendations. Also, the risk registers of other offices are still under discussion in consideration of setting up a framework for the entire Organization.

87. **We recommended and Management agreed to:**

- a. **formalize, through a written policy, the adoption of the preferred and most optimal ERM Framework applicable to WHO in order to have a holistic approach to risk management;**
- b. **embed clear guidelines in the ERM framework and provide essential details like activities with specific timelines and deliverables as well as a feedback mechanism for all components of the risk management process.**

## **6. Internal Control Framework: SOP Development**

88. We reviewed the status of SOP development as part of internal control framework. We noted that WHO is far from realizing its objectives within the targeted completion date. We also noted that review of SOPs lacked qualitative assessment.

### ***Structured Approach to SOP Development***

89. In the Sixty-fifth World Health Assembly (Provisional agenda Item 12) Consolidated Report dated 25 April 2012 by the Director-General on WHO Reform, it was emphasized that one of the steps to be undertaken to update the present internal control framework is the development of a new template for all internal management and administrative procedures. Such procedures define key control points and provide clear delineation of responsibilities among the staff involved in each procedure. The process template also specifies that when an SOP is meant for all staff, the same is uploaded by the SOP Department Coordinator in the related content section of the appropriate eManual section. On the other hand, SOPs describing back office transactions aimed at a limited user group are disseminated through the central repository.

90. We noted that although Management has achieved material progress in the implementation and accomplishments on SOP development to date, we still observed some deficiencies. Initially, we observed that there is inconsistency in the number of SOPs already reviewed and issued between the IOS Report and the report of the SOP Development Coordination Team. Management explained that the discrepancy between the two reports is attributable to the fact that prior to March 2012, GMG did not have an overall project coordination team in place. Various departments prepare their individual lists, which led to inaccuracies and double counting. As a result, the SOP Development Coordination

Team took the initiative of determining the list of required SOPs by department. It is noted, however, that departments are allowed to add SOPs to the list upon consultation with the Coordination Team.

91. We performed further tests on one important SOP in its draft preparation primarily to ascertain its applicability and effectiveness by comparing it with pre-determined parameters. It was determined that for GMG.SOP.I.001 Standard Operating Procedure Management FNM/ACT Template (Cross-cutting Standard Operating Procedure), the SOP Status in Sharepoint under Step 10 of the process template was already considered “final” even with just the approval of the Senior Officer alone. This runs counter to the two-level approval required for SOP development with the Director as the second-level approving authority. Management explained that while the draft SOP included a lapse in process step 10, in practice, SOPs are only marked as “final” upon securing the Director’s approval.

92. WHO is far from realizing its specific objectives within targeted completion dates. In accordance with the established process, SOPs have assigned priorities, i.e., 1, 2 and 3 that are linked with completion deadlines such as 01 June 2012, 02 October 2012, and 03 December 2012, respectively.

93. An evaluation of the 131 SOPS identified for review by Management showed that 30 SOPs under Priority 1, which are supposed to be due on 01 June 2012, are not yet final as at 14 November 2012. An SOP is considered as “not yet final” when it is either in the stage of *Not Started*, *Draft*, or for *Internal/Management and Stakeholder’s review*.

94. On the other hand, 23 SOPS categorized as Priority 2 due in October 2012 have already reached the final stage. Management informed us that delays arise for the following reasons:

- a. some personnel take time to comment or review
- b. other tasks are more complicated
- c. others are working on the Project on a part-time basis
- d. others offered that the SOP activities are additional tasks over and above their regular work.

95. As at December 2012, 235 SOPs were still under the development stage as against the initial objective of completing the review of all 331 SOPS on the same date. Management informed us that the deadlines for non-completed SOPs have been reset for end of March and end of June 2013 given that most SOP authors and coordinators are currently occupied with the GSM upgrade. We already noted some accomplishments in this regard. An additional of 42 SOPs has been completed as at 15 March 2013.

96. We also observed that the progress monitoring and reporting of the SOP development dealt largely on the quantitative aspect such as the number of SOPs drafted and reviewed. Management commented that qualitative evaluation of SOPs is discussed at times but not in a definitive or documented form. Coordinators meet bi-weekly to discuss qualitative problems and overall project management issues. They added that the task of SOP coordination will eventually be turned over by FNM to the new Risk and Compliance unit in an effort to address the control weaknesses of SOP development.

97. We recommended and Management agreed to:

- a. adopt a more structured approach to SOP Development guided by an Overall Project Plan with details on what strategies to adopt, when and how to carry them out, corresponding timelines and delineation of responsibilities;
- b. monitor the SOP team's work progress more frequently not only on the quantitative aspect like number of SOPs drafted and reviewed, but also on strategic and qualitative levels with the end in view of addressing management issues and concerns.

## 7. Programme Management – Results-based Management

98. Our review of Programme Management focused on the implementation of Results-based Management (RBM) framework on three Strategic Objectives (SOs) with the largest budgets: *SO 1 – To reduce the health, social and economic burden of communicable diseases; SO 2 - To combat HIV/AIDS, tuberculosis and malaria; SO 5 - To reduce the health consequences of emergencies, disasters, crises and conflicts, and minimize their social and economic impact.* We noted some deficiencies in Management's compliance with the elements and principles of RBM.

99. The Planning, Resource Coordination and Performance Monitoring (PRP) Department had the mandate to enable the implementation of an efficient and effective RBM framework in support of WHO's health mandate through the development of organization-wide activities, tools and devices. WHO formulated a results chain where Expected Results (ER) at various levels of the Organization are defined, namely, Organization-wide Expected Results (OWERs), Headquarters Expected Results (HQERs), Regional Expected Results (RERs) and Office-specific Expected Results (OSERs).

100. SOs 1, 2 and 5, which focus on the priority areas of WHO, has a total budget of US\$ 2 200.40 million or 55.58% of WHO's total budget of US\$ 3 959 million for the biennium 2012-2013 as presented in Table 2:

Table 2.  
Budget for Strategic Objectives 1, 2 and 5

SO	Base Programme	Special Programmes and Collaborative Arrangements	Outbreak and Crisis Response	Total	Percentage to Total Budget
In Million US Dollars					
1	446.10	679.50	152.60	1 278.10	32.28%
2	446.40	93.90	0.00	540.30	13.65%
5	64.60	1.30	316.10	382.00	9.65%
<b>Total</b>	<b>957.10</b>	<b>774.70</b>	<b>468.70</b>	<b>2 200.40</b>	<b>55.58%</b>

101. The SOs involved a process of change aimed at meeting certain needs through the attainment of Expected Results (ER). SOs and ERs must reflect outcomes. A set of indicators together with baseline and target data are used for evaluating the achievement of ERs and SOs.

102. Our audit revealed the following observations which are discussed in the succeeding paragraphs:

- a. no desired outcomes specified in SOs, OWERs, HQERs and OSERs
- b. no assumptions and risks for OWERs, HQERs, RERs and OSERs
- c. no indicators, baseline and target data for six HQERs, RERs for SOs 1 and 2
- d. monitoring of delivery of products and services is less than desirable
- e. underutilization of GSM facility in programme management.

### ***SOs, OWERs, HQERs and OSERs: Description of Activities***

103. We noted that SOs 1, 2 and 5, and their respective OWERs, HQERs and OSERs do not explicitly specify the desired changes expected to be delivered by the various products and services. The SOs, OWERs and HQERs were mostly descriptions of activities/outputs or interventions, and not as intended results or improvements over a baseline situation. Consequently, actual accomplishments cannot be effectively linked to planned results and ultimately, to the rationale of undertaking specific activities or utilizing products/services. In this regard, Management might be deprived of additional relevant information as basis for its strategy decisions.

104. Management declared that a revised results chain with elements such as impact, outcomes, outputs, activities and inputs has been introduced in the Programme Budget (PB) 2014-2015. We noted, however, that the Regional Committee version of the PB 2014-2015 did not state the impact for the six categories as sustainable changes but merely as activities or interventions. Also, the outcomes are presented as target indicators rather than as collective or individual changes in Member States which is a critical input of the Secretariat in working on the new Framework. The final PB 2014-2015 version that will be presented for approval by the World Health Assembly in May 2013 will include outcome and outputs for the various programme areas as well as performance monitoring and assessment framework.

### ***Assumptions and Risks for the OWERs, HQERs, RER, and OSERs***

105. We noted that there were no assumptions and risks for the OWERs, HQERs, RER, and OSERs provided in the MTSP. Management explained that assumptions and risks were provided in the MTSP at the level of the SOs and OWERs but not at the HQER/RER/OSER levels. The formulation of the assumptions, risks and mitigation strategies was not mandatory from the HQER down to the OSER level.

106. We advised Management to ensure that assumptions and risks are identified and provided for each category in the proposed PB. The Secretariat acknowledged the need to include key assumptions, risks and mitigation strategies in any Results-based Management Framework (RBMF) which will be considered in the development of the PB 2014-2015.

### ***Indicators, Baseline and Target Data for Six HQERs and RERs for SOs 1 and 2***

107. We noted that there were no Indicators, Baseline and Target Data for Six HQERs and RERs for SOs 1 and 2. The indicators were not objectively verifiable and repeatable measures of the state of progress towards achieving the specific ERs. The ERs were not specific, measurable, achievable, relevant and time-bound (SMART).

108. In the RBMF, the use of indicators requires the determination of their baseline and target data for each OWER, HQE, RER and OSER to allow monitoring and assessment of the performance of the concerned clusters/departments, and contributing units throughout the biennium. Regardless of the type of indicator chosen, the most essential requirement is that it is relevant to the ER it is to measure. It should be noted though that the appropriateness and adequacy of indicators are dependent on the correctness of the formulation of the ERs. If the ERs do not meet RBM's criteria for their formulation, Management will not be able to fully measure the extent of changes that occurred.

109. PRP informed that WHO recognizes the need to continuously improve the formulation of indicators that are valid, reliable, sensitive, simple, practical and useful. The final versions of the 12th General Programme of Work (GPW) and PB 2014-2015 will include indicators for each level of the results chain (impact, outcome and outputs) which will be selected based on specific criteria.

110. The SO Facilitators/Coordinators also informed us that the necessary data to implement and monitor their programmes are in the GSM. However, data from the GSM showed that the necessary indicators, baselines and targets were not formulated for six HQERs and RERs for SOs 1 and 2.

111. PRP stated that the formulation of HQER and RER indicators is not mandatory and no indicators have been developed for SOs 1 and 2. However, there is a Guidance Note on aligning OSER, HQER and OWER indicators, and indicator aggregation in GSM which requires the formulation of indicators for the said ERs.

112. Management confirmed that the indicators for the sample OWER and HQER are outcome indicators, not output indicators while the sample OSER indicator is an output indicator. This confirms why the indicators cannot adequately measure the ERs.

113. PRP further explained that the validation of ERs and indicators at major office level (HQER and RER indicators) and budget centre level (OSER indicators) was not given equal attention. Regarding ER and indicator, most efforts were placed at the OWER level. At lower level, the effort was placed on outputs (i.e., products and services) that should be necessary to accomplish the OSER (budget centre level), and on the logical link between outputs and OSER, and OSER and OWER (through HQER or RER).

114. We emphasized to Management that the changes in the RBMF can result in different terminologies of its element but are expected to remain compliant with the principles of RBM especially in terms of its elements and formulation. WHO is not only committed but is also developing a new results chain for the 12th GPW and PB 2014-2015 in accordance with RBM principles and terminologies.

115. **We recommended and Management agreed that:**

- a. **PRP and SO Facilitators/ Coordinators will ensure that ERs at all levels of the Organization will be stated as intended outcomes or improvements over a baseline situation subject to assumptions and identified risks with the appropriate mitigation strategies. ERs will also be provided with relevant indicators to adequately measure their attainment;**
- b. **PRP, SO Facilitators/Coordinators and the concerned departments will review the formulation of the elements of the existing RBMF to ensure compliance with RBM principles.**

### ***Monitoring of Workplan Products, Services and Costs***

116. We noted that compliance by Programme Managers to regularly review the delivery of products and services including start and end dates, and expenditures and encumbrances as against planned costs and award budgets is not adhered to systematically. Several deficiencies were noted as follows:

- a. award budgets exceeds planned costs for top tasks
- b. top tasks are without planned costs but with award budgets
- c. encumbrances and expenditures exceed award budgets and with no budgets
- d. status of tasks are not indicative of its actual progress under the GSM
- e. GSM facility in programme management was underutilized.

### ***Award Budgets Versus Planned Costs for Top Tasks***

117. In the workplan, products and services are considered as “top tasks”. The award budget of a work plan prepared by the Programme Manager authorizes the use of funds for a specific top task. Award budget is limited to the approved planned cost indicated in the workplan. In case the award budget is significantly higher than the planned cost, a revision is warranted but it will require the approval of the Programme Workplan Manager.

118. Our review of the GSM data for SOs 1, 2 and 5 as at 30 October 2012 showed award budgets in excess of planned costs which were not corrected or adjusted in GSM, or were not approved by the Programme Workplan Manager as shown in the following table.

Table 3.

**Comparison of Planned Cost and Award Budget (US\$)**

SO	Planned Cost	Award Budget	Variance
1	25 067 617	29 795 290	(4 727 673)
2	17 735 469	21 515 931	(3 780 462)
5	440 332	593 252	(152 920)
<b>Total</b>	<b>43 243 418</b>	<b>51 904 473</b>	<b>(8 661 055)</b>

119. Management confirmed that award budgets can only be entered at the top task level of products and services. Programme managers are expected to review their workplans in GSM on a regular basis to reflect their current status during implementation. In GSM, expenditures are checked against the corresponding award budget at the top task level of products and services, and then at the workplan level per source of funds.

### ***Top Tasks without Planned Costs but with Award Budgets***

120. An examination of the workplans for SOs 1, 2 and 5 as at 30 October 2012 disclosed that the top tasks do not have planned costs but have award budgets as presented in the following table:

Table 4.

**Top Tasks without Planned Costs but with Award Budgets (US\$)**

SO	Planned Cost	Award Budget	Variance
1	0	402 251	(402 251)
2	0	115 000	(115 000)
5	0	3 483 086	(3 483 086)
<b>Total</b>	<b>0</b>	<b>4 000 337</b>	<b>(4 000 337)</b>



### ***Encumbrances and Expenditures in excess of Award Budgets and without Award Budgets***

121. Expenditures are authorized up to the total award budget per award in the workplan. During workplan implementation, it is necessary to review the related financial transactions.

122. Our review of data as at 30 October 2012 showed that there were top tasks with encumbrances and expenditures beyond and/or without award budgets as summarized in the following tables:

Table 5.

#### **Encumbrances and Expenditures in excess of Award Budgets (US\$)**

SO	Award Budget	Encumbrance	Expenditure	Available Balance
1	4 946 015	189 167	5 697 663	(940 814)
2	634 249	171 338	576 860	(113 950)
5	79 864	37	187 543	(107 716)
<b>Total</b>	<b>5 660 128</b>	<b>360 542</b>	<b>6 462 066</b>	<b>(1 162 480)</b>

Table 6.

#### **Encumbrances and Expenditures without Award Budgets (US\$)**

SO	Planned Cost	Award Budget	Encumbrance	Expenditure	Available Balance
1	50 000	0	0	587	(587)
2	0	0	0	2 906	(2 906)
5	370 000	0	6 312	2 031	(8 343)
<b>Total</b>	<b>420 000</b>	<b>0</b>	<b>6 312</b>	<b>5 524</b>	<b>(11 836)</b>

123. The gaps noted in the workplans could have been addressed with regular monitoring of the workplans by the programme workplan managers. However, revisions to workplans and the necessary approvals have not been undertaken to reflect the actual financial status of products and services. Management informed us that a communication has been drafted to adjust the financial status of products and services including the encumbrances, expenditures, available funds and PTAE0 charges.

**124. We recommended and Management agreed that Programme managers will undertake the required workplan monitoring in GSM regularly. They should ensure that the GSM data reflect the actual financial status of products and services, and the technical status of each top/sub-task including scheduled and actual start and end dates.**

### ***Status of Task not Indicative of its Actual Progress***

125. We noted in the GSM that all workplans for programmes under SOs 1, 2 and 5 indicated the Scheduled Start Date and Scheduled End Date of top tasks and sub-tasks which coincide with the beginning (01 January 2012) and end (31 December 2013) of the biennium, respectively. Management explained that those dates are the set default in GSM for those fields. However, we emphasized that although top tasks and sub-tasks are planned to be implemented in certain specific periods within a biennium, their complete implementation can spill over to the next biennium. Hence, providing specific tasks start and end dates are essential in effective workplan monitoring.

126. The SO Facilitators/Coordinators further informed us that the workplans have not been updated to include the planned dates for each top/sub-task after they were approved and encoded in GSM. It

could not therefore be determined whether the start and end dates in GSM were indeed the intended planned dates for the top and sub-tasks.

127. We further observed that GSM does not also provide the actual start and end dates for each activity. Management informed us that the operational planning GSM guidance note provides that the default dates for workplans should be changed to reflect the actual start and end dates of each top task (i.e., product or service), and sub-task (i.e., activity).

128. The status of a task can fall under any of the four categories, namely: a) Not Started, b) In Progress, c) Completed, and d) On Hold. In addition, the progress status can be On Track, At Risk or In Trouble.

129. GSM data as at 12 November 2012 provided by PRP for SOs 1, 2 and 5 showed that there are a few tasks with the status of “In Progress” while most are marked as “Not Started.” We also noted that some tasks with the status of “Not Started” have a progress status of “On Track” and have incurred encumbrances and expenditures already as presented in the table that follows:

Table 7.  
**Status of Task Not Descriptive of Actual Status of Work**

	<b>Task No.</b>	<b>Task Status</b>	<b>Progress Status</b>	<b>Encumbrance</b>	<b>Expenditure</b>
HQENB1206322	1.1	Not Started	On Track	9 230	74 843
HQHEA1206490	1.3	Not Started	On Track	8 343	30 506
HQEMP127105	5.2	Not Started	On Track	4 410	17 963
HQGMP1206623	5.1	Not Started	On Track	2 607	87 567
HQERM1206719	4.3	Not Started	On Track	860	9 172
HQMSD1206862	7.1	Not Started	On Track	10 000	4 135

130. We also observed that the status of all activities in GSM for the three (3) SOs under “Progress Status” is “On Track”. PRP confirmed that “On Track” is actually the system default for “Progress Status.” We believe that default settings are inappropriate for purposes of workplan monitoring and the use of such default settings should be discontinued. Management reported that enhancements to the “Progress Status” in the GSM have been put on hold pending the launch and stabilization of the Oracle R12 upgrade.

### ***Use of GSM Facility in Programme Management***

131. GSM has the facility for financial and programme management including technical monitoring. The online training tool for the GSM is the User Productivity Kit (UPK) which can be accessed by HQ staff in the WHO intranet. GSM Guidance Notes have also been developed to provide step-by-step guide on specific functions of the system. It is not common knowledge among the technical departments that GSM has programme management facilities since only people have been trained in its use. As such, it is being used mainly for budget management.

132. Management informed us that all financial information and workplans as well as the results structure are in GSM. Data on the SO and OWER indicators are, however, maintained by PRP in a separate database. PRP finds GSM a good tool for programme and financial management but its capability for detailed programme management is currently not being fully utilized.

133. Technical departments do not find GSM suitable for technical managing and monitoring unless it is useful for monitoring detailed implementation progress at the activity level. GSM does not also produce adequate reports useful to the technical units especially since donors have different reporting formats. Departments under SOs 2 and 5, however, perceived GSM as a system that can be best utilized for financial management and monitoring.

134. Since these technical departments do not find GSM an adequate system for programme management, several systems and monitoring tools were devised and used to maintain data, track technical progress and report on programmes. Data and reports of technical departments are thus maintained and managed by each department outside of GSM instead of one repository/database, thereby not making them readily accessible to other programme managers/users.

135. PRP also commented that the managers are not taking full advantage of the functionality of GSM, and information on activities is not recorded promptly as required. As far as Task status and Progress status are concerned, quality assurance and compliance checks will be pursued and will focus on top tasks particularly in the context of the year-end review of workplans, and ER monitoring assessment. This direction will be added in the current list of proposed GSM enhancements, and will be taken into consideration when implementing the changes linked to the new results chain and WHO's reform agenda.

136. Management agreed with the overall observation that the GSM's capacity and potential are not maximized. Management confirmed that GSM has a programme and workplan management capacity, but its use will require a change in the way the system is being used. The new RBMF will be simplified and the number of elements will be significantly reduced, leaving more room to harness GSM's potential as a programme management tool. Management further informed us that a review of the systems and tools currently in use, including GSM, will be conducted in 2014 as part of the introduction of the new results chain and monitoring and assessment framework.

**137. We recommended and Management agreed that PRP will facilitate a concrete assessment of the needs of the technical departments in programme management from planning to monitoring and reporting, and conduct a review of the systems and tools currently in use including GSM as part of the new results chain, and monitoring and assessment framework.**

## **8. Human Resources Management**

138. We reviewed the operationalization of the Human Resources Strategy (HRS) covering the period 2010-2015 which was developed using a participatory approach. The Department of Human Resources Management (HRD) developed the HRS that identifies transformational goals and major strategies to enhance human resources management (HRM) as well as assist WHO to fulfill its stakeholders' expectations. During the Global Policy Group (GPG) Retreat from 29 March to 31 March 2010, the GPG welcomed and endorsed the Strategy but noted the need to identify priorities given the ambitious agenda for change.

### *Operationalization of the Human Resource Strategy*

139. We noted that HRD has not prepared a comprehensive Implementation Plan for the Strategy. For each strategy, it was not able to clearly identify:

- a. the initiative and key performance target
- b. the governance structures
- c. the respective detailed activities with expected outcomes, indicators, timelines, associated risks and responsible officers
- d. the monitoring and reporting mechanisms.

140. Consequently, the lack of monitoring and reporting mechanisms for the progress of the strategies and desired changes put to risk effective and accurate reporting of accomplishments and implementation progress. Likewise, there was no systematic record keeping system that tracks the Strategy from its planning to completion stage to enable Senior Management's informed decision.

141. HRS has to be assessed continuously along with WHO Reform to find out it still supports the current priorities of the Organization.

**142. We recommended that HRD ensure that the implementation of its strategies/initiatives undergo a structured implementation planning process which takes into consideration**

- a. the governance and accountability structures
- b. specific activities, expected outcome/results, performance indicators, timelines and responsible personnel
- c. identification of resource requirements and constraints
- d. risk management
- e. monitoring of and reporting on implementation progress

### *Harmonized Recruitment Policy*

143. Under the HRS, it is planned that the recruitment policy be updated based on a competency approach including the use of tools, generic job descriptions and rosters. The Strategic Approaches and Planned Implementation (SAPI) for 2012-2013 showed that the recruitment and selection processes shall be harmonized across offices. Its measurable indicator is the finalization of the recruitment policy. In the Report by the Director-General to the Executive Board on the WHO Reform 2012 under EB132/5 Addendum 8 dated 8 January 2013, harmonized recruitment policy and practice across all major offices is identified as one of the key deliverables under streamlined recruitment and selection processes planned to be accomplished in 2013. It was reported that its achievement is ongoing.

144. We noted, however, that there is no harmonized recruitment policy. The HRD disclosed that the harmonization of recruitment practices across offices is a regular topic at the Global Staff and Management Council (GSMC) and at the Regional Personnel Officers' (RPOs) meetings. While there are many factors that feed into the framework for recruitment such as gender and geographical distribution ranges, there is no specific "recruitment policy" document. Management informed us that there is a plan to start the work on a consolidated policy in 2013.

145. We also noted that the competency-based recruiting systems and interview tool have not been implemented globally. Hence, the Organization continues to employ diverse recruitment policies and processes.

146. We recommended that Management develop without delay the comprehensive harmonized recruitment policy and recruitment processes based on competency approach for global implementation across the Organization in order to ensure uniformity of recruitment processes.

### ***Gender Balance***

147. The Report by the Secretariat to the Executive Board on recruitment strategy integrating gender and geographical balance (EB113/18) stated that the Organization is working towards meeting the three targets set by the World Health Assembly:

- a. 60% of all appointments over the next two years in the professional and higher graded categories (irrespective of their source of funding) of nationals of unrepresented and underrepresented countries particularly developing countries on the basis of the formula set out in resolution WHA 56.35
- b. 50% of appointments of women to professional and higher category posts as per resolution WHA 56.17
- c. raising the proportion of women at senior level as per resolution WHA 56.17.

148. Based on the data submitted by HRD on gender representation, we noted that the number of women in professional positions or higher has steadily increased from its 2002 level of 461 (32.70%) to 961 (40.20%) in 2010, but registered a decrease in 2011 to 911 (40.00%) and as at 31 July 2012, to 845 (39.20%). At the start of the implementation of the HRS in 2010, women in the said positions comprised 961 (40.20%) increasing from its level of 924 (39.50%) in 2009. However, the rate started to decrease in 2011 until 31 July 2012. HRD explained that the decrease was brought about by the restructuring/downsizing of the WHO workforce in the last two years. Since the representation of women in the category of posts abolished is traditionally higher at HQ than in other major offices, this affected the overall percentage of female staff holding professional posts and higher.

149. Of 114 newly filled-up professional positions in 2012 in HQ, 68 (59.65%) were occupied by female candidates with the following positions:

Table 8.  
**Female Professionals in HQ (2012)**

Position	Fixed-term	Temporary
D1	2	0
D2	2	0
P6	4	0
P5	6	7
P4	11	12
P3	7	13
P2	2	2
<b>Total</b>	<b>34</b>	<b>34</b>

150. Of the 34 selected female candidates for professional or higher fixed-term positions, 5 were hired externally, 12 were holders of fixed-term positions, 16 were on temporary appointments, and 1 was from another UN agency/office. On the other hand, of the 34 selected candidates for temporary

appointment, 9 were externally hired, 1 was on fixed-term appointment, 2 were Junior Professional Officers and 22 were on temporary appointments.

151. Review of the selection reports for selected fixed-term positions disclosed that in most of the vacancies advertised, there were more male than female applicants. Most of the applicants were also from over-represented countries. An analysis of the trend in the eRecruitment applications also provides input to Management in assessing the effectiveness of HRS in addressing the issue on gender equity. However, HRD has not produced specific measures to improve gender equity as it sees its selection process as one with a bias for women.

### ***Geographical Representation***

152. The WHO eManual emphasizes that the paramount consideration in the appointment, transfer, reassignment and promotion of the staff shall be the necessity of securing the highest standards of efficiency, competence and integrity. However, due regard shall be observed on the importance of recruiting and maintaining the staff on as wide a geographical basis as possible.

153. Our analysis of the status of Member States' (MSs) representation in WHO covering 2003 to 31 July 2012 disclosed increases and decreases in the percentage of MSs' representation across all categories. At its 31 July 2012 level, there were noted increases in three categories, namely, *unrepresented*, *within range*, and *over-represented* countries by 5.00%, 2.08% and 2.13%, respectively. Decreases for both the *under-represented* and the *top of range* countries registered at 33.33%.

154. From its level as at 31 December 2011, the number of unrepresented countries increased to 42 or by 5.00% as at 31 July 2012; while under-represented countries decreased by 2 or 33.33%. Countries within range increased by 2 or 2.08% and those on top of the range decreased by 2 or 33.33%. Total over-represented countries increased by 1 or 2.13%. As at 31 July 2012, the 48 over-represented countries accounted for 24.49% of the total MSs of 196. On the other hand, while unrepresented countries of 42 accounted for 21.43%. The changes in country representation were brought about by entry of new staff members, and separation from service of staff due to mandatory retirements or resignations.

155. HRD informed us that a number of actions under each of the components of the plan of action such as the development of an HR Planning Tool, eRecruitment System, webpages, and conduct of recruitment missions were carried out. However, there was no evidence that the monitoring of the implementation of the recruitment strategy and action plan, and their evaluation against set goals and indicators are being undertaken.

156. We concluded that the recruitment strategy needs to be evaluated and if found to be ineffective in supporting the gender and geographical representation initiatives, new measures may be proposed for its modification and implementation.

**157. We recommended that HRD evaluate the effectiveness of the recruitment strategy and its relevance to the prevailing situation in WHO in sustaining gender equity and equitable geographical representation.**

### ***PMDS Compliance Rate***

158. The Performance Management Development System (PMDS) is used for performance appraisals and can be used by WHO managers for improving staff performance. Performance assessment emphasizes results-based work planning and the identification of measurable performance indicators to evaluate individual accomplishment.

159. Under SO 13 of the PB 2012-2013 is the OWER 13.3 which is “human resource policies and practices in place to attract and retain top talent, promote learning and professional development, manage performance, and foster ethical behavior”. One of its indicators is the percentage of staff in compliance with the PMDS cycle at a baseline of 80% for 2012 and a target of 85% for 2013.

160. A review of the 2012 compliance reports in PMDS reflected the following compliance rates of the major offices as at 05 March 2013:

Table 9.

**Compliance Rates as at 05 March 2013 (including temporary staff)**

<b>Major Office</b>	<b>Total Staff</b>	<b>Compliant Staff</b>	<b>Compliance Rate (%)</b>
HQ	2,275	1,512	66.46
AFRO	2,512	1,954	77.79
EMRO	943	479	50.80
EURO	603	282	46.77
SEARO	806	504	62.53
WPRO	745	577	77.45
<b>Total</b>	<b>7,884</b>	<b>5,308</b>	<b>63.63</b>

161. We noted that the average global compliance rate stands at 63.63%, falling short by 16.37% of the expected compliance rate of 80% for 2012. The average compliance rate was pulled down by EURO and EMRO’s compliance rates of 46.77% and 50.80%, respectively. However, the compliance rates may even be lower considering that the reports were generated as at 05 March 2013 or 5 days after the due date of the year-end PMDS.

162. **We recommended that HRD strengthen the monitoring of PMDS compliance by all major offices to ensure that all staff are properly evaluated.**

### **REGIONAL AND COUNTRY OFFICES**

163. During the financial year, we visited two regional and two country offices. Like the audit of the HQ, our audit adopted the Risk-based Audit Approach. Risks were identified and control activities were reviewed if they mitigate the identified risks. Accordingly, we provided recommendations to address the residual risks that were not mitigated by control activities.

#### **9. WHO Regional Office for Africa (AFRO)**

164. Our audit identified several weaknesses in the control activities that could have addressed the risks in financial and administrative areas. Our audit also identified non-compliance with WHO

regulations and rules. In particular, there was a need to improve the reliability of the balance of imprest accounts by reconciling their balances and recording reconciling items.

165. Considering that DFC activities embody the basic mandate of AFRO, providing risk assessment in DFC activities could facilitate programme implementation, enhance its decision-making capabilities and define accountability on these activities. This is necessitated by the observed limitations in programme assessment due to delays in the submission of DFC reports, inadequate evaluation of contracting partners, and inaccurate capture of transactions.

166. On procurement, the system configuration error in the GSM allowed procurements of US\$ 100 000 and above even without the approval required in Section VI.1.3 of the WHO e-Manual. This situation warrants HQ intervention and requires Management's regular review of the systems outputs to ensure that the system is functioning as prescribed. Similarly, a revisit of the policy requiring the Adjudication Report on procurement is needed to correct the inconsistencies between the WHO eManual and the PRT.SOP.VI.054 on Adjudication Report, Preparation for Goods.

167. Deficiencies were also identified in inventory and asset management controls as reflected in undefined lines of authority, staff having complete control over incompatible functions, unauthorized disposals and inaccurate inventory reports and information.

168. Another opportunity for improvement is in the area of contracting for services. The audit revealed the necessity for transparency in selecting contractual partners and suggested the timely submission of the Adjudication Report that shows all the required procurement information. Likewise, the audit advocated the use of media and web facilities in inviting prospective service partners.

169. Meanwhile, monitoring is advised to avoid accumulation of travel delinquencies, to check on the performance of the staff, and to ensure the timely reporting of technical and financial accomplishments to the donors.

170. Finally, on programme management, our audit suggested the re-assessment of the progress status of the programme against the indicator targets and to review those falling under the *On Tract*, *At Risk* or *In Trouble* status with the end in view of verifying the measures used in the state of progress of the programme.

**171. We recommended that AFRO improve its financial and administrative controls and processes on imprest accounts, DFC activities, procurement including service contracts, inventory and asset management, duty travels, and donor reporting. We also recommended that Management ensure the reliability and accuracy of the reported progress of programme accomplishments.**

## **10. WHO Western Pacific Regional Office (WPRO)**

172. Our audit noted that in general, the control activities in WPRO are operating effectively. However, there are still areas of financial and programmatic aspect where enhancement opportunities were noted as discussed below. We recognize the immediate action by WPRO Management in implementing the recommendations for enhanced accountability and governance.

173. On the management of DFC, there is a need to have a structured regional-level risk management that will determine the capabilities of governments, institutions or agencies in project implementation and financial management. It will likewise serve as basis in programme planning and in evaluating



future opportunities. Also, our audit disclosed that monitoring and follow-up of outstanding DFC advances from country offices including determination of causes for non-compliance with the reporting requirements were not effectively done. Such a situation compromised future releases of funds to counterparts and the value of pertinent information necessary for decision-making purposes. It is proposed that monitoring strategies be strengthened by incorporating possible solutions to address non-compliance with reporting requirements. There is also a need to improve on the timeliness of submission of DFC financial and technical reports in order not to jeopardize the attainment of the purpose for which the reports were required. The audit also reported that the Records Management System (RMS) of the GSM does not provide complete and updated information about the status of DFC reports and project results that hinders the effective use of subject reports.

174. With regard to donor reporting, the RO is encouraged to undertake collaborative efforts with the Technical Units, the Programme Management Officers (PMOs) and the External Relations and Communication Unit (ERC) to mitigate the risk of delays in reporting that might compromise future funding of its programmes and projects.

175. Our audit also disclosed that the Fixed Assets Register (FAR) does not provide reliable information about the actual end-users for purposes of accountability for the assets and efficient tracking of asset movements. Management is therefore advised to conduct physical verification of assets to identify the end-users and update the FAR to facilitate tracking of assets.

176. On procurement of service contracts, the RO opted to resort to sole source contracting instead of competitive procurement of contractors under an Agreement for Performance of Work (APW) which may not conform to the best value-for-money principle of procurement in WHO. The Division of Programme Management of the Regional Office is advised to consolidate and update the existing data on consultants to provide a more comprehensive supplier database which will permit more options in the selection of potential partners. Also, the monitoring system as well as the terms of reference (TOR) covering consultancy contracts and Agreements for Programme of Work (APW) is advised to be standardized in order to facilitate performance evaluation, as basis for future action.

**177. We recommended that WPRO enhance further its controls and processes on DFC, donor reporting, asset management, and procurement of service contracts.**

## **11. WHO Country Office, Ghana**

178. Our audit noted several weaknesses and gaps in the control activities in financial and administrative areas of the CO operations as well as its non-compliance with WHO regulations and rules.

179. Regarding Fixed Asset (FA) management, we noted a premature exclusion from the inventory list of six motor vehicles that were yet to be disposed of. Restoration of said amount to the FA balance will support Management's assertion on the completeness and integrity of the information represented. Meanwhile, unloading the FA Register of small value items will also improve the reliability of the FA records.

180. Our audit also disclosed the lost benefits from expired awards of US\$ 14 900. To maximize the use of contributions and avoid non-utilization/expiration of awards, our audit proposed that Management's project implementation plan be made vis-a-vis the agreed milestones and timelines with appropriate risk control or mitigation strategies like fast-tracking and prioritization of activities.

181. Improvement opportunities in the management of duty travels were also identified such that suggestions were made to address the concerns caused by the absence of approved travel plans and the delay in the approval of travel requests. Similarly, actions were proposed to correct the deficiencies in the documentation of commitments that were uploaded in the Records Management System, in the monitoring of encumbrances as well as in the management of DFC activities. Specific on DFC, our audit recognized the need to improve on the submission of DFC reports, on securing the required authority prior to the implementation of activities, and on resolving the inconsistencies in the GSM-generated information pertaining to signed dates and start dates.

182. On the admitted absence of indicators, baselines and targets in some Country Specific Expected Results, our audit suggested that it ascertain up to what extent the Management may place its reliance on the result of the mid-term review considering the deficiencies noted.

**183. We recommended that the WHO Country Office Ghana improve its financial and administrative controls and processes on asset management, contracting services, awards, duty travels and DFC activities. We also recommended that Management provide indicators, baselines and targets in some Country Specific Expected Results for ease in measuring the expected results under the Results-based Management.**

## **12. WHO Country Office, Philippines**

184. Our audit noted several weaknesses in control processes in financial and administrative areas and also in compliance with WHO regulations and rules.

185. On cash management, there is a need to review the ceiling level of imprest accounts in order that necessary action can be taken to revise the same in consideration of the volume of disbursements, and the prevailing local conditions and expectations. On inventory management, inaccuracies in the reported inventory balances have to be thoroughly reviewed and analyzed prior to submission to the RO for consolidation.

186. The country office needs to ensure that DFC agreements are approved before project activities are undertaken. It was noted that a 50% down payment was made upon signing of the contract on a project with a planned completion date that has already elapsed although the project activity had not started. This denotes a significant delay in project implementation that correspondingly tied up the Organization's resources to unimplemented projects. Essentially, the CO Management needs to improve on project performance monitoring taking into account the proximity of start date to end date.

187. The Fixed Assets Register (FAR) did not bear complete information about the property (i.e., year-to-date depreciation, salvage value, retirement comments, physical location). Inconsistencies were also noted between FAR and the list of fixed assets for manual monitoring (LFAMM). Moreover, an item belonging to another CO was inadvertently included that requires reconciliation and/or adjustment for subsequent uploading into the GSM.

188. Management is encouraged to expedite implementation of the planned activities particularly those with low or zero implementation rates so that desired outputs are achieved and funds are utilized for the intended purpose. There is also a need to establish coordination and representation with WPRO and HQ for awards-in-kind directly transacted with the Department of Health, Philippines in order to record promptly the related expenditures in the books.

189. The CO is advised to ensure that success indicators and due dates for completion form part of the Achievement Report at the onset of the Special Service Agreements (SSA) for more effective

monitoring and evaluation. On procurement, Management is advised to perform completeness check of documentary requirements before procurement transactions are uploaded to the GSM.

**190. We recommended that the WHO Country Office Philippines improve its financial and administrative controls and processes on imprest accounts, DFC activities, asset management, awards-in-kind, SSAs and procurement. We also recommended that Management expedite the implementation of planned activities to achieve desired outputs.**

### **C. Disclosures by Management**

**191. Write-off of Cash.** A total of US\$ 2 250 was approved for write-off. This balance pertains to the bankruptcy of a bank in the Democratic Republic of Congo.

**192. Administrative Waivers:** There were three cases of administrative waivers in the amount of US\$ 22 273. In the Regional Office for the South East Asia, it was deemed impossible to recover the amount of US\$ 3 550 which represented a direct financial cooperation granted to the Municipal Corporation, Patna (Bihar), India in the biennium 2006-07. Another two grants totaling to US\$ 18 723 for a direct financial cooperation to DHS, Maharashtra in biennium 2008-09 was also deemed impossible to recover.

**193. Ex-gratia payment:** There was no ex-gratia payment reported in 2012.

**194. Frauds and Presumptive Frauds:** Management reported two instances of fraud, one pertaining to the annual leave of a staff, and another pertaining to an unauthorized access to WHO's telephone system by an outside party. Both cases are still under investigation.

### **D. Status of Implementation of External Audit Recommendations**

**195.** We validated the implementation of External Audit Recommendations contained in prior years' audit reports. We noted that of the 38 recommendations, 15 or 40% were implemented, 21 or 55 % were in progress of implementation and 2 or 5% were not implemented. **Annex A** presents the detailed analysis of the implementation of the recommendations.

**196. We request Management to ensure the proper implementation of the recommendations that have not been implemented yet.**

### **E. Acknowledgement**

**197.** We wish to express our appreciation for the cooperation and assistance extended to our staff by the Director-General, the Deputy and Assistant Directors-General, Regional Directors, HQ Directors, the Comptroller, Country Representatives and members of their staff during our audit.

**198.** We also express our appreciation to the World Health Assembly for their confidence in us and for the honour and privilege to serve as the External Auditor of the Organization and its non-consolidated entities.

**COMMISSION ON AUDIT  
Republic of the Philippines  
External Auditor  
8 April 2013**

## Annex A

**STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS  
(A64/30 AND A65/30)**

No.	Recommendation	External Auditor's Validation
	<b>A64/30</b>	
1	<p><b><i>Management Reforms</i></b></p> <p>Consider for adoption the report's recommendations that have a direct bearing on strengthening internal controls and improving reporting arrangements so that the Comptroller's responsibilities and powers are synchronized. (Para. 18)</p>	<p><b>Implemented.</b></p> <p>With the commencement of SOP preparations containing controls in each of the individual processes relating to finance, WHO is now in its initial work towards the implementation of the financial control framework.</p>
2	<p><b><i>Status of WHO's Transition to the International Public Sector Accounting Standards.</i></b></p> <p>Expedite the action plan outlining deliverables along with the timeline in respect of the pending IPSAS to ensure that the process of migration to IPSAS is implemented with effect from 1 January 2012. (Para. 24)</p>	<p><b>Implemented.</b></p> <p>Management has already prepared the 31 December 2012 financial statements.</p>
3	<p><b><i>Income and Award Management</i></b></p> <p>Continue to trace all agreements and capture the correct award amount in the system in order to remove inconsistencies in the data. (Para. 32)</p>	<p><b>Implemented.</b></p> <p>During our audit of WHO-GSC in the last quarter of 2012, agreements relating to sample awards were verified with the RAS link. Further, no inconsistencies as regards the award amounts were noted.</p>
4	<p>Engage Award Managers proactively in the award management cycle in order to ensure that the award funds are fully utilized and the project implementation does not suffer. (Para. 37)</p>	<p><b>In progress.</b></p> <p>It was noted during our audit of GSC that summaries of expiring awards are found being uploaded in the WHO intranet and prepared in a spread sheet file as a manual mechanism to monitor the expired and expiring awards. However, the action on this recommendation is not yet complete particularly on the training of Award Managers.</p>
5	<p>Make concentrated efforts to review and reduce outstanding receivables. (Para. 42)</p>	<p><b>Implemented.</b></p> <p>We took note of the efforts of Management to reduce outstanding receivables. The review of collection efficiency will still be undertaken in our future audits as part of the financial performance review.</p>

No.	Recommendation	External Auditor's Validation
6	Continue to review unapplied receipts on a regular basis and take appropriate measures to apply them in a timely manner. (Para. 45)	<b>Implemented.</b> There were only 50 unapplied receipts amounting to US\$ 5.9 million as at 31 December 2012. It was validated that 16 unapplied receipts were applied in January and February 2013. Validation will still be undertaken on the level of unapplied receipts in our future audits.
7	<b>Bank Accounts, Cash and Imprests</b> Prepare bank reconciliation statements for all the bank accounts in the month following the one to which they relate and make efforts to reconcile balances which have remained outstanding for long. (Paragraph 51)	<b>In progress.</b> A report was prepared showing the result of reconciliations of 621 accounts. It was noted in our audit that there were two accounts without bank reconciliation statements and 10 accounts were not reconciled.
8	Strictly comply with all prescribed procedures in respect of custody, handling and recording of cash (Para. 53)	<b>In progress.</b> Our audit noted non-compliance with some procedures.
9	Reconcile the un-reconciled items in the e-Imprest account to date and complete the necessary enhancements at the earliest (Para. 57)	<b>In progress.</b> We noted improvements in the e-Imprest reconciliations but additional work remains to be done for EMRO and AFRO.
10	<b>Procurement</b> Devise clear guidelines so that waiver requests are permitted only in exceptional circumstances; that GSM provide definitive information /assurance that all waiver cases have met the laid down norms/provisions; that the requirement of three tenders is followed; and that the involvement of outside experts in the procurement process may be considered. (Para. 62)	<b>In progress.</b> We noted that the Controller had released an Information Note in July 2012 to strengthen this requirement. Also, GSC added new criteria on the validation of services registrations. However, these are all done outside the GSM.
11	<b>Inventory Management</b> Strengthen internal controls in respect of its recording, valuation, physical verification and custody in order to have an effective inventory management system in place. (Para. 70)	<b>In progress.</b> Our audit disclosed an error in costing inventories since the weighted average cost adopted in WHO IPSAS was not complied with. On the other hand, work is on-going to refine the relevant SOP.
12	<b>Direct Financial Cooperation</b> Adhere to WHO Manual and General Conditions of Agreement in entering into agreements for Direct Financial Cooperation. (Para. 72)	<b>In progress.</b> The SOP on DFC Processing (FIN.SOP.XVI.001) has been drafted. We noted that the GSM discoverer report "WHO FIN-DFC Monitoring Report FNM Version Workbook Overdue" does not provide complete information for monitoring purposes. Management agreed to enhance this report. Hence, regional and country offices conduct manual monitoring of DFCs under their responsibility.

No.	Recommendation	External Auditor's Validation
13	<b><i>Personal Advances to Staff</i></b> Strengthen efforts to monitor and settle the outstanding salary advances to ensure compliance as per the provisions of the WHO Manual. (Para. 75)	<b>In progress.</b> We noted that a new GSM Personal Accounts report has been developed to improve the recovery process for payroll and travel transactions. The necessary data conversion exercise is nearing completion.
14	Review and strengthen internal controls regarding salary payments in order to avoid overpayments (Para. 77)	<b>In progress.</b> Work is still on-going with stricter measures in place to mitigate risk of overpayment to staff.
15	Strengthen internal control mechanism for sanctioning and monitoring of advances to staff. (Para. 81)	<b>In progress.</b> We noted Management's action to process advances through payroll which forces a mandatory recovery schedule to be recorded.
16	<b><i>Internal Oversight Services</i></b> Update Financial Rules to include risk management in the scope of the Office of Internal Oversight Services' responsibilities in order to provide it with a clear mandate. (Para. 86)	<b>In progress.</b> This has been raised with the Director-General and is included with the other proposed substantive updates to the Financial Regulations.
17	Reassess the financial resources available to the Office of Internal Oversight Services, in line with the enhanced activities of the Organization, the Management's expectations and additional responsibilities assigned to the Office. (Para. 91)	<b>Implemented.</b> A proposal to strengthen IOS resources was approved by the Director-General. Additional three posts have been recruited in 2012 to handle audit and investigations while another four posts are planned for 2013.
18	Review staff strength of the Office of Internal Oversight Services at various levels, keeping in view the increased scope of work and expectations of the management in providing assurance. (Para. 96)	<b>Implemented.</b> Review and analysis were already undertaken on the decentralization of IOS activities.
19	Document the status of action taken on the accepted recommendations on the self-assessment report. (Para. 110)	<b>In progress.</b> We noted that IOS will still review the recommendations in previous assessment, and will consider them in the preparation of the next periodic assessment due in 2012-2013.
	<b>A65/32</b>	
20	<b><i>Financial Matters</i></b> Review outstanding receivables, if necessary, take action to write-off the uncollectable contributions. (Para. 16)	<b>Implemented.</b> During our audit, it was noted that receivables from former Yugoslavia had been written off amounting to US\$ 5,532,592. An allowance for doubtful accounts receivable was provided for outstanding receivables accounts that are more than 365 days old.

No.	Recommendation	External Auditor's Validation
21	Continue to work towards adoption of an Enterprise Risk Management Framework. (Para. 24)	<b>In progress.</b> Further steps were already undertaken by the GMG. The implementation of ERM in WHO is underway.
22	Set up at the earliest time the IT Governance Board with representation from Senior Management. (Para. 26)	<b>Implemented.</b>
23	<b><i>Budgetary Control and Utilization of Funds</i></b> Undertake periodical reviews to ensure optimum utilization of budget allocations. (Para. 30)	<b>Implemented.</b> We noted that reviews are undertaken by ROs and clusters at HQ monthly and are summarized monthly in the PRP Financial Management report.
24	<b><i>Encumbrances</i></b> Require the necessary follow up to ensure receipts of deliverables in order to clear the encumbered amounts at the earliest. (Para. 33)	<b>In Progress.</b> This was not covered during the 2012 WHO-GSC control assessments as well as in 2012 financial audit since this will entail thorough substantive testing. We took note of the action taken by Management and validation will be undertaken in future audit.
25	<b><i>Reconciliation of Bank Accounts</i></b> Take appropriate steps to put in place a system of review and reporting of timely and accurate bank reconciliations (Para. 36)	<b>Implemented.</b>
26	<b><i>Imprest</i></b> Strengthen internal controls to ensure that monthly returns are received from the imprest holders in time and the cases of excess holding of balance are minimized (Para. 39)	<b>Implemented.</b> As at 31 December 2012, 5 out of the 270 imprest accounts of country offices are not fully reconciled. Management is working diligently to reconcile the remaining five accounts. They have identified the reconciling items and only one account was reported as not reconciled at the time of the audit.
27	<b><i>Procurement Activities in Field Offices</i></b> Comply with WHO Manual provisions on procurement (Para. 44)	<b>Not implemented.</b> There was lack of approval for procurement of goods valued at US\$ 100 000 due to system configuration error in the AFRO regional approval matrix in GSM. Due to discrepancy between the SOP-Procurement and the WHO eManual on the issuance of the required Adjudication Report for procurement of goods valued at US\$25 000 and above, Adjudication Reports were not issued by AFRO for goods procured through e-catalogue.

No.	Recommendation	External Auditor's Validation
28	<p><b><i>Asset and Inventory Management</i></b></p> <p>Strengthen internal controls in respect of recording, valuation, physical verification and its custody (Para. 47)</p>	<p><b>In Progress.</b></p> <p>In the audit of AFRO, it was noted that disposals of fixed assets in nine country offices under AFRO were without the required PSC approval. Fixed asset records of the 46 country offices of AFRO were submitted to the Asset Management Unit (ASU) of the Regional Office only at year end, which comprised of the Annual Fixed Asset Certificate, summary of fixed assets by asset category and report on missing/stolen equipment. However, the fixed asset registers of the country offices, which should support the balances of the said Certificates, were not submitted and reviewed by the ASU.</p>
29	<p><b><i>Personal Advances to Staff</i></b></p> <p>Continue to strengthen the internal controls for recovery of advances given to staff. (Para. 51)</p>	<p><b>In Progress.</b></p> <p>Based on the data submitted by AFRO, there are on-going salary recoveries through salaries on hold and salaries voided. The outstanding salary advances of 20 inactive staff per Staff List for January 2013 need to be reviewed for possible write off purposes. As at 31 December 2012, the net amount of salary advances (Acct 145006) and the related salaries on hold (Acct 211151) and salaries voided Acct. 211152) is US\$ 132 231.23. The implementation of this recommendation will be monitored in future audits of field offices.</p>
30	<p><b><i>Global Management System</i></b></p> <p>Analyse the impacts/risks of every change in process/ task/control before implementing changes. (Para. 59)</p>	<p><b>Implemented.</b></p> <p>A Change Control Board is in place as part of the GSM Upgrade to manage and monitor all ongoing enhancements requested for R11 as well as any project related changes.</p>
31	<p>Review justification for continuing with 'Whitepages' and other legacy systems being serviced through GDH. (Para. 69)</p>	<p><b>Not implemented.</b></p> <p>Management commented that service provisioning is not covered by GSM.</p>
32	<p>Regularly review SRs to ensure that SRs are duly assigned. (Para. 78)</p>	<p><b>In Progress.</b></p> <p>We noted that preparatory work has been completed for a regular review and assignment of SRs by the Global Service Desk in 2013.</p>
33	<p>Consistently review performance measures, the latest Service Catalogue (SC) and the monthly technical reports for adoption of KPRs and targets. (Para. 82)</p>	<p><b>Implemented.</b></p> <p>Based on our audit of GSC, Service Catalogue KPRs were reflected in the Monthly and quarterly reports. The Service Catalogue issued in April 2012 will be updated in March 2013.</p>



No.	Recommendation	External Auditor's Validation
34	Explore the possibility of shifting the Secondary/DR Data centre to an off-site location other than Geneva (Para. 89)	<b>In Progress.</b> We noted that an integrated disaster recovery test run was completed satisfactorily on 29 September 2012.
35	Implement SLAs with WIPRO at the earliest (Para. 95)	<b>Implemented</b> We noted that SLA metrics have been in place since June 2012 and are being monitored.
36	Review and validate the UNICC reports on service metrics. (Para. 97)	<b>In Progress</b> The Lead Implementer had already started the work and UNICC will provide the results during the Management Committee meeting in April 2013.
37	Work closely with AMRO during the development of its ERP, so as to achieve transfer of disaggregated data from AMRO at shorter interval. (Para. 99)	<b>In Progress.</b> Management committed that they will be working closely with AMRO as its ERP project develops.
38	Monitor closely the implementation of technical upgrade to ensure that the upgrade is completed well before the cut-off date of November 2013. (Para.102)	<b>In Progress</b> The GSM R12 Technical Upgrade is scheduled to go live on 1 May 2013

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