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Report of the External Auditor

Report by the Secretariat

The Director-General has the honour to transmit to the Sixty-ninth 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 2015 (see Annex).

ANNEX

**Republic of the Philippines
COMMISSION ON AUDIT
Quezon City**



**Report of the External Auditor
to the Sixty-ninth World Health Assembly
on the Financial Operations of the
World Health Organization**

**For the Financial Year Ended
31 December 2015**

**REPORT OF THE EXTERNAL AUDITOR
TO THE SIXTY-NINTH WORLD HEALTH ASSEMBLY
ON THE FINANCIAL OPERATIONS OF
THE WORLD HEALTH ORGANIZATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

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LIST OF ABBREVIATIONS

AARs	Award Activation Requests
ADG	Assistant Director-General
AFRO	Regional Office for Africa
AMRO	Regional Office for the Americas
APOC	African Programme for Onchocerciasis Control
APW	Agreement for Performance of Work
BFOs	Budget and Finance Officers
BY	Begin-Year
CFLD	Corporate Framework for Learning and Development
CN	Category Network
COs	Country Offices
CRC	Contracts Review Committee
CRE	Compliance Risk Management and Ethics Office
CRMP	Corporate Risk Management Policy
DFC	Direct Financial Cooperation
DI	Direct Implementation
EMRO	Eastern Mediterranean Regional Office
EURO	Regional Office for Europe
FAR	Fixed Asset Register
FCFS	Final Certified Financial Statements
FNM	Department of Finance
FWC	Family, Women's and Children's Cluster
GBS	Governing Bodies and External Relations
GEM	Global Engagement Management
GIMS	Global Inventory Management System
GSC	Global Service Centre
GSM	Global Management System
HIS	Health Systems and Innovation Cluster
HQ	Headquarters
HR	Human Resource
HRD	Human Resource Department
IARC	International Agency for Research in Cancer
ICC	United Nations International Computing Centre
ICFS	Interim Certified Financial Statements
IEOAC	Independent Expert Oversight Advisory Committee
IOS	Office of Internal Oversight Services
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
IST	Inter-country Support Team for Western Africa
LOAs	Letter of Agreements
LSS	Logistics Support Service
MOH	Ministry of Health
MTR	Mid-term Review

MY	Mid-Year
ODG/DGO	Office of the Director General
PAHO	Pan American Health Organization
PAN	Programme Area Networks
PB	Programme Budget
PBPA	Programme Budget Performance Assessment
PIP	Performance Improvement Plan
PMDS	Performance Management and Development System
PO	Purchase Order
PR	Purchase Request
	Planning, Resource Coordination and Performance Monitoring
PRP	Department
PTAEO	Project Task Activity Expense Organization
PVAR	Physical verification of Assets report
RD	Regional Director
RFC	Request for Change
RR	Risk Register
RTC	Retroactive Travel Claim
SEARO	Regional Office for South East Asia
SHI	Staff Health Insurance
SOP	Standard Operating Procedure
TSA	Technical Services Agreement
UNAIDS	Trust Fund for the Joint United Nations Programme on HIV/AIDS
UNGA	United Nations General Assembly
UNITAID	International Drug Purchase Facility
USD	United States Dollar
WA	Western Africa
WCO	WHO Country Office
WHA	World Health Assembly
WHO	World Health Organization
WPRO	Regional Office for the Western Pacific
WR	WHO Representative

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 transmitted through the Executive Board to the Sixty-ninth World Health Assembly (WHA).

2. This is the fourth long-form report to the World Health Assembly by the Chairperson of the Commission on Audit of the Republic of the Philippines who was appointed by the Sixty-fourth World Health Assembly, by resolution WHA64.23, as the External Auditor of WHO for the financial periods 2012–2015. The objective of the audit is to provide independent assurance to Member States, to increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process. We have detailed in this Report the financial and governance matters that we believe should be brought to the attention of the World Health Assembly.

Overall result of the audit

3. In line with our mandate, 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.

4. Our audit resulted in the issuance of an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2015. We concluded that the financial statements present fairly, in all material respects, the financial position of WHO for the financial year ended 31 December 2015, and its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with the International Public Sector Accounting Standards (IPSAS).

5. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of the WHO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of the WHO.

6. In addition to the audit of financial statements, we also reviewed critical business processes in Office of the Director General (ODG), Governing Bodies and External Relations (GBS), Family, Women's and Children's Cluster (FWC), Health System and Innovation Cluster (HIS), regional, country operations, including the disbursements for Ebola with the end view of assessing the effectiveness of control systems. Our review was also made in line with ISA 265 which deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in the audit of financial statements. We provided significant recommendations on the observations noted to improve the efficiency and effectiveness of management, to support the objectives of WHO's work, increase accountability and transparency, and improve and add value to WHO's financial management and governance.

Summary of recommendations

7. We made recommendations which are discussed in detail in this report. The main recommendations are that the WHO Management:

- a. **Fast track the completion of a centralized tracking tool for donor agreements under the Global Engagement Management (GEM) project, to immediately address the delay in the creation of awards thus, ensuring timely recognition of revenue (paragraph 31);**
- b. **Stipulate in the WHO eManual and WHO IPSAS Manual further policy guidance regarding revenue and accounts receivable recognition for voluntary contributions (paragraph 32);**
- c. **Incorporate the standard advance payment modality provision in the agreement itself, and record advance payments to suppliers as prepayments in accordance with existing accounting policy (paragraph 34);**
- d. **Continue the planned migration and roll-out of the Global Inventory Management System (GIMS) in the regional and country offices to ensure the accuracy of reported inventories (paragraph 39);**
- e. **Provide information on the expiry dates of inventories in preparation for capture in the Global Inventory Management System (GIMS) (paragraph 40);**
- f. **Finalize the global SOP on the disposal of expired inventories to provide guidance to technical units and warehouse managers taking into consideration their valuable inputs for a responsive global SOP for the management of expired inventories (paragraph 43);**
- g. **Provide further guidance and relevant trainings to staff members, enforce compliance with regulations and strengthen the review process in the assignment of expenditure types to be used before a purchase order is created in GSM to enhance compliance with regulations and ensure correct recording of expenditures (paragraph 47);**
- h. **Continue to undertake the necessary action to further improve the quality of data sources as well as the efficiency and effectiveness of functional and operational processes within GSC and GSM (paragraph 49);**
- i. **Implement strictly the policy of no retroactive travel claims for duty travel in line with Section VII.5.8 of the WHO eManual until a change in policy to cover RTCs on exceptional cases is approved and effected in the eManual (paragraph 51);**
- j. **Align with the provisions of the eManual and the GSM calculation formula to prevent overpayment of hardship allowances and recover any overpayments on hardship allowances from staff members concerned (paragraph 53);**
- k. **Strengthen procurement planning capabilities and related accountabilities by considering the development of comprehensive procurement plans to ensure that procurement needs are appropriately managed (paragraph 67);**

- l. Strengthen review and monitoring activities across the business processes involved in the procurement of services through TSA, APW, LOAs and Consultancy Contracts to ensure that prescribed controls are adhered to and to consequently install fixes to the related gaps noted (paragraph 72);**
- m. Craft the most appropriate mitigation strategies to ensure that risks to the Organization in terms of accountability, representation and safety of personnel with inappropriate insurance coverage brought about by hiring more individual service contractors are better addressed (paragraph 76);**
- n. Ensure staff adherence to ePMDS+ completion within the required time frame by employing a suitable strategy to exact full compliance, and completely measure staff performance (paragraph 85);**
- o. Review the definition of the Staff Objectives as enumerated in each of their ePMDS+ and ensure that these are accomplished following the SMART model (paragraph 89);**
- p. Ensure that competency build-up is undertaken for all staff and that the staff individual training needs are assessed formally, in close engagement with the HRD, so that the developmental needs along the required staff competency areas are adequately tracked and managed (paragraph 97);**
- q. Ensure that post vacancies are appropriately managed and the building and populating of the pipeline of talents are robustly dealt with to prevent talent-drought when vacancies arise (paragraph 104);**
- r. Address the control gaps noted in award management by strengthening monitoring mechanism on: the status of all awards especially those nearing their end dates to ensure that planned activities are fully implemented pursuant to the Donor's Agreement; updating the status of overdue receivables; and review actions for encumbrances to ensure timely decision and disposition of encumbrances not yet liquidated past the transaction's completion date and award's end date (paragraph 111);**
- s. Improve donor reporting monitoring capabilities and coordination among Technical Units with the end view of producing more complete and accurate statistics in the GSM thereby assuring better support to managerial decisions, and providing donors with relevant and timely information on their donated funds (paragraph 112);**
- t. Clarify control and authority in DFC funding in relation to roles and responsibilities given to the WHO HQ departments and with reference to the related provisions in the eManual (paragraph 117);**
- u. Align DFC engagements with the Organization's accountability principles by obtaining better clarity of roles and responsibilities through close engagements with SOP policy managers to ensure that distinct activities amongst the clusters, regional and country offices are better defined and applied uniformly across the Organization (paragraph 121);**
- v. Continue improving on: (a) complying with policies in ensuring that contracts are signed before the planned start date; (b) monitoring of the implementation of DFC**

projects/activities; (c) monitoring DFC Reports; and (d) conducting assurance activities on a periodic basis and spot checks to assure the successful implementation of DFC projects/activities. In addition, continuously provide training and guidance to staff involved in the receipting of DFCs in GSM; and require the Country Offices to secure prior approval of RD/Comptroller for new DFC releases to implementing partners with overdue reports (paragraph 128);

w. Address the control gaps noted on the imprest accounts by improving the strategy in studying and forecasting future expenditures, segregating incompatible duties, strengthening the controls to mitigate the risks of misuse of funds, conducting a formal handover process for proper accountability purposes (paragraph 132);

x. Address control gaps noted in asset and inventory management by maintaining adequate and correct records, placing bar codes, conducting timely disposal of obsolete items, securing approval before disposing expired items, and by segregating incompatible functions to further safeguard the Organization's assets (paragraph 135);

y. Address the control gaps noted in travel management by ensuring the preparation of travel plans, enforcing adherence to the travel requests approval period, requiring timely submission of travel reports as well as travel claims, and ensuring efficient recovery of per diems/travel claims (paragraph 139);

z. Enhance programme results review by ensuring that expected results and programme status deviations are constantly and iteratively monitored to have better programme and project decision base (paragraph 146);

aa. Strengthen the systematic tracking of lessons learned with the current process of mid-term review and end of biennium assessment linking this to operational planning and monitoring on programme management in the COs and in the HQ Cluster (paragraph 152);

bb. Consider in the monitoring framework a mechanism where lessons learned are structured coherently, monitoring results and lessons learned as well as best practices are documented, disseminated and tracked for use in decision-making, organizational learning, future planning and programming, and evaluation (paragraph 153);

cc. Enhance the monitoring activities at the Country level by conducting periodic and comprehensive monitoring of the workplans and taking appropriate measures on the occurrence of adverse condition such as negative balances or variances (paragraph 157);

dd. Enhance risk identification activities, in close engagement with the CRE, by infusing better root cause analysis of the identified risks within a defined context to avoid assumptions and logic traps and ensure that remediation strategies result in the application of more effective risk controls (paragraph 164); and

ee. Pursue the risk register exercise and integrate risk management in the critical management areas such as planning, budgeting, and programme management to ensure that risks are identified, prioritized and mitigated to attain programme objectives (paragraph 167).

Implementation of external auditor's recommendations in prior years

8. We validated the implementation of External Audit Recommendations contained in prior years' audit reports. We noted that of the 23 recommendations, 13 or 57% have been implemented while 10 or 43% are still in progress of implementation. The status of the 10 recommendations which are in progress will be validated and reported in the next financial reporting period. Annex A presents the detailed analysis of the implementation of the recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

9. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed External Auditor of the WHO in May 2011 by the Sixty-fourth World Health Assembly, by resolution WHA64.23, for the financial periods 2012–2015. The WHO Financial Regulations XIV and the Appendix elaborate on the terms of reference governing the external audit. The regulations require that the External Auditor report to the World Health Assembly on the audit of the annual financial statements and on other information that should be brought to its attention with regard to Regulation 14.3 and the Additional Terms of Reference.

Scope and Objectives

10. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of WHO's compliance with Financial Regulations and legislative authority. The primary objectives of the audit are to provide an independent opinion on whether:

- a. the financial statements presented fairly the financial position, the results of financial performance, the changes in net assets/equity, the cash flows, and the comparison of actual amounts and budget of WHO for the financial year ended 31 December 2015 in accordance with IPSAS;
- b. the significant accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial period; and
- c. the transactions that have come to our notice or that we have tested as part of the audit, in all significant respects, complied with the Financial Regulations and legislative authority.

11. We also carried out a review of WHO operations with regard to Financial Regulation 14.3 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.

12. Overall, the audit intends to provide independent assurance to Member States, to increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process.

Methodology and auditor's responsibilities

13. We conducted our audit in accordance with the International Standards on Auditing (ISA). These Standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. The audit includes examining evidence supporting the amounts and disclosures in the financial statements on a test basis. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.

14. 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 its internal control.

15. The auditor's responsibility is to express an opinion on the financial statements based on an audit. The audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free of material misstatement including those caused by fraud or error.

16. With respect to the review of WHO operations in line with our risk assessment, we focused on the review of management control activities operating in the clusters, regional and country offices along procurement, human resource, awards and donor reporting, direct financial cooperation, direct implementation, cash management/imprest accounts, asset and inventory management, travel and programme management. We also reviewed the implementation of risk management on the offices audited.

17. During the financial year 2015, in addition to the audit of financial statements, we also audited offices at the Headquarters (HQ) – Family, Women's and Children's (FWC) Cluster, Health Systems and Innovation (HIS) Cluster, Office of the Director General (ODG), and Governing Bodies and External Relations (GBS); the Global Service Centre (GSC); the Regional Office for South East Asia (SEARO); the Inter-country Support Team (IST) for Western Africa; and country offices (CO): China, Zambia, Myanmar, Burkina Faso and India.

18. We also audit the financial statements 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 (SHI) Fund. A separate report to the Governing Body of these entities is issued.

19. This report does not include any comments on the financial statements of the Pan American Health Organization (PAHO), the Regional Office for the Americas (AMRO), which is being audited by the Spanish Court of Audit. We placed reliance on their audit based on the Comfort Letter dated 16 March 2016.

20. We coordinated with the Office of Internal Oversight Services (IOS) on the planned audit areas to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on IOS work. We also collaborated with the Independent Expert Oversight Advisory Committee (IEOAC) to further enhance our audit work.

21. We continued to report audit results to WHO Management in the form of audit observation memoranda and management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management.

B. RESULTS OF AUDIT

22. The present report covers matters that, in the opinion of the External Auditor, should be brought to the attention of the World Health Assembly. The WHO Management was afforded the opportunity to comment on our audit observations. The recommendations provided to Management are designed to support the objectives of WHO's mandate, and to improve and add value to WHO's financial management and governance.

1. FINANCIAL MATTERS

1.1 Audit of financial statements

23. We issued an unmodified opinion on the WHO's financial statements. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of WHO for the financial year ended 31 December 2015, 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 as set out in Note 2 to the financial statements.

24. We appreciate the efforts taken by Management to address a number of recommendations issued in the course of the interim and year-end audits of the WHO 2015 financial statements in order to present fairly the balances of the affected accounts and improve the presentation and disclosure requirements in compliance with IPSAS. The financial statements for the period ended 31 December 2015 reflect the adjustments on the balances of accounts affected in the statements as well as additional note disclosures and corrections thereof.

25. In addition, as required by WHO Financial Regulations, we concluded that the accounting policies were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of WHO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of WHO.

26. We reported, however, other financial issues which need to be addressed by Management to further improve financial transactions recording, processing and reporting and ensure the fair presentation of the financial statements in the next reporting period. Management acknowledge that there is work to be done in the areas of timely recording of cash contributions and receipt of DFC reports, alignment of Global Management System (GSM) procedures with WHO eManual, correct usage of accounts in recording transactions and expenditures in GSM, updating of SOPs in emergency related business processes, fast tracking of SOP on inventory, and disposal of expired inventory items. We also noted gaps in management controls in key areas of operations and these are discussed in Governance section of this report.

1.2 Revenue recognition

27. Our review of revenue recognition at cut-off revealed that eight donor agreements signed from July to December 2015 and effective in 2015 involving close to USD 2 million were not recognized in 2015 since the dates of receipt of Award Activation Requests (AARs) came after the 15 January 2016 closure of the Accounts Receivable in GSM. This condition still occurred in spite of the Information Note 49/105 issued on 21 December 2015 reminding all staff on the timely submission of AARs in order that cash and in-kind contributions are correctly recognized in 2015.

28. We already reported in 2014 and WHO agreed to pursue the implementation and maintenance of centralized tracking tool for donor agreements as planned to capture donor agreements at an early stage and provide timely information on signed agreements which will facilitate follow-up of award creation and consequently the recording of revenue and accounts receivable. The planned initial roll-out in September 2015 for the Global Engagement Management (GEM) Project has been delayed. The GEM project is under the GSM Transformation Programme and is now under new project management.

29. The tracking tool will facilitate the monitoring and identification of agreements from which awards should be created before the cut-off date. As Management pointed out, the GEM project is critical to ensure the timely creation of awards.

30. Furthermore, we noted that there were donor agreements for voluntary contributions signed in 2015 that were neither recognized as Revenue nor as Deferred Revenue which Management explained was due to the start date of the implementation of these agreements in 2016. This in line with the SOP but it is not outlined in the eManual or WHO IPSAS Manual.

31. We reiterated our recommendation and WHO agreed to fast track the completion of a centralized tracking tool for donor agreements under the GEM project, to immediately address the delay in the creation of awards thus, ensuring timely recognition of revenues.

32. We recommended that further policy guidance regarding revenue and accounts receivable recognition for voluntary contributions be clearly stipulated in the WHO IPSAS Manual and WHO eManual.

1.3 Prepayments

33. We noted that one agreement for the procurement of vaccines and medical supplies (mOPV2) amounting to USD 6.24 million did not provide provision for advance payment, but advance payment was made. A Funding Commitment was then issued to authorize the advance payment with notation that this exception shall not be understood as precedent-setting and that any subsequent request to procure mOPV2 will be made through the standard advance payment modality.

34. We recommended and WHO agreed to incorporate the standard advance payment modality provision in the agreement itself, and record advance payments to suppliers as prepayments in accordance with existing accounting policy.

1.4 Global Inventory Management System (GIMS)

35. We reported under A66/34 and WHO agreed to develop a global inventory management system that is integrated with GSM to ensure ease and coherence in financial reporting. Under A67/45, we also reported that WHO apportioned the estimated Packaging, Freight and Insurance (PFI) costs as part of the value of inventories reported in the financial statements due to the absence of a global inventory system. The computation of weighted average cost of inventory item on a global basis became impossible in the absence of a unified system of inventory coding.

36. The development of the GIMS was in progress in 2014 under an Oracle module linked directly with GSM. The User Acceptance Testing was planned for May to July 2015 with implementation for HQ warehouses from August 2015. A follow-up review in 2015 revealed that the establishment of a naming convention to standardize description and unit of measure was in process to go system live in November 2015 at HQ store rooms and warehouses as pilot entities.

37. However, the system went live only on 16 January 2016 after postponement in December 2015 due to processing deadlines by the GSC for the end-of-biennium closure. The migration and roll-out will be implemented in the regional and country offices within 2016 except for Regional Office for Africa (AFRO) warehouses where migration will be conducted in early 2017, at the completion of the 2016 audit.

38. The reported inventory balance as at 31 December 2015 included items valued at USD 0.633 million which did not include information relative to their expiry dates. The absence of expiry dates on the inventories impacts on the balance of inventories reported in the financial statements. With the implementation of the GIMS, complete information is important in the setting up of the beginning balance of each inventory item in the system. We also expect improvement in the valuation and reporting of inventories starting 2016 due to implementation of the inventory system.

39. **We recommended that WHO continue the planned migration and roll-out of GIMS in the regional and country offices to ensure the accuracy of reported inventories.**

40. **We further recommended that WHO through the warehouse managers or technical units provide information on the expiry dates of inventories in preparation for capture in GIMS.**

1.5 Standard Operating Procedures on Disposal of Expired Inventories

41. In our 2014 year-end audit, we recommended the formulation of global standard operating procedures (SOP) on the disposal of expired inventory items stored in the warehouses to enhance WHO's inventory management system. Management explained that the draft is now in circulation with various technical units for guidance and clarification.

42. Management further explained that it is a complex area and as there is a political dimension to many stockpiles under the control of WHO, procedures cannot just be imposed on technical units that may hamper their work or be used against them. Management added that an SOP needs to offer helpful guidance but not lock a unit into a path of action steps that may later cause reputational damage.

43. **We recommended and WHO agreed to finalize the global SOP on the disposal of expired inventories to provide immediate guidance to technical units and warehouse managers taking into consideration their valuable inputs for a responsive global SOP for the management of expired inventories.**

1.6 Expenditures

44. During the 2015 interim audit, we noted expenses which were erroneously recorded or misclassified in the Contractual services, General operating costs, Staff costs and Travel expense accounts. These errors were brought about by the weakness in the review process in the recording of expenditures. As a result, Management had to raise non-standard eExpenditure batches to correct the errors to ensure that balances of expenditure accounts affected are fairly presented at year-end.

45. Similarly, our review of utilization of Crisis and Outbreak Response Fund for Ebola revealed that the required adjudication reports, justifications, and approvals were absent or incomplete in a number of sample transactions tested. Misclassified expenditures as well as incorrect use of eExpenditure batches were noted. Thus, we also emphasized the need to strengthen controls particularly in the review process by the technical units/department concerned to ensure compliance with the existing regulations and accurate recording of transactions in the accounts including correct usage of eExpenditure batches. Management assured us that further guidance and training will be provided to ensure that staff members accurately record transactions and eExpenditure batches.

46. In addition, we noted general operating expenses of USD 0.721 million which was recorded in the Contractual services account while USD 7.519 million were erroneously classified as Contractual services, general instead of Consulting, research services.

47. **We recommended and WHO agreed to provide further guidance and relevant trainings to staff members, enforce compliance with regulations and strengthen the review process in the assignment of expenditure types to be used before a purchase order is created in GSM to enhance compliance with regulations and ensure correct recording of expenditures and use of eExpenditure batches, thus avoiding errors in account classification and the need of eExpenditure batches for adjustments.**

1.7 Global Service Centre/Global Management System (GSC/GSM)

48. Our 2015 audit disclosed improvement opportunities in the functional processes of GSC including the operational design on the specific functions in GSM which affects its efficiency and effectiveness. Recommendations to address the following issues are in the process of implementation at year-end:

- a. Absence of documented authorization and verification in processing requests for supplier creation and update to ensure that additions and changes to the supplier database are valid and authorized and will safeguard the integrity of the supplier record;
- b. No established formal policy on supplier data maintenance which served as a pervasive control that will provide guidance for staff or units directly involved in the process, establish periodic review and to streamline the activities and procedures;
- c. Absence of systematic validation to match currencies in contract and bank account of supplier;
- d. Absence of post-facto validation to determine satisfactory compliance of deliverables in the "Pay on Receipt" process;
- e. Absence of global implementation plan to implement the Procurement Strategy;
- f. Absence of a single dedicated unit within GSC, a standard cohesive procedures, and a validation or reconciliation procedures for Purchase Order (PO) closure processes at GSC;
- g. Delay in the receipting of global goods PO which resulted in unnecessary and avoidable administrative processes at GSC;
- h. Absence of defined standard procedures on pended AARs and not updated standard checks and validation procedures before an award is finally created in GSM; and
- i. Absence of formal policy on the regular and periodic verification of dependency status and a need to establish new HR-SOPs and update existing ones.

49. **We recommend that WHO continue to undertake the necessary action to further improve the quality of data sources as well as the efficiency and effectiveness of functional and operational processes within GSC and GSM.**

50. We also noted that the existing practice of processing retroactive travel claims (RTC) for duty travels in GSM is not aligned with the policy on prohibition of RTCs for duty travel under Section VII.5.8 of the WHO eManual. The Coordinator, Logistics Support Service (LSS) pointed out that a policy change to allow RTCs for duty travel on exceptional cases is under review.

51. We recommended and WHO agreed to implement strictly the policy of no retroactive travel claims for duty travel in line with Section VII.5.8 of the WHO eManual until a change in policy to cover RTCs on exceptional cases is approved and effected in the eManual.

52. We further noted that the hardship allowances are adjusted in GSM when net base salary and dependency status change resulting in overpayment of allowances. These adjustments in hardship allowances were brought about by the gaps between the requirements in the eManual and the existing payment rules in GSM. This issue was reported during the year-end audit in 2014 at GSC, however to date, no enhancement has been done to align the two. Moreover, the overpayments have not been recovered from staff members concerned.

53. We recommended that WHO initiate system enhancement on the GSM calculation formula for hardship allowance to align this with the provisions of the eManual and the GSM calculation formula to prevent overpayment of hardship allowances and recover any overpayments on hardship allowances from staff members concerned.

54. Management justified that the text in the e-Manual is not in line with later policy decisions taken by WHO that when net base salary and dependency status change, the hardship allowance in GSM will be adjusted accordingly. This part of the eManual will be amended accordingly in the course of 2016 in line with eManual changes related to the new compensation package for international staff pursuant to UNGA Resolution 70/244. We maintain, however, that until the change in policy is approved and effected in the eManual, the existing provisions of the eManual prevail over the GSM process.

2. GOVERNANCE MATTERS

55. In line with our mandate to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the management and operations of the Organization pursuant to Regulation 14.3 of the WHO Financial Regulations, we reviewed the management controls implemented in key areas of operations, and risk management. Value-adding recommendations were communicated and discussed with Management to help enhance efficient and effective management of the Organization. Along this line, we audited the following offices in the Headquarters: Office of the Director General (ODG), Governing Bodies and External Relations (GBS), Family, Women's and Children's Cluster (FWC), and Health System and Innovation Cluster (HIS); the Country Offices in Somalia, China, India, Burkina Faso, Myanmar; the Regional Office in South East Asia (SEARO); and the Inter-country Support Team for West Africa. The key areas of operations covered in the review are management of: procurement, human resource, awards and donor reporting, direct financial cooperation, cash/imprest accounts, asset and inventory, travel, and programme.

2.1 Review of management controls

56. A system of internal control allows management to stay focused on the organization's pursuit of its operations and financial performance goals. Control activities occur throughout the organization, at all levels and in all functions. For internal control to work optimally, it must be linked to individual

staff performance, must foster motivational culture, define clear roles and responsibilities, and should pave the way for the enhancement of transparency and accountability.

57. The governance mechanisms currently in place demonstrate WHO's commitment to have a well-controlled operational environment where accountabilities are strengthened, internal controls are functioning as expected and risk management capabilities are enhanced for the effective mitigation of business risks. We highlight and appreciate the Organization's resolve to deliver quality frameworks for accountability, risk management and internal control, including such tools as the control self-assessment and representation letter, all of which are now put in operation with varying levels of implementation.

58. However, central to an effective governance mechanism in any organization, is the pervading level of risk management maturity and how the assessed risks drive the embedding of internal controls across decisions and processes within that organization. It is thus essential, that for governance success to be sustainable, risk management and control activities need to be functioning in accordance to their design. While a sound design of risk management and internal control infrastructures provide the right environment for the better controlling of operational processes within an organization, it is from the actual operation of these established controls that information on their effectiveness can be taken.

59. During the year, we have reviewed the operation of WHO's front line controls, its recognized first line of defence for the effective controlling of its operations, as these are deployed and manifested across several critical processes in selected offices. Our tests centred on determining their level of effectiveness and opportunities for process improvements. In addition, our review was undertaken in line with International Standards on Auditing 265 which deals with the auditor's responsibility to communicate with those charged with governance and management deficiencies in internal control that the auditor has identified in the audit of financial statements.

60. We have also assessed the implementation of risk management within the offices visited. We intend to use the results of our review to define our succeeding audit scopes in the lead up to the provision of an Assurance Letter on WHO's internal control to coincide with the preparation by the Secretariat of the WHO Statement of Internal Control.

61. The results of our review are presented in the succeeding paragraphs.

2.1.1 Procurement management

62. The WHO Procurement Strategy emphasized that the Organization's procurement function is complex and wide-ranging in scope which includes purchase of goods, works or professional services, and acquisition of real property either through purchase or lease.

63. For the financial year 2015, WHO spent the following on procurement: (a) Medical supplies and materials – USD 265 481 000; contractual services – USD 744 096 000; and Equipment, vehicles and furniture – USD 67 716 000.

Procurement planning

64. The ultimate goal of procurement planning as emphasized under the UN Procurement Practitioners Handbook is to have a coordinated and integrated action to fulfil a need for goods, services or works in a timely manner and at reasonable cost. A timely and accurate procurement planning is thus essential to achieve this goal. The preparation of procurement plan should necessarily

include an estimation of the enough lead time for each step of the procurement cycle. The plan contains among others, timelines, milestones, strategies, and resources needed. It also provides a linkage between an entity's activities and procurement strategies by directing accountability to specific process owners.

65. Our audit revealed either the absence of or inadequacy of procurement planning activities undertaken by the audited WHO clusters and offices as shown in the following table:

Table 1 – Procurement planning activities in clusters and offices

Cluster/ Office	Procurement planning related activities
Myanmar, Burkina Faso, SEARO, IST for West Africa	Annual Procurement Plan was not prepared.
Somalia	Prepared a document containing the unit cost, total quantity, distribution zone/beneficiaries and estimated amount of procurement for 2015. However, no information was provided as to the period to procure, the process in the identification and selection of suppliers and the strategy in procuring each requirement.
Zambia	APP was not prepared as a single document. Instead they use two separate semi-annual procurement plans for 2015 prepared by the Logistics and Procurement Officer and approved by the Country Office Representative, along with a document called Operational Budget File.
HQ/HIS and FWC Cluster	Some departments have their own respective procurement plans while others have none. No Consolidated Procurement Plan was prepared for the Cluster.

66. We underline WHO's recognition that procurement activities are prone to risks. These risks are normally attributed to strategic forces which include external factors such as the availability and quality of resources, and the expectations of stakeholders. In order to capture and address important aspects of a procurement process, it is vital that a comprehensive and implementable procurement plan be crafted by the Organization.

67. We recommended that WHO strengthen its procurement planning capabilities and related accountabilities by considering the development of comprehensive procurement plans to ensure that procurement needs are appropriately managed.

68. On the above recommendation, the HIS Cluster informed us that it will (along with the rest of the Organization) participate in the implementation of the procurement strategy and that it is already working with the Procurement Team and the CRC Secretariat to offer the "Getting Ready for Procurement" training to Cluster staff involved in the procurement process. It should be noted that some of the training will be revised given the changes in ownership and processes following the implementation of the procurement strategy. In the case of Somalia, a procurement plan was prepared after the audit.

69. On the other hand, the FWC Cluster partially agreed on the recommendation and in the meantime, it would encourage the budget centers to develop a simple procurement plan to supplement that which is already listed in the GSM workplan products and services. Likewise, the regional and country offices agreed to consider preparing procurement plans.

Procurement of services

70. To determine how controls work within the procurement process for services, we evaluated the procurement process of some Clusters/Country Offices/DGO Departments and identified the following gaps in various modalities of contractual services:

Table 2 – Control gaps in procurement of services

No.	Control gaps	Office
1	Technical Services Agreement (TSA): The authority/approval for the Retroactive Start Dates of contracts in TSA was not indicated.	WHOHQ-FWC
2	Agreement for Performance of Work (APW): Adjudication Report for PO was not compliant with the template, OR some APWs had no Adjudication Report, OR Approval for the CRC were being overridden, OR GSM mandatory attachments were missing, OR no mandatory bidding for contracts beyond USD 25 000.00, overlapping of contract dates.	Myanmar, Zambia, Burkina Faso, Somalia, HQ/HIS and FWC Cluster, HQ/GBS and ODG Department
3	Letter of Agreement (LOA): Mandatory documentary requirements in the GSM were lacking and there was no LEG approval.	HQ-ODG
4	Consultant contracts: Consultancy contracts were not dated and data in the Consultant Selection Reports were incomplete.	Somalia, Zambia, HQ/HIS Cluster

71. HIS Cluster informed us that as regards to Consultant contracts and APWs with individuals, the WHO Procurement Strategy proposes that these will be managed by the Human Resource Department (HRD) and that the HRD is in the process of defining how this will work in the future and how to transition from the current practice to the new process/procedures. For the recommendation on TSAs and LOAs, the Cluster indicated that it will identify measures how to address the gaps mentioned. WCO Somalia immediately addressed the deficiencies noted.

72. **We recommended that WHO strengthen its review and monitoring activities across the business processes involved in the procurement of services through TSA, APW, LOAs and Consultancy Contracts to ensure that prescribed controls are adhered to and to consequently install fixes to the related gaps noted.**

Risks on individual service contracts

73. Individuals under contract service agreement are paid on a daily pay rate together with a per diem which varies according to their places of assignment, their experiences and qualifications. They are hired to free the Organization from additional staff costs. For the calendar year 2015, WHO spent a total of USD 44 985 000 for consulting services.

74. In the WHO Procurement Strategy and in the human resources annual report (A68/44) it is recognized that there had been a shift in the balance between the continuing or fixed-term appointments, temporary appointments and non-staff contracts in which about 40% of the workforce of the Organization are currently employed through non-staff arrangements. The shift poses risks to the Organization in terms of representation intellectual property and safety of personnel with inappropriate insurance coverage.

75. With all of the planned enhancements by the Organization for the optimal use of non-staff contracts, the fact remains that the preservation of accountability and of WHO's intellectual property is a challenge to the Organization that has to be given attention. This is particularly apparent in India considering that the non-staff human resource outnumbered the regular staff.

76. We recommended that WHO craft the most appropriate mitigation strategies to ensure that risks to the Organization in terms of accountability, representation and safety of personnel with inappropriate insurance coverage brought about by hiring more individual service contractors are better addressed.

77. We were informed that works are underway in HRD to update the policy and procedure for Consultants and Individual APW contracts while current practices already address certain elements including the signing by the consultants of Conflict of Interest undertaking. The concerned Cluster further informed us that it will cooperate with HRD, CRE and other policy-making departments to implement the recommendation.

2.1.2 Human resource management

78. We determined the implementation of controls affecting human resources management in the Organization. We put particular emphasis on managing the performance of staff and workforce planning. In 2015, the Organization spent USD 920 191 000 in Staff costs, the largest expenses type in 2015.

79. The human resource management functions performed by several officers and staff are enumerated in their individual ePMDS+ that include ensuring of compliance with WHO rules, providing guidance to team members, and monitoring HR actions, amongst others.

Compliance with ePMDS+

80. The eManual provides that during the year-end review, the staff member and the supervisor will review and evaluate achievements on the basis of established objectives and competencies. On the basis of the performance during the cycle, the first-level supervisor makes a recommendation for a final rating which is forwarded to the second-level supervisor for evaluation and approval. The Performance Management and Development System (PMDS) form is completed and signed by both staff member and supervisors promptly and within established deadlines in the annual PMDS Information Note.

81. As a means to further improve performance management, Information Note 07/2016 dated 4 February 2016 detailed the instructions in finalizing the 2015 ePMDS and in conducting the 2016 ePMDS or the Enhanced ePMDS+. Said Information Note specifically emphasized that, "it is a shared responsibility between the staff members and their supervisors".

82. Our audit disclosed the compliance rate of the Regional/Country/HQ Offices as of end of February 2016 as follows: Myanmar WCO has 51%; ODG HQ, 92%; GBS HQ, 81%; FWC Cluster, 76%; and India CO, 67%. For many of the outstanding reports, there were valid reasons noted for non-compliance, such as retirement, maternity leave, end of contract or sick leave. At the global level, the compliance rate was 64% as of end of February 2016. However, as at 1 April 2016, we noted a substantial increase in ePMDS compliance for the End-Year 2015 sign-off dates as shown in the table below:

Table 3 – Compliance with ePDMS for year-end 2015 sign off as at 1 April 2016

HQ and Regional Offices	Rate (%)
HQ	86
EURO	88
SEARO	87
AFRO	89
EMRO	95
WPRO	97
Global	90

83. Table 3 showed that during sign-off for year-end 2015, the global compliance rate as at 1 April 2016 was 90%. This shows an improved compliance on performance appraisal of staff.

84. Moreover, while the sign-off dates were on time during the End-Year, it was noted that there were delays in the compliance for the sign-off dates in the HQ Cluster and departments during the Begin-Year (BY) and Mid-Year (MY). The number of days of delays based on our tested samples are shown below:

Table 4 – Signed off delays begin-year and mid-year 2015

Cluster/Department	BY no. of days delayed	MY no. of days delayed
FWC Cluster	20 to 318 days	51 to 90 days
GBS Department	4 to 215 days	62 to 97 days
ODG Department	9 to 288 days	22 to 136 days

Among the reasons for the delay/non-compliance with the ePMDS+ were the reassignment of staff members, change of supervisors, attendance to meetings, duty travels, vacant positions at higher levels, and heavy workloads.

85. **We recommended that WHO ensure staff adherence to ePMDS+ completion within the required time frame by employing a suitable strategy to exact full compliance, and completely measure staff performance.**

ePMDS SMART objective

86. According to WHO guidelines on the ePMDS, a performance objective is what a staff member and supervisor agree as to WHAT the staff needs to accomplish during the performance period. Performance objectives must be clear and must guide action. These objectives can be linked to the staff's unit and department goals as well as WHO's overall objectives and mission. The set of objectives is attained through the ePMDS+ using the SMART approach as a guide. As a tool, the SMART objective is guided by criteria which require that the objectives are specific, measurable, achievable, relevant and time-bound.

87. To determine adherence to the SMART criteria of workplan objective, we tested the ePMDS+s of senior management personnel and staff in the audited clusters and offices. Our tests showed that the SMART criteria were not accurately observed.

88. The non-compliance with the required SMART objectives were determined to be due to objectives that are stated in generic and with unclear descriptions of staff responsibilities as enumerated in their ePMDS+. This manner of objective definition can create an impediment when the objectives are linked to organizational strategy and during the final measurement of staff accomplishment. Within the perspective of programme reporting, it is necessary that performance information even at the process owner level is clearly understood. Objective-setting is a valuable application so that the individual performance can be reconciled to workplans set and eventually to the whole expected programme results hence, objectives should be presented following the guidance provided.

89. We recommended that WHO review the definition of the Staff Objectives as enumerated in each of their ePMDS+ and ensure that these are accomplished following the SMART model.

90. The offices articulated that the staff appears to have difficulty in reflecting the time-bound nature of their work, especially where there are important repetitive elements in their work throughout the year. They explained that any approach to addressing this issue, needs to be developed from a corporate perspective, hence, they will work with the HRD to further improve the SMART Objectives.

Competency build-up through trainings

91. The Enhanced WHO Global Competency Model is expected to improve the staff career choices. Further, the Model enables the Organization to define the competencies, technological skills and learning required to enable staff members to progress in a given task/job. It also clarifies the competencies needed to carry out staff works through the combination of knowledge, skill and attitude. The required competencies had been integrated in the ePMDS+ to harmonize it with recruitment and selection procedures as well as any other existing staff development initiatives such as trainings.

92. On the other hand, the WHO Corporate Framework for Learning and Development (CFLD) combines the principles of results planning and practical tools such as needs assessment, programme design, progress monitoring and outcome evaluation to help achieve the organizational learning and staff development objectives. It promotes WHO as a knowledge-based Organization that supports individual responsibility for taking on learning opportunities and charting one's own personalized learning and career path. A key focus of the Framework is to promote Learning and Development that is relevant, focused, cost effective and clearly aligned with the achievement of organizational goals.

93. Our review of the ePMDS+ of the sampled staff in ODG, GBS and FWC revealed that they have training needs varying from technical area related to job, interpersonal skills, languages and managing self. However, not all staffs were able to address their training needs.

94. Further, we noted that as at 31 December 2015 only 30% of the Staff under the GBS Department and 27% under ODG underwent trainings whether through the ilearn or other training modes, which does not align to the needs defined in the ePMDS.

95. The offices informed us that trainings are conducted all throughout the year. It further indicated that training is a continuous process and is based on the training needs of the individual. WHO offers a number of in-house trainings which is captured in the iLearn, a learning management tool and management development training within the Organization. We also gathered that a number of staff does not have time to devote to the trainings at this time.

96. We underline the fact that WHO had embraced the new strategic direction and vision of the Organization to ensure the highest caliber of staff with increased emphasis on the competency development and learning programmes for the staff.

97. **We recommended and WHO agreed to ensure that competency build-up is undertaken for all staff and that the staff individual training needs are assessed formally, in close engagement with the HRD, so that the developmental needs along the required staff competency areas are adequately tracked and managed.**

98. HRD is exploring the possibility of unifying Learning, Performance Management and Career Development life cycle in one platform, and the FWC cluster will be available to support and pilot when it is available. Meanwhile, clusters will encourage staff and managers to capture the training activities in their annual ePMDS so that Management can better address these needs.

Workforce planning

99. The WHO Revised Human Resource Strategy specified that succession planning is a critical aspect of workforce planning particularly in view of an anticipated high attrition rate.

100. Our review of the Workforce Planning revealed that, under the HIS Cluster nine staff had retired in 2014, thirteen positions are vacated/to be vacated in 2015, one position was still unfilled for the 2014 vacancies, while three vacancies are left unfilled in 2015. In WCO India, out of 127 positions, 68 or 54% are filled and 59 or 46% remains vacant as at 31 December 2015. Of these 59 vacant positions, 32 are long term and 27 are temporary in nature. In WCO Myanmar, 24 positions or 26% of total positions remain vacant as at 8 February 2016, nine of which have been vacant since January 2014 and 15 were vacant during 2015. In IST for West Africa, out of 76 positions, 16 or 21% remain vacant as at 29 February 2016. Of these vacant positions, 12 or 75% are holding long-term positions and 4 or 25% are holding temporary positions.

101. Among the reasons we gathered for the unfilled vacancies were funding constraints, changing priorities and procedural delays, organizational restructuring, dependence on action from Human Resource, and extension of retirements.

102. While we take cognizance of Management's reasons for non-filling up of vacancies, the filling up of these vacant positions must also be of utmost concern due to its possible effect on the implementation of programmes, on internal control and risk management. Vacant positions contribute to upscale overtime, contracting out and reduced quality of service levels for many divisions or departments of the organization.

103. As a process, work force planning involves the identification of positions/key groups, the competencies required of the positions, and the identification of potential candidates. Given these intricacies, a great deal of time can be consumed to fill up the vacant posts. As a tool in managing human resources, work force planning is also a shared responsibility with the HRD; hence, WHO offices need to proactively engage with the HRD.

104. **We recommended that WHO offices closely engage with the HRD to ensure that post vacancies are appropriately managed and the building and populating of the pipeline of talents are robustly dealt with to prevent talent-drought when vacancies arise.**

105. The offices audited informed us that with regard to next-in-line successors, WHO does not have a policy of identifying potential successors and grooming them into the position. This is an area within HRD's responsibility and although there have been discussions on the subject, it is not the direction that the Organization has chosen to go. Instead, WHO continues to promote a competitive process for each selection. On the vacated posts, they commented that these are currently being managed through the assignment of temporary staff members, designing a longer term position and submission of Vacancy Notices to recruit staff.

2.1.3 Award management and donor reporting

106. An award which is a contribution or a confirmed funding (normally a signed donor agreement) intended to support an activity or set of activities of the Organization requires that it be provided with an effective management to ensure that the objectives are accomplished according to the agreed, pre-defined responsibilities, within the given timeframe, resources and budget. The WHO Internal Control Framework defines the roles and responsibilities for controlling Awards, which includes the responsibility and accountability of the Directors in the management of awards. This includes initiating the award creation in GSM, designating how the award should be spent, monitoring the technical and financial implementation as well as reporting back to the donor.

107. Section IV.3.2.40 of the WHO e-Manual provides that Awards are assigned a start date, an end date and a close date. The SOP on Awards End to End defines the authority and managerial responsibility of the Award Manager in administering the award. It emphasizes that before the end date, the Award Manager should review all existing encumbrances, cancel any that may no longer be valid, and follow-up on the remaining encumbrances to ensure that these will be fully liquidated before the award close date.

108. Most donor agreements require regular reporting on technical activities and financial implementation in accordance with the terms of the agreement. Technical reporting and management financial reporting is the responsibility of the respective award manager and certified financial reporting must be reviewed and signed by FNM. Reporting on WHO projects and activities funded by voluntary contributions is vital to the credibility of the Organization and to maintaining the commitment of donors. The GSM is utilized by the Organization as a monitoring tool for a systematic assessment and measurement of performance on the status of donor reporting.

109. This year's review of the awards management was conducted to obtain reasonable assurance that related controls and processes are in place and effectively undertaken to strengthen accountability and transparency. The review noted the following control gaps:

Table 5 – Control gaps in awards management including donor reporting

No.	Control gaps	Office
1	Awards already expired or nearing expiry with unutilized balances	Somalia, Zambia, SEARO, IST for WA
2	Awards with low implementation rate nearing end dates	Somalia, Zambia
3	Overdue receivable from donors of awards	SEARO
4	Open encumbrances past the activity's completion date as at 31 December 2015 and award's end date	HIS, FWC, DGO/GBS
5	Delay in reporting to donors (as entered in GSM and ECM)	HQ-HIS and FWC, SEARO, Somalia, Zambia, Myanmar and Burkina Faso
6	Several reports were already provided to donors but were not yet uploaded in the GSM resulting in the discrepancy of records between GSM and Technical Units	HQ-HIS and FWC, SEARO, Somalia, Zambia, Myanmar and Burkina Faso

110. Furthermore, we have noted that there are still reports undelivered due to several reasons, as follows: some projects were not yet fully implemented because of conflict or security restrictions; formal reporting was overlooked due to extremely heavy workload and limited resources of the department; report preparation is still on-going; delayed request of Final Certified Financial Statements (FCFS) and ICFS to FNM. Whatever are the reasons provided for by the Management, the fact remains that there are still reports due that necessitate further monitoring actions both from the technical units for technical related reports and from the FNM for FCFS and ICFS. The noted observations in WCO Somalia were addressed after the audit.

111. We recommended and WHO agreed to address the control gaps noted in award management by strengthening monitoring mechanism on: the status of all awards especially those nearing their end dates to ensure that planned activities are fully implemented pursuant to the Donor's Agreement; updating the status of overdue receivables so that necessary action or adjustment may be employed; and review actions for encumbrances to ensure timely decision and disposition of encumbrances not yet liquidated past the transaction's completion date and award's end date.

112. We further recommended that WHO improve donor reporting monitoring capabilities and coordination among Technical Units with the end view of producing more complete and accurate statistics in the GSM thereby assuring better support to managerial decisions, and providing donors with relevant and timely information on their donated funds.

2.1.4 Direct financial cooperation

113. For 2015, the Organization spent USD 311 717 000 in transfer and grants which includes comprises of Direct Financial Cooperation (DFC) and Letters of Agreement. DFC activities contribute significantly to the achievement of WHO's programmes particularly in the strengthening of health development capacities and abilities of countries to participate more effectively in, or to meet their commitments. As a major avenue for the Organization to deliver its services, DFCs as underlined in WHO eManual, are subject to the same standards of health programme accountability and evaluation in terms of relevance, efficiency, effectiveness and impact as any WHO technical cooperation programme, project or activity at country level.

Clear cut policy on DFC activities funded by HQ clusters

114. In terms of business ownership, the DFC legal requirements as defined in the WHO eManual provide that DFC activities are linked to an approved workplan at the country level and the cost estimates are cleared by the WHO Representative (WR) before approval. Further, for DFC budgets that exceed the threshold of USD 50 000, clearance with the regional office is sought. In this sense, the implementation and management of DFCs rest with the decentralized offices and not with the WHO headquarters.

115. Our review of the DFC management activities in the Headquarters revealed that total DFC POs for 2015 was USD 231 982 525. Out of this amount USD 1 625 250 pertains to HQ DFCs. In the HIS Cluster, we noted that there were 10 DFCs for a total of USD 235 000 funded by HIS PTAEOS with the following control gaps: (a) disparate approaches are undertaken by the Departments particularly in the acceptance of DFCs; and (b) the use of the HIS' PTAEOS for DFC-related activities in country offices is not backed with sufficient basis both in WHO eManual and in corresponding Standard Operating Procedure. The DFCs however, are tracked and monitored by the receiving CO.

116. We emphasized that: (a) varied practices of the HIS Cluster in terms of DFC management arrangements can expose the Cluster to risk of non-compliance with prescribed rules and regulations and may provide an ineffective precedent to future DFCs arrangements that are without clear and definite basis; and (b) absence of a categorical authority in the WHO eManual and related SOP that allow the use of HQ's PTAEOS for funding Country Offices' DFCs may open up more complexities in terms of controlling and monitoring of both the financial and technical compliance of DFCs that will ultimately cause issues in the observance of reportorial requirements to donors.

117. We recommended that WHO Clusters closely engage with the FNM to clarify control and authority in DFC funding in relation to roles and responsibilities given to the WHO HQ departments and with reference to the related provisions in the eManual.

118. The HIS Cluster informed us that the FNM will review the DFC policies and the DFC SOP to clarify further the appropriate use of DFC's at all levels of the Organization (HQ, Regions and Country Offices), and it will collaborate with FNM on this matter.

Accountability and reporting lines on HQ funded DFC engagements

119. In December 2015, FIN.SOP.XVI.001 Direct Financial Cooperation Processing was revised to include DFC management activities in the Headquarters to address the observation of the External Auditor. A review of these changes and its adoption in the HQ, particularly in FWC Cluster was made in February to March 2016. Even though DFCs are tracked and followed up by the Country offices and WRs, where funded by HQ PTAEOS, there is an need to clarify accountability and reporting lines required in WHO's Accountability Framework in view of the following:

- a. projects covered by the DFCs are included in the workplans of the FWC while the management and implementation of these are done at the WCO level (in total there were 14 DFCs under FWC cluster for a total of USD 260 344);
- b. the WHO Country Representative has overall responsibility for ensuring compliance with the DFC process in the context of agreements raised with national counterparts;
- c. reports relevant to DFCs were incorporated by the WCO in the regular reporting of workplans in the Mid-Term and Year-End Reports;

- d. the planning for validation of any DFC is the responsibility of and led by the management officer of the WCO and in instances where HQ funding is utilized to raise DFCs and, in order to comply with Donor requirements, FWC will seek confirmation from the WCO that due process has been followed in all matters pertaining to the DFC; and
- e. the results and accomplishments were reported or reflected under the Workplans of the four Departments (RHR, PHE/IHE, MCA and IVB) even if the implementing offices are the country offices and donor reporting was also undertaken by the Departments, while some country offices claimed that the results and accomplishments relating to DFCs funded out of the FWC PATEO were reported by the country offices.

120. The WHO Accountability Framework is clear in its declaration that WHO seeks to delineate clear roles and responsibilities as well as authorities across the Organization in order to achieve better synergy and alignment around common Organization-wide strategies and policies, and more clearly defined divisions of labour with accountability for resources and results. To better manage the DFCs funded from HQ budget and align the current practices with the accountability principles that the Organization had embraced, the clarity of its related roles has to be obtained.

121. We recommended that WHO align its DFC engagements with the Organization's accountability principles by obtaining better clarity of roles and responsibilities through close engagements with SOP policy managers to ensure that distinct activities amongst the clusters, regional and country offices are better defined and applied uniformly across the Organization.

122. The FWC Cluster informed us that it will liaise with the SOP policy managers (ACT/FNM) to respond from a policy perspective to the content within the audit observation. In the absence of policy clarity, FWC Cluster will consider not issuing any DFC contracts against its HQ PTAEs until the "roles and responsibilities" are clarified. The Cluster further informed us that one potential approach to managing DFCs more clearly sourced against HQ funds could be that a supporting document is prepared for each DFC being undertaken, which clearly defines and delineates each of the internal roles and responsibilities between the parties. The FWC also claimed that it is also important to continue to allow the WHO Head of Country Office to determine the most appropriate contract mechanism for engaging with their national counterparts.

Monitoring of DFC reports

123. We noted that the Organization was able to reduce the number overdue DFC reports by 13% from 1287 as at 31 December 2014 to 1116 as at December 2015 (and by 65% from 31 December 2013 (3232) to 31 December 2015 (1116)). The DFC Monitoring Report for January to December 2015 indicated that one of the actions being undertaken to strengthen the controls surrounding the DFC mechanism in response to Member States' comments and audit recommendations is the receipting of all DFC FACE Reports in GSM and uploading missing documents in ECM.

124. The lapse on the part of the technical units in performing receipt of DFC Report in GSM resulted in the inclusion of grantees who had already submitted reports to the country offices as those with overdue DFC reports. The GSM Discoverer report "WHO FIN-DFC Monitoring Detailed" intended to aid Management in tracking grantees with overdue reports and to take appropriate actions, where necessary, would not serve its purpose because of misleading information.

125. Management informed us that it will continue to communicate the existence of overdue DFCs with Regional BFOs to ensure timely collection of reports by the Country Office counterparts.

Training materials will also be provided to Regional BFOs for disseminations at the country office level regarding the receipting of FACE Reports in GSM.

126. Other deficiencies noted in the review of DFC Management at the regional and country offices are shown in Table 6:

Table 6 – Control gaps in DFC management

No.	Control gaps	Office
1	Release of additional DFC funds to counterpart with outstanding DFC reports was made even if the counterpart has overdue reports even without justifications from country offices and approval by the Regional Director	Somalia
2	Assurance activities being performed lack documentation and/or monitoring report	Myanmar
3	DFC agreements were not signed by the WHO official responsible for the project but corresponding payments were made	Zambia, Burkina Faso
4	Contracts were signed after the planned start date	India
5	New DFC releases were approved by the WRs without any disclosure made as to existence of DFC Reports in the Checklist and in the DFC Form itself.	Somalia

127. The reasons provided by Management on our audit observations include, among others, the following: (a) frequent change in government officials/counterparts, (b) competing priorities to be met by and shortage of staff with National Authorities, (c) DFC Reports submitted by the contractual partner requires clarifications before entering receipt in GSM to ensure quality and compliance with WHO's Financial Regulations and Rules, (d) consolidation of expenses by the Government counterparts for large-scale geographically spread activities for reporting purpose, (e) delay in the implementation of activities and verification of reports after submission, (f) expansion of implementation beyond the completion date due to security restrictions, (g) erroneous issuance of two DFCs at the same time, (h) special approval from RD for activities in critical nature, (i) delay in receiving the final contract/PO prepared from the GSC Kuala Lumpur for signature by the contracting party, (j) the request from the Ministry of Health for funding of an activity comes very close to their intended start date and the processing of the contract did not meet such date, and (k) there are instances when the Contractual Partners (normally Government or its institutes) have to change the dates of the meetings/workshops due to non-availability of the government officials concerned and said dates are tentative and the final dates of the actual meeting/workshop is decided by the focal point responsible for holding the event with WHO. WCO Somalia immediately addressed the gaps noted.

128. **We recommended and WHO agreed to undertake the following courses of action:**

(a) To continue improving on: (a) compliance with policies in ensuring that contracts are signed before the planned start date; (b) monitoring of the implementation of DFC projects/activities; (c) mechanism in monitoring DFC Reports; and (d) conduct of assurance activities on a periodic basis and spot checks to assure the successful implementation of DFC projects/activities;

(b) To continuously provide training and guidance to staff involved in the receipting of DFCs with emphasis as to the importance of the receipt in GSM; and

(c) To require the Country Offices to provide justifications and secure prior approval of RD/Comptroller for new DFC releases to implementing partners with overdue reports

and for FNM to raise an RFC requesting that a warning message appears at PR creation if the DFC supplier has overdue reports.

2.1.5 Cash management/imprest accounts

129. In order to ensure effective control within the Organization, measures are established to ensure appropriate delegations of authority, segregation of duties and such others which are consistent with best financial practices. All offices responsible for controlling imprest accounts must regularly review the status of the account and ensure that the level of replenishment is sufficient but not excessive, monthly reconciliations with supporting cash and bank records are properly maintained, and division of functions is observed to ensure adequate prevention of fraud.

130. This year's review of cash management was conducted to determine whether prescribed controls for cash with regards to compliance with imprest ceiling levels, proper designation and segregation of duties and periodic reconciliation are in place and are operating effectively. The review noted the following control gaps:

Table 7 – Control gaps on imprest accounts

No.	Control gaps	Office
1	Excessive imprest bank balances	Somalia, IST for West Africa
2	Inadequate forecasting for future activities resulting in replenishments in excess of imprest ceilings	India, SEARO
3	Non-segregation of custodianship, recordkeeping, authorization and reconciliation	Myanmar, India
4	Non-staff members handling operations of field office Imprest Accounts	India
5	No formal hand-over process for incoming and outgoing imprest holders	Burkina Faso

131. Management accepted the audit observations noted and agreed to take the necessary steps to address the control gaps noted. These control gaps resulted from the lack of staff to perform the functions, routing of high value payments by the Regional Offices to the country offices and no conduct of formal hand-over for imprest funds. Somalia addressed the gap on excessive imprest balance after the audit.

132. We recommended that WHO address the control gaps noted on the imprest accounts by improving the strategy in studying and forecasting future expenditures, segregating incompatible duties, strengthening the controls to mitigate the risks of misuse of funds, conducting a formal handover process for proper accountability purposes.

2.1.6 Asset and inventory management

133. This year's review of asset and inventory management was conducted to obtain reasonable assurance that related controls and processes are in place and effectively undertaken to strengthen accountability and transparency. The review noted the following control gaps:

Table 8 – Control gaps in asset and inventory management

No.	Control gaps	Office
1	Fixed assets not assigned to custodians; no declaration of receipt form	Zambia, Myanmar, Burkina Faso
2	No bar codes physically attached to fixed assets	India, Myanmar
3	Non-disposal of obsolete or non-functional assets	India, Somalia, Zambia, Burkina Faso
4	Inclusion of various items with a value of less than US\$ 500 in the FAR; OR inclusion of obsolete items in FAR; OR incomplete information in FAR	Somalia, Zambia, Myanmar, SEARO
5	Delay in the conduct of annual physical inventory taking of fixed assets, PVAR not accomplished; unreconciled balance in FAR and PVAR	Somalia, Burkina Faso, Myanmar
6	Non-segregation of recording keeping and custodianship of assets	Myanmar
7	Inaccurate or incomplete information on submitted inventory reports	Somalia
8	Non-standard management and monitoring of warehouse operations	SEARO
9	Unauthorized disposal of expired items	IST for West Africa

134. Management accepted the audit observations noted and agreed to implement the recommended measures to address the control gaps noted, although, it provided reasons for the gaps such as, lack of staff to perform the activities; non-preparation of the items for disposal, and the cost involved in bar coding. WCO Somalia addressed the control gaps noted and implemented the audit recommendations.

135. We recommended that WHO address the control gaps noted in asset and inventory management by maintaining adequate and correct records, placing bar codes, conducting timely disposal of obsolete items, securing approval before disposing expired items, and by segregating incompatible functions to further safeguard the Organization's assets.

2.1.7 Travel management

136. For 2015, the Organization spent USD 233 539 000 for travel expenses. As a global organization and given the nature of its mandate, WHO staff are considered mobile individuals that deliver their services to several points within their sphere of responsibilities. Travel is an inherent function of most of the WHO staff and should therefore be appropriately controlled as it entails enormous cost to the organization. To effectively manage official travels within the Organization, a set of standard operating procedures was issued, aligned with the WHO e-Manual, to provide specific control activities from the creation of travel plan up to the submission and processing of travel claims. These activities are continually developed and enhanced to adapt to the technological advancement and deliver the needed services efficiently and globally.

137. A review on the 2015 travel management was conducted to obtain reasonable assurance that the related controls and processes are in place and functioning efficiently and effectively. The review noted the following control gaps:

Table 9 – Control gaps in travel management

No.	Control gaps	Office
1	No travel plan	Some departments/ budget centres of HQ-FWC, Zambia, Myanmar, India, Burkina Faso and IST-West Africa
2	Travel Request approved in less than 10 days from departure date	HQ-HIS, SEARO, Zambia, India, Burkina Faso and IST-West Africa
3	Delayed OR non-submission of travel reports	HQ-HIS and FWC, SEARO, Somalia, Zambia, India and IST-West Africa
4	Non-submission OR improper creation of travel claims	SEARO, Somalia, Burkina Faso and IST-West Africa
5	Inefficient recovery of travel claims	Somalia
6	Overpayment of per diems	IST-West Africa

138. It has been reported that the creation of some travel reports may either be delayed or not yet created within the 30 days after return from official travel, thus deemed delinquent per GSM records. The delays may be attributed to the competing priorities of the traveller and due to lack of internal policy within the Office/department that strengthens and supports the existing SOP of the WHO. The non-compliance of travel reports restricts the processing of Travel Claim in the GSM as justified by the Management. WCO Somalia addressed the gaps noted after the audit.

139. We recommended that WHO address the control gaps noted in travel management by ensuring the preparation of travel plans, enforcing adherence to the travel requests approval period, requiring timely submission of travel reports as well as travel claims, and ensuring efficient recovery of per diems/travel claims. Finally, WHO should strengthen its monitoring activities in terms of compliance with staff travel reporting parameters to ensure that related succeeding decisions are efficiently carried out.

2.1.8 Programme management

140. Essential to implementing Programmes, using the Results-Based Management approach are the activities used by an organization to monitor the implementation of these Programmes including the projects. The WHO Programme Budget (PB) 2014–2015 underscores that the basis of assessment of the performance of WHO is the new results chain that will obtain a clear articulation of the results for which WHO is accountable and how attainment will be measured; and a logical demonstration of how WHO's contribution is linked to achievements in health outcomes and impacts. The mid-term review (MTR) and the Programme Budget Performance Assessment (PBPA) are the two exercises undertaken by the Organization to assess the implementation of the PB and how the planned results were delivered.

141. Guidance Notes were issued for the MTR and end of biennium assessment outlining the procedures, main steps and actions required in the exercise.

142. The review of the programme management was conducted to obtain reasonable assurance that existing internal control arrangements and processes are in place and effectively undertaken in achieving the Organization's operating objectives and strengthen accountability and transparency. The review noted the following control gaps:

Table 10 – Control gaps in programme management

No.	Control gaps	Office
1	Assessment of Workplan and Top Tasks in the GSM for some categories were not implemented or not correctly stated OR progress status/comments not indicated in the monitoring reports	SEARO, Myanmar, Somalia, Burkina Faso, IST for Western Africa (WA)
2	No established mechanism to keep and disseminate lessons learned	SEARO, IST for WA, Zambia, HIS
3	Award budget exceeds planned cost OR Implementation exceeds Award budget	Somalia, Myanmar, India, Burkina Faso, IST for WA

Assessment of workplan and top tasks in the GSM and progress status/comments in the monitoring reports

143. The Guidance notes emphasized that the assessment of top tasks is a pre-requisite to effective assessment of outputs. Task status which refers to the status of accomplishment of the product or service should be assessed by the Project Task Manager and has four labels: cancelled (“Not Started”), likely accomplished by end of the biennium (“In progress”), accomplishment deferred to following biennium (“On hold”), completed. However, review of monitoring reports showed that status were not correctly stated for some top tasks as there are reported as “Not started” or “In progress”, but implementation rate was high with corresponding expenditures.

144. In two Country Offices, progress comments were not indicated in the monitoring reports. In SEARO, management stated that the assessment in the GSM were not implemented because some technical officers were pre-occupied with other equally important tasks, some need training in the use of GSM, and there are those who already resigned or transferred to another assignment prior to end of biennium review without proper turn-over of documents to the successors. WCO Somalia addressed the noted gap on assessing workplans after the audit.

145. As an iterative process, managing projects and programmes entails closer attention particularly when indicators for deviations are observed. While it can be said that the above observation may not offer material effect to the overall assessment, results still these deviations can go unmanaged if they remain unchecked. In essence, the progress towards accomplishment of the top task can be judged better if progress status is updated and an analysis of how the task rated as on “hold” or “not started” could affect the workplan.

146. We recommended that, henceforth, WHO enhance its programme results review by ensuring that expected results and programme status deviations are constantly and iteratively monitored to have better programme and project decision base.

Mechanism to keep and disseminate lessons learned

147. At HIS Cluster, lessons learned in the programmes were shared among the three levels of the Organization mainly through the annual focal points meeting with the Regional Advisors and PAN and through teleconferences, informal meetings to review project progress and semi-formal monthly and quarterly reviews with the Assistant Director-General (ADG). The mechanism exists but we observed that there is no dedicated documentation of monitoring results and lessons learned, and tracking of how they were utilized in decision-making, learning and planning.

148. SEARO management presented its inventory of lessons learnt through the PBPA. They averred that these lessons serve as inputs for the next Operational Planning cycle and also the preparation of Midterm Review. It is during the development of the PBPA and Midterm Review process wherein the BC heads, Programme Area and Category Regional Focal Point take stock of any impediments and lessons learned.

149. However, we noted that there is no permanent repository of lessons learned in SEARO for the RO and COs which is ideally managed and maintained by one particular office or officer to facilitate easier tracking and retrieval in case an information or data will be needed. WCO Somalia prepared the inventory of lessons learned after the audit.

150. Sharing and exchanging of lessons learned should be structured consistently to ensure better cooperation opportunities. In the absence of a defined mechanism for the capture, use, management and, monitoring/dissemination of results, lessons learned and best practices, their value on decision-making, learning and future programming will not be maximized.

151. Management commented that in the current reform era, the Planning team, in response to the guidance from the senior management, intends to set up a system for tracking the lessons learned.

152. We recommend that WHO strengthen the systematic tracking of lessons learned with the current process of mid-term review and end of biennium assessment linking this to operational planning and monitoring on programme management in the COs and in the HQ Cluster.

153. In addition, we recommended that WHO consider in the monitoring framework a mechanism where lessons learned are structured coherently, monitoring results and lessons learned as well as best practices are documented, disseminated and tracked for use in decision-making, organizational learning, future planning and programming, and evaluation.

Award budget exceeds planned cost, and implementation exceeds award budget

154. In our review of budget implementation in the COs, we noted that there are instances of award budgets which are in excess of planned costs. At the same time, there are top tasks with implementation exceeding their award budget.

155. Monitoring the financial implementation of the workplans is necessary to determine any over- and under-spending, to adjust errors in encumbrances and expenditures such as expenditures charged to incorrect Project Task Activity Expense Organization (PTAEO).

156. A periodic review of the workplans by Workplan Managers support sound programme management. This includes adjusting available award budgets and planned costs across tasks to reflect decisions about costing due to either changes in cost from that anticipated in the original plan, or changes in financing, including the acquisition of new financing, and the current financial status of the workplans.

157. We recommended that WHO enhance the monitoring activities at the Country level by conducting periodic comprehensive monitoring of the workplans and taking appropriate measures on the occurrence of adverse conditions such as negative balances or variances.

2.2 Review of risk management

158. In line with the Organization's commitment to manage its business risks efficiently and responsibly, the 2015 WHO Risk Management Policy aims to establish a robust risk management system that supports decision making when setting objectives, prioritizing strategic alternatives, selecting and managing the appropriate course of action, and evaluating results.

Risk identification

159. To deliver risk management within WHO, the first step undertaken is the identification of risks which is conducted from the bottom up, whereby Budget Centres are required to formulate and describe the risks in their daily operations on an intuitive basis. The potential risks identified are structured in six categories such as financial, political/governance, reputational, staff/systems and structures, strategic and technical/public health.

160. We conducted a limited review of the risk management practices in GBS and HIS and noted the gaps in risk identification and mitigation. We determined the guidance made available to risk managers and identified that the WHO Step-by-Step Guide for completion of the Risk Register (RR) suggests that the Cause, Risk and effect are to be included in the Risk description and out of which Risk is mandatory to be captured. We noted that the guidance also provided a tip on risk identification.

161. On the crafting of the Risk Name and the Risk Description, the offices commented that in WHO risk management process, the risk names are pre-defined by CRE, whereas the risk descriptions can be developed by the budget centres concerned. In some cases, it has been difficult to find from the pre-defined list risk names that fully describe the risk at hand. In such situations, the offices informed us that they tried to select the risk name that is the closest and then provide further clarity in the risk description. This will, however, have an impact for example on risk reporting, leading into situations in which under one risk name very different risks are being combined into one. In terms of basis of Risk Response Actions, the offices informed us that having identified the risks, they work together to develop the strategies needed to mitigate those risks, through ensuring that their objectives and work streams covered all aspects and diminished any identified risk to the minimum.

162. The above representations made by the offices suggest that performing risk identification within its operational context can be challenging given the boundaries set by the CRE and they are left with no choice but to be confined by these boundaries resulting in misaligned risk names and descriptions, amongst others. The cluster informed us that they will continue to cooperate with CRE to better address and refine risk names and categories.

163. As an opportunity to further the maturity level of risk management within the offices, WHO needs to enhance its risk identification by putting more effort in analysing the root causes of the risks identified from the context established and tie these up with the remediation actions. Further, as part of the whole risk management practice, the offices have to adopt a simple method of root cause analysis so that proper risk controls are adopted, all within the context of the offices' operations.

164. **We recommended and the WHO offices concerned agreed to enhance risk identification activities, in close engagement with the CRE, by infusing better root cause analysis of the identified risks within a defined context to avoid assumptions and logic traps and ensure that remediation strategies result in the application of more effective risk controls.**

Risk register in country offices

165. In our review of risk management in country offices, we noted, that in one inter country support team and one country office have no risk register was established. Management of these offices claimed that, risk management is not a systematic process in all offices, and as far as they know, there is no operational guide yet issued, other than the global policy. They claimed that an IST is not a budget centre and provide support to country office, hence it not required to have a risk register. In one country where a risk register was prepared, there were only five identified potential risks of which four are all financial in nature, not capturing other important risk assumptions related to programme/project implementation such as the political changes in the host government.

166. Given the challenges in country offices and IST, it is highly imperative to integrate the risk management process in the development of workplans in order to objectively and comprehensively identify the risks in programmatic areas since the risks that are not identified can never be mitigated or addressed.

167. We recommended that WHO pursue the risk register exercise and integrate risk management in the critical management areas such as planning, budgeting, and programme management to ensure that risks are identified, prioritized and mitigated to attain programme objectives.

168. It is worth mentioning that the WHO HQ issued Information Note: 08/2016, re: WHO Corporate Risk Management Policy (CRMP) dated 17 February 2016. The policy establishes a systematic mechanism to support decision making and complements the risk register exercise that has recently been completed across the organization. The overall objective is to better inform management decisions and to calibrate WHO internal controls in the context of continuous improvement of operational processes. Among the areas discussed extensively is the monitoring activity of the risk register to be undertaken by the Budget Centres in the CO and RO.

C. DISCLOSURES BY MANAGEMENT

169. **Write-off of cash.** Management reported that there was no write-off made in 2015 in accordance with Section 13.6, Financial Regulation XIII.

170. **Ex-gratia payment:** During 2015, a total of USD 84 435 was approved as ex-gratia payments. This is broken down as follows: (a) USD 68 500 was paid as rehabilitation grant to earthquake affected staffs in Nepal; (b) USD 12 735 was paid as death compensation to the heir of an APW contract in Pakistan; and (c) USD 3 200 was paid as funeral expenses for an individual who died in the vicinity of WHO premises in the Regional Office for Africa. The ex-gratia payments were made in accordance with Section 13.5, Regulation 13 and were disclosed in the 2015 Financial Report.

171. **Frauds and presumptive frauds:** In accordance with the International Standards on Auditing (ISA240), we plan our audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with Management. Management confirmed that there are no cases of fraud or presumptive fraud that they are aware that impact the financial statements. We have not identified instances of fraud in our audit, and no cases have come to our attention through our testing. The Internal Auditor raises all cases of fraud in his report to the WHA.

D. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

172. We validated the implementation of External Audit recommendations contained in prior years' audit reports. We noted that of the 23 recommendations, 13 or 57% have been implemented while 10 or 43% are still in progress of implementation. The status of the 10 recommendations which are in progress will be validated and reported in the next financial reporting period. Annex A presents the detailed analysis of the implementation of the recommendations.

173. We note the progress made by WHO in implementing the recommendations and we reiterate the full implementation of the remaining prior year's recommendations.

E. ACKNOWLEDGEMENT

174. 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.

175. We also wish to express our appreciation to the World Health Assembly for their continued support for and interest in our work.

**Commission on Audit
Republic of the Philippines
External Auditor**

4 April 2016
Quezon City, Philippines

ANNEX A

**STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS
(A65/32, A66/34, A67/45 AND A68/41)**

No.	Recommendation	External Auditor's Validation
A68/41		
1	Implement and maintain a centralized tracking tool for donor agreements and donations in-kind, record all the in-kind donated property that meet the monetary threshold in the correct financial period, formulate standard operating procedures for LOAs, formulate global standard operating procedures on the disposal of expired inventory items to enhance its inventory management system and enforce compliance with the requirements on DFC to further minimize the number of overdue DFC reports (paras. 30, 32, 35, 40, 44, 49, 53);	<p>In progress</p> <p>The Global Engagement Management tool to track donor proposal and agreements will be built in 2016 for an organization-wide roll-out in 2017. Meanwhile, the SOPs on LOAs and disposal of expired inventory items are in the final stages of completion.</p> <p>We took note and appreciated the timely recording of in-kind donations and the downward trend in the number of overdue DFC reports from 2012 to 2015.</p>
2	Pursue the planned GSM transformation to improve the quality of data sources and the efficiency of system processes, and address the issues noted in the audit of the Global Service Centre (para. 55);	<p>Implemented</p> <p>Required actions on recommendations were substantially complied.</p>
3	Formalize a Term of Reference (TOR) to have a formal mechanisms for communication, facilitation, monitoring and evaluation of the results of the Category Networks and Programme Area Networks, finalize the planned Programme Monitoring Framework within the defined timeframe, continuously improve the formulation of the elements of the results chain to support harmonization of its presentation in the PB 2016–17 and enhance the MTR template to achieve clearer linkages of actual deliveries to planned deliverables (paras 63, 68, 74, 78, 83, 89 and 93).	<p>In progress</p> <p>The implementation of the recommendation is currently in progress and the final TOR for the CNs and PANs will be further reviewed.</p>
4	Identify and provide appropriate capacity building and learning initiatives across Programmes to strengthen analysis, review and reporting of results, enhance monitoring activities on the task status and progress in each workplan, and ensure that fiscal and budgetary figures are brought to agreement particularly towards the start of periodic assessments so these data can have a higher degree of correlation to reported accomplishments (paras. 96, 103 and 108);	<p>In progress</p> <p>We took note that the implementation of the recommendation is in progress with the conduct of capacity building and learning activities by major offices.</p>

No.	Recommendation	External Auditor's Validation
5	Formalize a change management strategy in the implementation of the revised HR Strategy, develop an Action/Implementation Plan, draw a robust governance arrangement for the HR Strategy and identify the implementation risks in a comprehensive manner for the HR Strategy to facilitate implementation, monitoring and measurement of results, and to establish accountability for results (paras. 116, 120, 124 and 127);	In progress We need to further validate the indicated implementation plans first before the recommendation can be closed.
6	Ensure that the Human Resource Department engaged with the hiring departments responsible for the recruitment of temporary staff members to make certain that transparency, gender parity and geographical representation requirements are effectively observed, engage with the members of the Selection panel, Hiring Units and the recruitment teams to determine optimal timing in the conduct of technical and competency assessment and ensure that the agreed time periods are adhered to, enhance further the reference checking activities, and optimize the use of the HR tracking tool to further improve recruitment process (paras. 131, 135, 139 and 143).	Implemented We took note of the substantial compliance of Management to address the recommendation.
7	Develop a workforce planning model as called for by the World Health Assembly and the appropriate tools such as the skills inventory, staffing and skills gap analyses, and workforce risk assessment including a succession planning policy for implementation in the ongoing workforce planning exercise (paras. 149 and 155)	In progress We need to see the blueprint of the skills inventory scheme and tool, and relate this to workforce planning before this can be closed.
8	Craft knowledge transfer strategies based on best practices and develop a plan to implement them, incorporate clear requirements in the ePDMS+ for the identification of the activities, outputs, outcomes, and performance indicators under each objective, and develop a quality assurance framework for iLearn that should contain systematic measurement processes, comparison with a standard, monitoring of processes and an associated feedback loop that confers achievement of organizational learning objectives (paras. 159, 163 and 168)	In progress Management reported that the Distance Learning Module on ePDMS+ is being developed which we plan to validate once it is reported complete.
9	Continue the work in embedding risk management within the Organization and consider enhancing the transitional risk management framework (para.176);	Implemented The Corporate Risk Management Policy is available at CRE intranet site.

No.	Recommendation	External Auditor's Validation
10	Ensure that the heads of offices in EMRO, WPRO, WCO Pakistan and WCO Vietnam consider the improvement opportunities raised during the audit of their respective offices to further strengthen internal control, and enhance transparency and accountability. (para. 213)	Implemented All recommendations for EMRO, WCO Pakistan, WPRO and WCO Vietnam had been implemented.
A67/45		
11	<i>Direct Financial Cooperation (DFC)</i> Strengthen the capabilities of regional/country offices in conducting risk assessment and assurance activities relative to DFC and in implementing monitoring strategies. Likewise, reinforce the efforts of regional/country offices in improving timely submission of reports by counterparts. (Para. 46)	Implemented We took note of the improvements in DFC reporting as manifested in the continuous reduction of overdue reports from 2012 to 2015. This recommendation can be considered implemented. Related recommendations are raised in the current report particularly in the reconciliation of overdue reports with actual submission of reports and need for training of staff involved in the receipt of reports in GSM.
12	<i>Final Certified Financial Statements (FCFS)</i> Enjoin all relevant offices responsible for the preparation and release of Final Certified Financial Statements (FCFS) to Donors to improve the timeliness of reporting to donors. (Para. 50)	In progress We appreciate the actions taken by Management to improve the timeliness of reporting to donors. These include the automated email to award managers before donor reports are due, circulation of quarterly reports on the status of outstanding reports and the follow up and circulation of expired expiring awards with reporting due on a monthly basis. In view of the significant number of overdue reports at year-end of 2015, we will keep on monitoring the timeliness of submission of reports to donors.
13	<i>Global Service Centre (GSC)</i> Address the issues noted on the handling exceptions on purchase orders, data handling, documentation of transactions and events, and financial information and reporting, in order to improve the quality of data sources and the efficiency of system processes in the GSM. (Para. 53)	Implemented This recommendation can be considered implemented. Actions on the remaining recommendations had been completed.
14	<i>Accountability Framework</i> Revise and redefine the Accountability Framework document in the early part of Biennium 2014–2015 and immediately operationalize it to reinforce the culture of accountability and transparency within the Organization. (Para. 58)	Implemented The WHO Accountability Framework was issued in March 2015 and is available on the CRE intranet.

No.	Recommendation	External Auditor's Validation
15	Asset Accountability policy Improve its Asset Accountability Policies by incorporating the following procedures: (i) criteria defining various circumstances surrounding asset loss; (ii) guidelines for documenting asset loss; and (iii) levels of administrative and fiscal responsibility for every type of circumstance identified as the cause of asset loss. (Para. 65)	In progress Asset Accountability Policies will be validated once approved in 2016.
16	Procurement governance Revisit its procurement governance to include policies and procedures on Strategic Procurement Planning, Green Procurement, Long-Term Agreements, End-user Feedback, Vendor Complaints and Grievances, and Vendor Sanctioning to enhance and reinforce its procurement system. (Para. 87)	Implemented The recommendation can be closed since the implementation of the Procurement Strategy is already underway.
17	Internal Control Framework Implement the Internal Control Framework together with the developed tools in 2014 across all levels of the Organization including the field offices to achieve the long-term benefits of a strong internal control system. (Para. 110)	Implemented The Framework has been issued and Internal Control Self-Assessment Checklist has been rolled out in all departments at HQ, regional offices and country offices.
A66/34		
18	Update to WHO Emergency Standard Operating Procedures 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. (Para. 64.a)	In progress Validation will be undertaken after all emergency SOPS have been updated and approved as part of the Emergency Reform.
19	WHO Emergency Response Strategy and Framework 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. (Para. 64.b)	In progress Validation will be undertaken once Management has completed the work to implement the recommendation.
20	Global Inventory Management System 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. (Para 76.a)	Implemented The Global Inventory Management System (GIMS) went live in January 2016 and rolled-out to regional and country offices' warehouses will follow.

No.	Recommendation	External Auditor's Validation
21	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. (Para. 76.b)	Implemented The Global Inventory Management System was developed as part of the GSM.
22	WHO Regional Office for Africa 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. (Para. 171)	Implemented All recommendations for the Regional Office for Africa had been closed.
A65/32		
23	Information Technology Explore the possibility of shifting the Secondary/DR Data centre to an off-site location other than Geneva. (Para. 89)	Implemented WHO had explored options of shifting the Secondary/DR sites. New York was found to be not technically viable and UNICC is developing an alternative site in Spain.

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