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## **External and internal audit recommendations: progress on implementation**

### **Report by the Secretariat**

1. Resolution WHA58.4 requested the Director-General to propose a tracking programme for external and internal audit recommendations that include time frames for implementation. At its thirteenth meeting, in January 2011,<sup>1</sup> the Programme, Budget and Administration Committee of the Executive Board agreed that progress on tracking audit recommendations would continue to need close monitoring. The Committee also accepted the Secretariat's proposal that its report on implementation would be synchronized with the reports of the External and Internal Auditors, and would thus be issued for the Committee's session in May rather than the one in January. The Programme, Budget and Administration Committee further recommended that the Secretariat's report should be prepared in narrative form, rather than providing a matrix that summarized each open audit and its current status. The latter presentation was overly detailed and, among other things, made it difficult to distinguish the relative importance of the open audits and outstanding recommendations. The need for detail had been further obviated by the establishment of the Independent Expert Oversight Advisory Committee, which would also keep the Programme, Budget and Administration Committee, the Executive Board and Member States abreast of the most critical of the outstanding audits and the implementation status of recommendations.

2. The present progress report will therefore highlight action taken on those internal and external audit recommendations that tackle the most significant risks to the Organization, and the progress made. The report also refers to comments made in the interim report of the External Auditor.<sup>2</sup>

### **ACTION TAKEN ON AUDIT RECOMMENDATIONS**

#### **Internal audit reports**

3. Several longstanding open audits, brought to the attention of the Executive Board and Health Assembly in past reports, were satisfactorily closed in 2010; these included reports on telephone expenses, security, and selection and recruitment. In addition, risks associated with the implementation of the Global Management System in the Regional Office for South-East Asia were largely mitigated,

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<sup>1</sup> See document EB128/3, agenda item 4.3.

<sup>2</sup> Document A64/30.

and controls on the large-scale disbursement of funds for activities against poliomyelitis in Nigeria were found to be effective.

4. Of the 24 audit reports issued more than one year ago (before 2010) and that contain items which are still open, progress has been made in all cases. Frequently, although the majority of recommendations have been dealt with to the satisfaction of the auditors, the report cannot be closed until all points have been settled.

5. With regard to insurance coverage, a number of existing insurance policies are being reviewed with a view to being renewed, revised, re-bid or cancelled, if possible by 2012. The significant findings in the audit concerning the management and oversight of the Staff Health Insurance Fund are being considered by a working group; the group has drafted substantive governance reforms for review by the appropriate bodies and eventual presentation to the Director-General for decision. It should be noted that implementation of the recommendations of this audit requires an effort that includes the following: extensive consultations involving WHO's human resource and legal services, its Staff Associations and (in the case of staff health insurance) its retirees; and the organization of outside studies and appraisals. This is typical of a number of the audit recommendations where the complexities involved mean that a considerable amount of time is required in order to resolve all the open audit issues fully. Recently, the Secretariat also sent a comprehensive reply to the audit of the records management system for the Global Management System,<sup>1</sup> giving details of actions taken to ensure that records and supporting documents are complete, accurate, and that any confidential information is protected.

6. Work has progressed in response to the recommendations made in the audit reports concerning enterprise risk management, the control readiness assessment of Global Service Centre in Kuala Lumpur and the review of controls over selected business processes at the Global Service Centre.<sup>2</sup> In the area of risk management, a comprehensive framework, including a risk register with associated risk ranking and assignment of responsibilities, is already in place for the financial and administrative risks facing the Organization. At present, efforts are under way to extend this framework to the various technical areas within WHO's mandate, where risk assessments are also being performed, but for which an overarching strategic and corporate approach has so far been lacking.

7. In terms of the review of controls at the Global Service Centre, the Secretariat believes that the audit recommendations in the older control readiness assessment report<sup>3</sup> have been superseded by those contained in the more recent review,<sup>4</sup> carried out for the Office of Internal Oversight Services by a leading international firm of management consultants. Although adequate controls are in place at the individual process level, there is as yet not enough structure around them and their linkage to a formalized, overarching system of managerial accountability and delegation of authority needs to be further developed.

8. In order to deal with these audit findings, the Secretariat is working on a variety of remedial measures, comprising the following: staff training, both for those using the Global Management System and for those working at the Global Service Centre; system improvements; better

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<sup>1</sup> Document IOS 10/830.

<sup>2</sup> Respectively, documents IOS 06/727, IOS 07/758 and IOS 09/819.

<sup>3</sup> Document IOS 07/758.

<sup>4</sup> Document IOS 09/819.

documentation of procedures; and revisions of the WHO Manual. Further work is needed to update the control framework, including measures to ensure managerial accountability.

9. The Secretariat has noted the concerns raised about controls and compliance in procurement, and the lack of adequate monitoring of fund transfers to government counterparts using the Direct Financial Cooperation mechanism. This mechanism is in line with the United Nations system-wide approach adopted to promote United Nations delivery “as one” and is in compliance with the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008). New standard operating procedures and Manual provisions concerning procurement, together with training and reprofiling of staff involved in this area, and better reporting from the Global Management System, are being prepared and will be implemented in 2011.

10. The current accountability framework is the result of a transition made in order to ensure full support for the decentralized operational framework, which includes the Global Management System. The Secretariat has noted the conclusion of the Office of Internal Oversight Services that many of the control weaknesses and risks identified are the result of the transition. These concerns are being addressed on several fronts, and the Secretariat’s response includes implementation of the findings and recommendations arising from the work of the Director-General’s reform working group on results-based management and accountability. These issues are also being dealt with in response to the review of WHO’s approach to Comptrollership.<sup>1</sup> The External Auditor also supports the recommendation of the report of the Office of Internal Oversight Services to strengthen internal controls by aligning the Comptroller’s authority with the responsibilities of the function.<sup>2</sup>

## EXTERNAL AUDIT REPORTS

11. The interim report of the External Auditor contains a number of recommendations.<sup>1</sup> In 2010, the External Auditor reviewed the Office of Internal Oversight Services and made recommendations that covered: clarifying the mandate of the Office; reassessing its resources in support of the fulfilment of its mandate; and revising its risk management model and ratings. The Secretariat has responded to the External Auditor on these issues. Responses were also sent to the External Auditor regarding the audits conducted in 2010 of the Regional Office for the Western Pacific and the WHO country office in Cambodia and the actions taken in response to recommendations on imprest, contract monitoring, asset control and award distribution and management. Although many recommendations set out in report of the External Auditor for the financial period 2008–2009 have been satisfactorily addressed,<sup>3</sup> areas such as prepayments, private telephone charges and control of personal accounts remain open and continue to be worked upon.

12. The recent External Auditor’s report also contains recommendations concerning financial matters. Some of the concerns raised have now been dealt with; others require further follow up. Specific points highlighted in the report concerned the areas mentioned below.

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<sup>1</sup> Document IOS 09/805.

<sup>2</sup> See document A64/30.

<sup>3</sup> Document A63/37.

## **Income and awards**

13. The External Auditor noted some delays in recording and distributing income, many of which arise from the highly decentralized approach to resource mobilization. Such delays often themselves slow down the communication of information regarding new voluntary contribution agreements to the central income recording unit. A key strategy to mitigate this problem is the development of a donor agreement tracking tool designed to improve the identification of “pipeline” income, and the consequent transmission of information to the Organization. Use of the tracking tool, and the accompanying detailed guidance notes, is now being implemented and the delays mentioned above are being resolved. As part of the Director-General’s reform agenda, there are also plans for a more coordinated approach to resource mobilization that will further help to reduce delays in the identification, recording and allocation of new voluntary income.

## **Expenditure controls**

14. Direct Financial Cooperation, WHO’s largest non-staff expenditure category, and travel expenditure were both highlighted in the report as needing more control. Direct Financial Cooperation represents agreements with governments (often at local and/or regional level) aimed at strengthening their health development capacity. Funds are released based on agreed deliverables. This is a United Nations-wide financing support model, and WHO’s existing procedures, and controls, are closely aligned to it. The External Auditor noted many instances where reports for deliverables remained outstanding, while further funds continued to be released.

15. Controls over Direct Financial Cooperation expenditure have been subject to much follow-up work within the finance networks of the regional offices, the latter working also with their respective country office teams. It is clear from the External Auditor’s report that further progress is required to ensure that there is at all times an adequate level of accountability concerning the use of WHO funds in such projects. Further training will therefore be carried out within the framework of the existing control mechanisms.

16. As regards travel expenditures, WHO has well-developed procedures for travel expense payments within the Global Management System. All such payments are made on the basis of approved travel plans, using the United Nations-wide agreed daily subsistence allowance rates. When staff members do not submit claims upon their return from travel, the subsistence payments they have received are deducted from the next payroll. Nevertheless, the External Auditor noted significant delays both in claim submission and in recoveries by way of salary deductions for delinquent travel claims. All offices have been reminded of the need to ensure compliance with travel approval and payment procedures, and the Global Service Centre’s monitoring of compliance will be further strengthened. In addition, the delays in recoveries through salary deductions have now been resolved.

17. The External Auditor noted that the recommendations made by the management consultants in their review of WHO’s approach to Comptrollership, conducted on behalf of the Office of Internal Oversight Services, had not yet been fully implemented. In particular, they considered that there continued to be a misalignment between the Comptroller’s responsibilities for overall financial control and the actual authority of the position. The Secretariat has initiated action to address this issue within its decentralized management structure as the latter requires a strong control and compliance framework to ensure that delegated authority is well understood and applied across the Organization.

### **International Public Sector Accounting Standards**

18. The External Auditor noted that considerable work remained to be done to complete preparations for the full introduction of the International Public Sector Accounting Standards. Since the finalization of the interim report of the External Auditor, a detailed plan has been presented to the Auditor and is in the course of implementation. A challenge remains in the areas of inventories and fixed assets, for which work needs to be coordinated with regional and country offices. A plan is in place to overcome this difficulty, within the overall implementation plan for the Standards. In this context, the Global Management System is providing the Secretariat with significantly more relevant data and therefore greater opportunities for better management and control.

### **Improved managerial accountability through the Global Management System**

19. In many areas of internal control relating to awards and expenditure management, the Global Management System is now providing much more information at a much greater level of detail. This is beginning to allow the Secretariat to produce regular management reports; for example, the Director-General's objectives for reducing travel expenditures across the Organization are now supported by detailed tracking and reporting of travel expenditures by budget centres. A further challenge will be to ensure that the wealth of data now available is translated into a complete series of managerial accountability measures.

### **ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE**

20. The Committee is invited to note the report.

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