
External and internal audit recommendations: progress on implementation

Report by the Secretariat

1. As requested by members of the Programme, Budget and Administration Committee, the present document outlines steps to be taken to ensure full implementation of recommendations made in the reports of the External and Internal Auditors.¹ The Independent Expert Oversight Advisory Committee regularly meets with the auditors, and reviews with the Secretariat measures being taken in response to audit recommendations. Concerns have been raised over the time taken to implement all recommendations. It has also been noted that similar audit observations may be made in various WHO locations, an indication of potential recurring control weaknesses. This is the case for recommendations on correct application of current procedures for contracts with third parties, and on the procedures governing payments to implementing partners under direct financial cooperation.

2. Audit recommendations (of both the External and Internal Auditors) fall into two broad categories:

- Identification of policy/procedures that the Auditors believe need to be changed or strengthened in order to deal with risks of errors or fraud, or to promote greater efficiency.
- Identification of non-compliance with existing policies and procedures.

POLICIES AND PROCEDURES REQUIRING CHANGE

3. An example of a recommendation that falls into the first category concerns the implementation of an enterprise risk management system at WHO, enabling the Organization to adopt a systematic approach to the identification and management of significant risks.² This recommendation has led to a number of actions, one of which was the implementation of a process for systematically identifying and managing administrative and financial risks.

¹ For information on implementation of individual recommendations see documents A65/32 and A65/33.

² See document A60/34.

4. As noted by the Independent Expert Oversight Advisory Committee, progress has been made more recently in implementing a process for high-level risk identification.¹ This has also involved regular monitoring by the Secretariat's senior management team, which has overseen a transformation in the focus of this process, expanding it from being purely administrative to cover Organization-wide risk management. Other examples of implementation progress where changes to policy/procedures have been recommended are set out below.

Travel

5. A number of policy changes were agreed and implemented towards the end of 2011, in response to recommendations made by the Office of Internal Oversight Services. The changes concerned clarified details of entitlements for non-staff members eligible for travel expenses and strengthened procedures surrounding validation of travel expenses; they also reinforced the responsibility of managers in the approval of travel. In addition, staff involved in travel administration have received further training to ensure that they have a good understanding of procedures.

Personal accounts and salary advances

6. Some control weaknesses were identified and measures have been taken to ensure that all advances are well controlled and monitored. Responsibilities and accountabilities with respect to the approval of advances have been clarified and strengthened.

NON-COMPLIANCE WITH EXISTING POLICIES AND PROCEDURES

7. Examples of the second category, where non-compliance with procedures has been noted, include recent audit reports on operations in country and regional offices, which note compliance issues in procedures for procurement, human resources management, planning, and management of local bank accounts.

8. In response to these concerns, a major initiative has been undertaken to overhaul WHO's internal control framework. The Organization has many internal controls in place; however, some have become outdated following organizational changes. In addition, system controls introduced with the changeover to the Global Management System, are not always working effectively. This is the case for the automated verification that replaced manual checks and that was designed to provide efficiency gains. In practice, performance has suffered either because of a lack of understanding on the part of users or because checks to monitor compliance have not been adequate. Recent audits have highlighted such issues.

9. The Secretariat has taken a number of steps towards completing a comprehensive update of its internal control framework, as set out below.

- (a) WHO manuals have been completely revised and updated, and are now fully available on the WHO Intranet, with links to procedures and supporting documentation.

¹ See document EBPBAC15/4.

(b) A new template has been elaborated for all internal management and administrative procedures; it defines key control points and allows clear definition of responsibilities for staff involved in each procedure.

(c) Priority processes have been identified, and the relevant procedures are being updated using the template mentioned above. Some of the work has now been completed, including, for example, procedures for travel and hospitality expenses. It is expected that updating of all priority processes will be finished by the end of June 2012.

(d) A “management dashboard” has been prepared which provides key performance indicators concerning the priority processes and certain administrative procedures, thus enabling managers to check compliance with procedures in a systematic and consistent manner. The dashboard will be linked with the Global Management System, and will be rolled out to all offices by the end of 2012. It will then also be used as a tool for improved managerial accountability.

10. Further training is needed, together with further investment in reporting tools, to ensure that all staff have an adequate understanding of their responsibilities. Work in support of this will continue throughout 2012. The ultimate objective is for all senior managers to certify that all controls and procedures have been correctly followed, which will allow annual Organization-wide certifications to be provided via a “statement of internal control” to be issued by the Director-General.

11. It is expected that this project will satisfy a number of audit recommendations concerning controls and procedures; the Independent Expert Oversight Advisory Committee will also be monitoring closely the progress to implement this new control framework, which is also an important element of the management reforms being undertaken by the Organization.

12. All WHO offices are involved with this project, and some have already implemented additional checks and controls on specific weaknesses identified at country level. For example, the Regional Office for Europe has implemented a centralized clearance for all contracts above US\$ 15 000, in addition to the existing managerial approval process. The Regional Office for the Western Pacific has implemented a similar control, and has recently conducted training to raise awareness among country office heads of their financial management responsibilities. All regions have been making efforts to deal with shortcomings in the “imprest” account management at country level, including organizing further training. Additional support in this area is being provided by the regional offices; the Regional Office for South-East Asia, for example, has launched a new training initiative on key processes. All these efforts will be brought together with the control framework, thus ensuring consistency across the Organization in the application of controls, and clear accountability for financial management responsibilities.

13. Some audits made far-reaching recommendations that are complex to implement, involving major policy changes, or with significant resource implications. Examples include the report of the Office of Internal Oversight Services on the management of the Staff Health Insurance Fund and on WHO’s management of its insurance policies.

14. In relation to the Staff Health Insurance Fund, an initiative was completed in 2011 to design and approve a new governance structure. The new structure will ensure a more frequent and robust financial and administrative oversight of the health insurance scheme that will include inputs from external expert advisers. Given the anticipated size of WHO’s future liability for health care provision for its staff and retirees, and for their dependants, and in view of rising health care costs,

implementation of this new structure is an important component for the long-term welfare of the Organization's staff, and for the long-term financial stability of the Organization.

15. In response to audit recommendations on WHO's insurance policies in respect of staff, contractor liabilities, buildings, travel and vehicles, as well as those concerning catastrophic insurance cover against malicious acts, the Organization has begun the process of re-evaluating the risks concerned, and restructuring appropriate insurance arrangements. This process has been completed for the risk and insurance arrangements for contractors, temporary advisors, volunteers and governing body representatives. For staff, the project is on hold pending the outcome of the WHO reform process because changing contract types and staff entitlements, would affect the liabilities that the Organization must finance.

16. The latest report of the External Auditor,¹ submitted as part of the audit work conducted during the biennium 2010–2011, raised a number of concerns. Some of these have now been addressed, while others require further follow-up. In addition, the External Auditor has completed a number of detailed reviews, involving specific regional offices (the regional offices for South-East Asia, Europe and the Eastern Mediterranean) or specific topics (for example, an evaluation of the implementation of the Global Management System).

17. The performance review of the Global Management System contained a number of observations on the history of its implementation, together with recommendations concerning (i) some of the modules implemented and (ii) the governance both of the System and of information technology processes. The latter recommendations will be used to improve the effectiveness of the work now under way on the first upgrade of the Global Management System. Most of the comments on specific modules are now being dealt with, and several recommendations are discussed below.

E-imprest (country financial management system)

18. It was necessary to implement a customized solution for country-level financial management, in view of the many different local systems that had to be accommodated, together with local infrastructure or banking complexities. This system has nevertheless been fully integrated into the Global Management System, providing the Organization for the first time with up-to-date recording and visibility of country-level expenditures.

19. The External Auditor has correctly identified that in very small offices, there is a risk that the same person may be involved in multiple processes, thus weakening financial control. The Organization is seeking to strengthen its country administrative and financial capacity, but in cases where staffing levels cannot be increased, additional checks will be carried out from the regional office concerned. In addition, some system and reporting enhancements are being introduced to e-imprest in order to improve overall control of this process.

Programme management

20. Although the Secretariat agrees with most of the External Auditor's comments, it does not support the recommendations that all business rules be built into the Global Management System.

¹ Document A65/32.

Some flexibility is required to take account of operational realities; making all requirements system mandatory in the Global Management System would delay timely programme implementation.

CONCLUSION

21. Overall, the report of the External Auditor contains many valuable recommendations which will be incorporated into the planning for the upgrade of the Global Management System, the implementation of which is scheduled for mid-2013. The External Auditor's report also contains a number of other recommendations in respect of the financial statements for the period 2010–2011, which will be considered carefully with the new External Auditor (the Chairperson of the Commission on Audit of the Philippines), and implemented accordingly.

ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE

22. The Committee is invited to note the report.

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