



# WORLD HEALTH ORGANIZATION

FIFTY-SECOND WORLD HEALTH ASSEMBLY  
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## Management and financial matters

### Report of the Internal Auditor

#### INTRODUCTION

1. The annual report of the Office of Internal Audit and Oversight is transmitted herewith, through the Director-General, for the information of the Health Assembly.
2. The mandate for the Office of Internal Audit and Oversight provides for the submission of an annual report to the Health Assembly on its activities and the status of follow-up of its recommendations.
3. The Office examines and appraises, through internal audits, investigations and inspections, the manner in which activities are carried out at all organizational levels. It assesses whether the examined activities helped to contribute to the attainment of the Organization's objectives. More specifically, the Office reviews and appraises accounting, administrative and operating controls; ascertains the extent of compliance with established policies, plans and procedures; determines the extent to which assets are accounted for and safeguarded from loss; assesses measures taken to prevent fraud, waste and malfeasance; ascertains the reliability of financial and management information; and evaluates the responsible, efficient and economical use of the Organization's resources.
4. During this reporting period, the Office continued to review the administrative, financial and managerial processes of support services at headquarters. This included focused reviews of account balances and financial processes. Audit visits were made to each of the six regional offices and to selected country offices and centres. Several investigations and inquiries were carried out, both at headquarters and at country level (see Annex).
5. The focus of audit activities has been to provide suggestions for savings and improvement in operations which will add value to the Organization. The Office views its role as aiding the process of instilling accountability in the use of WHO's resources, not only financially, but in terms of achieving results.
6. In keeping with the objective of enhancing interagency cooperation, the Office participated in a number of activities organized among Geneva-based international organizations. These activities included exchange of information and joint training programmes. The Office also hosted the 29th Annual Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions in May 1998. It has maintained contact with and responded to queries from representatives of Member States, particularly the "Geneva Group". It collaborated with the "Geneva Group" in the formulation of a conceptual framework on internal oversight related to the United Nations specialized agencies.

7. The current staffing resources of the Office have not changed from the previous year and remain at eight professional auditor posts in addition to the Director's post. The recruitment of the Oversight Auditor was concluded and an auditor has been posted since September 1998. One additional professional post has been made available to the Office, which will receive funding from the 2000-2001 biennium onwards. Two auditors continue to be stationed in Washington, D.C. to provide audit coverage for the WHO Regional Office for the Americas as well as to the Pan American Health Organization.

8. The business functions and organizational structure at headquarters have recently undergone radical change. These changes will have an impact on the scope and approach of audits at headquarters. During the formative period, the Office will not only be involved in its normal evaluative role but will also take an active part in counselling on internal control matters.

### AUDIT RESULTS FOR 1998

9. Audit results for 1998 indicate that WHO's overall system of internal controls is adequate and effective. The Office believes that, in the normal course of business, significant irregularities would be prevented or disclosed by the current system of internal control. However, specific areas were identified where controls could be strengthened and where efficiency, effectiveness and value for money could be improved through intensified efforts by the Secretariat, as described below.

10. **Regional Office for Africa.** The effects of the disruptive external events at the Regional Office for Africa have weakened its basic system of financial controls. Following the evacuation from Brazzaville in mid-1997, the Regional Office's core financial staff was temporarily relocated to headquarters. It is commendable that the Regional Office continued to operate in the countries despite the hardships. A financial management review carried out in the first quarter of 1998 revealed that the internal control situation in the budget and finance area contained weaknesses in aspects of authorization, processing and recording of transactions. These issues had already been highlighted in a previous audit of the Regional Office.

(a) Lax review over expenditure control gave rise to actual disbursements exceeding initial authorization without recognizing the additional liability. These situations negated the purpose and benefits of planning and approval procedures, and resulted in errors in accounting and compliance.

(b) There was a lack of a formal system for adequate control of local cost expenditure. In the absence of such an accountability monitoring system, it becomes difficult to say with certainty whether funds disbursed have been spent for the specified purposes within the agreed amounts and whether any unspent balances have been returned to the Regional Office.

(c) There was improper classification of expenditure. When the form of the transaction is given preference over its substance, the records do not properly show the activities carried out. Such a weakness permits circumvention of certain regulatory requirements.

(d) Procedural weaknesses in the processing of country expenditure gave rise to large backlogs. External disruptions coupled with inadequate staffing severely aggravated the situation.

11. The Regional Director and his Budget and Finance team have recognized that basic changes need to be made in work methodologies and in the manner in which transactions are processed. In particular, there was a need to delegate further authority to the WHO Representatives' offices, together with a strong emphasis on the necessity to instill discipline in expenditure control at the country level. There was also an equal

requirement for an effective control process at the Regional Office so that errors and irregularities could be identified and corrected on a timely basis.

12. A follow-up visit was made in October 1998 to ascertain the status of financial management and the implementation of the recommendations made. The Office determined that the Regional Office management was aware of the significance of the problems and their effects, and had initiated steps to correct them. The recruitment of additional temporary personnel to process the backlog and the initiation of changes in work procedures are contributing towards solving the outstanding problems.

13. **Other regional offices.** The results of the audits of the other regional offices highlighted a number of issues which need to be addressed to strengthen and improve operational effectiveness, administrative efficiency and compliance. The audits identified the following main issues which are common among the regions:

- (a) Increased vigilance is needed in the follow-up of recovery of advances and other receivables, so that the process of accountability of WHO's resources is timely and complete.
- (b) Greater emphasis should be placed on monitoring and following up on recommendations made by consultants, so as to realize the value of the consultants hired.
- (c) Intensified coordination and front-end planning with WHO Representatives' offices in the procurement process would achieve economy through bulk purchasing as well as a reduction in administrative process costs.
- (d) Inventory recording procedures should be revised for greater clarity and compliance with the new United Nations accounting standards.
- (e) Stricter compliance with established procedures on granting staff benefits and on personnel contract administration would decrease processing errors.

14. **WHO Representatives' offices.** The Office continues to give high priority to the audit of WHO Representatives' offices in view of their significant role in the collaboration between WHO and its Member States. The audit work carried out at an office of a WHO Representative entails a review of all aspects of its activities and is categorized by issues related to programme delivery, managerial process, and administration and finance. Visits were made to 18 WHO Representatives' offices and centres located in the six regions (see Annex). The main areas where improvements could enhance operational results and value for money are summarized below. Though some of the issues arose during a single audit, experience has shown that they are often common to several, if not many, WHO Representatives' offices.

- (a) In one office, audit work revealed that a major donor had expressed concerns about WHO's ability to administer an extrabudgetary funded project. Such a situation had arisen due to procedural rigidity and delay by the regional office concerned in providing support to the project. Further analysis showed a need to draw up a regional framework for resource mobilization and project implementation with effective delegation of authority at the country level. Such a framework should ensure that the process of extrabudgetary project identification forms part of the regular planning exercise and is included in the Plan of Action as unfunded activities. Projects should not normally be established on an ad hoc basis driven by the sudden availability of resources. There was also a need to address the question of the role of the regional office as a centre for processing versus that of controlling and monitoring country-level activities. Clarity in this area could ease procedural rigidity and its resultant delay.

(b) One of the objectives of WHO's technical cooperation is to support Member States in strengthening their planning and managerial capabilities. The review identified the lack of a monitoring mechanism for WHO's input to this. The Office recommended that the office of the WHO Representative should propose the establishment of a management database within the ministry of health. This would form part of the national health information system for monitoring and evaluation of consultants' recommendations, fellowship utilization, and training results. The database would strengthen the basis for accountability, making it easier to establish an input/output trail of funds and results.

(c) Various measures have been introduced to assist the fellowship programme's efforts to achieve more with less. The Office found weaknesses in a country fellowship programme where attempted economies had resulted in a lack of effectiveness. Specifically, fellows had been placed in institutions which were neither adequate nor appropriate for their studies. In another instance, the stipend rate had been so far reduced that a fellow returned home before completing the programme. In both situations, WHO expenditure was not effective. These problems underscore the need to intensify the process of identifying regional centres of excellence in order to maximize the fellowship programme's productivity.

(d) Increasingly, programmes are implemented through workshops, seminars and training activities. The audits identified a general weakness in the ministry of health's accountability to WHO on the local costs involved. The situation is further complicated when the regional office has not established an effective local cost-tracking mechanism. In the context of large disbursements such as for National Immunization Days, it is necessary to ensure with certainty that expenditure has been incurred in the specified manner, for the specified purpose and within the agreed amounts, and that any unspent balances are returned to WHO. The Office recommended that WHO Representatives' offices rigorously seek full accountability and that any unexplained amounts be offset against future programme activities.

(e) A recurring weakness noted was a lack of adequate substantiation of the outcome of an activity. Documentary evidence of the results of an activity provides a formal conclusion as well as a basis for evaluation and future planning purposes. It also provides supporting evidence of the results of the expenditure towards that activity. WHO Representatives' offices need to strengthen their monitoring and follow-up processes to ensure that evidence of outcomes, such as reports and statements, is received for all activities. There is also a need to review and analyse that evidence for fiscal propriety.

(f) Audits in a number of WHO Representatives' offices revealed control weaknesses related to authorization. Due to procedural rigidities, as well as extraneous circumstances, activities were undertaken and obligations incurred without the required authorization from the regional office. WHO Representatives' offices must comply with controlling rules and regulations and the regional offices should strengthen their supervisory functions.

(g) During the audit, the Office recommended variance analysis of the activities, both in financial and programme terms, on the basis of the Plan of Action. This would enable the office of the WHO Representative to measure in detailed terms the variances in the actual results from intended activities and to examine underlying causes for future planning. It would also facilitate the analysis of the relationship between priorities, resource allocation and actual expenditure.

(h) In the majority of the WHO Representatives' offices, the audits identified weaknesses in the management information system. In the absence of a standard WHO country management information system, recommendations were made to improve or modify existing practices to best suit local

conditions. The objective of the recommendations was to improve the efficiency of information gathering for effective decision-taking.

(i) There is a need to increase delegation of authority to commence approved activities. If the cost, timing and nature of an activity have been approved in advance in the Plan of Action, it is inefficient for the office of the WHO Representative to re-seek administrative and financial authorization from the regional office in order to implement the activity.

15. **The International Computing Centre.** The International Computing Centre is a cooperative venture formed by the United Nations, UNDP and WHO in 1971. It provides computer services to over 25 organizations of the United Nations system. Representatives of these organizations form the Management Committee which has operational responsibility for the Centre. However, it is not a legal entity and WHO acts as the host organization. As such, an audit was conducted within the mandate for WHO.

16. The audit disclosed that the administrative structure of the Centre had not kept pace with its growth. There were significant structural weaknesses in its governance and accountability framework. There was no clear agreement on the respective roles and responsibilities of the Management Committee and WHO as host organization. Adjustments to established cost-sharing arrangements were made by the Centre without the full knowledge and approval of the Management Committee. Recommendations made in the Office's report were discussed and accepted at the Management Committee meeting held in September 1998.

17. The Office recommended critical review of WHO's continuance as host for the Centre. WHO currently accepts a substantial business risk without corresponding benefit. Programmatically, there is no direct linkage to any WHO health-related activity. Support services are provided to the Centre free of charge without discernible advantage in terms of superior service received. Finally, there has been a history of difficulty in administering the Centre; WHO is no longer fully informed of financial and contractual arrangements entered into by the Centre.

18. Senior management has accepted the Office's recommendations and has notified the Chairman of the Management Committee of WHO's intention to relinquish the role of host organization.

## OVERSIGHT ACTIVITIES

19. **Cash-handling activities.** An on-site investigation followed up a reported case of suspected fraud in cash-handling procedures between two offices of WHO Representatives in the African Region. There was a lack of proper accounting for funds transferred; suspicion that funds which were supposed to be fully transferred were used locally; and discrepancies on every transfer of local currency. The investigation did not establish proof of actual fraud, but concluded that there existed certain questionable transactions resulting from weak internal controls in areas relating to both operations and accounting for cash. There was also a need for more effective and efficient management of cash operations among WHO Representatives' offices and between them and the regional office.

20. In the course of investigating the cash operations, a discrepancy was discovered in the personnel records of one of the related parties. The staff member had submitted a false university diploma in order to obtain professional employment with WHO. The staff member subsequently resigned.

21. **Headquarters programme.** The Office previously reported on the investigation of staff misconduct in a major headquarters technical programme. Review of the audit results by the Secretariat determined that

misconduct had indeed occurred. A written reprimand has been prepared but, at the date of this report, it had not been formally presented to the staff member due to procedural delay. The Office will follow this up until there is a final disposition.

22. **Collusion by WHO staff.** The Office completed a brief investigation into an allegation that a WHO staff member had colluded with a private sector firm. The report of the irregular relationship originated from outside WHO and suggested that a technical officer had received bribes from a large industrial firm in return for favourable treatment of the firm's products in WHO technical support and literature. The Office found no evidence which would support the validity of the allegation and concluded that the information received was biased and provided no basis for further investigation.

## **FOLLOW-UP AND IMPLEMENTATION**

23. The Office monitors the implementation of all its audit recommendations and verifies the reported implementation during subsequent audit visits. During 1998 recommendations were, in most instances, accepted positively by management and the Office is satisfied overall with the final disposition of major audit issues.

24. **Evaluation of the headquarters personnel function.** The Office has completed follow-up on the implementation of the recommendations made during its review of the headquarters personnel function. The Department has implemented the recommendations effectively and has also initiated supplementary actions of its own. Some of the issues raised have been dealt with by the restructuring process at headquarters. The audit is now considered closed.

25. **Delayed implementation.** In response to the audit of two country offices performed in 1997, a regional office deferred the implementation of specific recommendations. The issues in abeyance are:

- (a) the need to perform a variance analysis of the Plan of Action by measuring initial objectives against actual results, both in financial and activity contexts;
- (b) a need to start impact assessment of selected key WHO inputs to country programmes.

26. The regional office agreed in principle with the recommendations but felt that they applied globally. As such, the region deferred implementation pending consideration and guidance by headquarters. The matter was submitted to a Management Development Committee meeting in early 1998; however, the specific issues were not discussed in detail and the results of the meeting were inconclusive. As no further developments have subsequently taken place and as there has been no response from any of the related parties, the status of the issues remains unresolved. This situation is problematic in that responsibility appears to be confused. In the absence of a mechanism to resolve such situations, the related parties have not initiated implementation.

27. An audit of the former Division of Reproductive Health - Technical Support, issued early in 1998, remains outstanding with no reported implementation. Senior management was alerted and the final disposition is pending.

## **EXTERNAL AUDITOR**

28. The Office maintains a close working relationship with the Organization's External Auditor. During 1998, periodic meetings were held to coordinate audit work in order to ensure effective coverage and to avoid duplication of efforts. Additionally, to promote transparency, the Office systematically provides a copy of all internal audit reports to the External Auditor, as well as other relevant documents produced by the Office.

**ACTION BY THE HEALTH ASSEMBLY**

29. The Health Assembly is invited to note the report.

ANNEX

**1998 AUDIT REPORTS**

- C Regional Office for Africa (98/515, 98/520).
- C Regional Office for South-East Asia (98/516).
- C Special review of cash handling procedures for AFRO (98/517).
- C Liaison Office, Pretoria, South Africa (98/518).
- C Office of the WHO Representative, Bamako, Mali (98/519).
- C WHO administration of the International Computing Centre (98/521).
- C International Computing Centre (98/522).
- C WHO Office for Humanitarian Assistance, Sarajevo, Bosnia and Herzegovina (98/523).
- C Regional Office for Europe (98/524).
- C Office of the WHO Representative, Dar-es-Salaam, Tanzania (98/525).
- C Office of the WHO Representative, Harare, Zimbabwe (98/526).
- C Review of professional qualifications (98/527).
- C Regional Office for the Western Pacific (98/528, 98/531).
- C Office of the WHO Representative, Suva, Fiji (98/529).
- C Office of the WHO Representative, Apia, Samoa (98/530).
- C Regional Office for the Eastern Mediterranean (98/532).
- C Office of the WHO Representative, Islamabad, Pakistan (98/533).
- C Staff health insurance system (98/534).
- C Office of the PAHO/WHO Representative, Kingston, Jamaica (98/364).
- C Office of the PAHO/WHO Representative, Managua, Nicaragua (98/366).
- C Office of the PAHO/WHO Representative, Buenos Aires, Argentina (98/369).
- C Pan American Foot and Mouth Disease Centre (PANAFTOSA), Rio de Janeiro, Brazil (98/370).
- C Office of the PAHO/WHO Representative, Port of Spain, Trinidad and Tobago (98/371).
- C Caribbean Epidemiology Centre (CAREC), Port of Spain, Trinidad and Tobago (98/372).
- C Office of the PAHO/WHO Representative, Montevideo, Uruguay (98/373).
- C Latin American Centre for Perinatology and Human Development (CLAP), Montevideo, Uruguay (98/374).
- C Institute of Nutrition of Central America and Panama (INCAP), Guatemala City, Guatemala (98/376).
- C Office of the Caribbean Programme Coordinator (CPC), Bridgetown, Barbados (98/377).
- C Limited purchase orders at PAHO/AMRO headquarters (98/378).
- C Selected reviews of headquarters account balances and financial processes.

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