Report of the Internal Auditor

INTRODUCTION

1. Initial audit results for the year 2003 and the framework for the plan of work of the Office of Internal Audit and Oversight for the year 2004 are set out below for the information of the Audit Committee of the Executive Board.

2. The Office performs an independent, objective, assurance and advisory activity designed to add value to and improve the Organization’s operations. Using a systematic and disciplined approach, it helps the Organization to accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control, and governance.

3. The scope of work of the Office is to evaluate whether the network of risk management, control, and governance processes, as designed and implemented by the Organization’s management, is adequate and functioning in a manner to ensure that: (a) risks are identified and managed; (b) financial, managerial, and operating information is accurate, reliable, and timely; (c) staff actions are in compliance with policies, standards, procedures, and applicable laws and regulations; (d) resources are acquired economically, used efficiently, and protected adequately; (e) programmes, plans, and objectives are achieved; and (f) continuous improvement is fostered in the Organization’s control process.

4. The Office conducts its work in accordance with the Code of Ethics and the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. This guidance was adopted for use in organizations of the United Nations system by the 33rd Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions.

I. INITIAL AUDIT RESULTS, 2003

5. The significant audit results identified by the Office during the first nine months of this year are shown below under the major groupings outlined in the plan of work of the Internal Auditor, 2003. The issues are fully detailed in individual audit reports that have been distributed in the normal course.
of business. The points discussed below were identified during work in specific offices; some issues, however, may have common implications throughout the Organization.

Headquarters audits

6. **Department of Mental Health and Substance Dependence.** The audit concluded that the Department’s controls were adequate to ensure a reasonable expectation of success in achieving their objectives. Nevertheless, a refinement of managerial policy and procedures could enhance the Department’s role in implementing country activities. Further, there should be a clear linkage between departmental objectives and activities stated in the work plan, and there is a need to attract financial resources to sustain and expand activities.

7. **Information technology at the UNAIDS Secretariat, Geneva.** The audit confirmed that a satisfactory control environment exists for information technology at UNAIDS, taking into account the nature and size of the operations. Nevertheless, a combination of increased senior-level involvement and better provision of information needed for decision-making would help to ensure that the strategies and priorities for information technology are well aligned.

8. **Administrative Services Agreement between WHO and the Global Fund to Fight AIDS, Tuberculosis and Malaria.** The audit examined the provision of administrative services by WHO to the Fund under the terms of the Administrative Services Agreement. The agreement is viewed by some as a restrictive arrangement which impedes the Fund’s efficiency and effectiveness. At the same time, WHO is vulnerable to criticism that it is not providing the necessary oversight needed to ensure that the Fund complies with WHO rules and procedures. Thus, to mitigate these negative implications, action needs to be taken so that WHO is seen as both a facilitator and a responsible and transparent entity.

Regional and country offices audits

9. **Regional Office for South-East Asia.** The results of the audit, which concentrated on the areas relating to contracting of services, local cost-subsidies and payments, indicated that in general, the Regional Office had implemented control processes to mitigate most of the inherent risks. However, there was a need better to manage risks relating to contractors’ performance, pricing, and accountability, as well as protection against fraudulent payments and intensified oversight of local cost-subsidies.

10. **African Programme for Onchocerciasis Control.** The audit identified residual risks that stem from inadequate controls in certain areas. More specifically, it noted control weaknesses in such areas as inter-office accounting and reporting, project-funding and cash transfers, imprest account submission and verification, non-expendable equipment, and internal communications. The impact on the Programme and the reported rate of implementation need further consideration.

11. **Regional Office for Europe, Division of Technical Support – 2, European Centre for Environment and Health.** The results of the audit disclosed that the concept of operating the geographically dispersed European Centre for Environment and Health is innovative. However, the managerial process in the application of this concept lacks clarity and poses a risk to achievement of the Regional Office’s objectives. There is a need to develop a strategy for reducing risk by taking account of factors such as criteria, location, synergy and strengths, exit policy, operational mechanism and overhead costs in order to streamline current operations, and for establishing dispersed offices in
the future. Further, there is a need continually to review the direction and status of the work programmes performed by the offices to ensure that they are consistent with regional priorities.

12. **Regional Office for Africa.** A horizontal review of the Region’s management of risks relative to the expenditure cycle disclosed a number of basic weaknesses that allow the existence of financial risk for the Organization. Activities which create financial transactions are often initiated without respecting established controls or clearance procedures, which themselves may sometimes be weak or nonexistent. The transactions are subsequently approved, paid and recorded in the accounts, without rectification, under a process that does not function effectively from a control standpoint. Most notably, authority has been delegated to divisional Directors and WHO Representatives for expenditure approval; however, some often fail to enforce controls and are not held accountable for discrepancies in approved transactions.

13. **Oversight.** The Office has experienced a higher than normal volume of activity related to fraud investigation at country level. During the first nine months of 2003, approximately 25% of the total staff available in the Office was devoted to this area. The current state of affairs appears to be exacerbated by inadequate controls over a situation involving large sums of cash and high levels of programme activity. By the nature of the work, products of investigations are subject to strict confidentiality and due process requirements so that their final disposition may not be prejudiced in any way. Nonetheless, several noteworthy situations emerged:

- weak or nonexistent controls over purchasing permitted staff to perpetrate costly frauds
- review of country office cash-fund accounting at the regional office failed to detect irregular transactions
- negligence in applying cash-handling procedures permitted theft of cash from a safe
- a proper control environment in the office was notably lacking in all cases reviewed
- supervisory control was not always operated by the responsible officials
- the Organization needs to instil a culture of disciplinary action for staff misconduct.

**Implementation**

14. In general, recommendations of the Internal Audit Office are dealt with in a timely manner and the audits are closed within a reasonable period of time. However, for several reports, some of which have remained open for several years, no response or implementation plan has been received. In these instances, follow-up requests have not always been answered and it is unclear what is planned in every case. In some instances, events may have overtaken the audit recommendations but in others, the recommendations remain valid. A further report on this matter will be submitted to the Fifty-seventh World Health Assembly.

**II. GENERAL AUDIT PLAN OF WORK, 2004**

15. Organizationally, the audit universe comprises discrete units and includes the programmes, services and functions at headquarters; the regional offices; the offices of WHO Representatives and liaison offices; the secretariats of UNAIDS, the International Computing Centre and the Global Fund
to Fight AIDS, Tuberculosis and Malaria; the African Programme on Onchocerciasis Control; and IARC.

16. Using the structure of the audit universe as a guide, a risk assessment is conducted annually to ensure that the priorities of the Office are consistent with the Organization’s risks and goals. At the same time, the risk-profile for fraud is updated. The results of these assessments, which also include the input of senior management, are then used to develop a specific allocation of available resources. The final, detailed plan of work is submitted to the Director-General.

17. The plan of work for 2004 assumes full staffing during the year. The staffing complement, which was strengthened by the addition of one post in late 2003, now includes seven professional auditor posts. Sufficient funds have been allocated for travel and other costs. The results of the risk assessment determine the priorities of the Office. However, this work can only be absorbed to the extent of the staffing available. Additionally, high-risk, irregular situations that develop periodically may also, by necessity, divert staffing resources away from identified priorities.

18. The annual risk assessment has historically indicated that the Office’s work should be split more or less equally between headquarters, regional offices, and country offices. A degree of flexibility is necessary and regularly scheduled work may be interrupted or deferred in response to developing situations. The following summary plan is presented under the major functional or organizational headings of the audit universe.

19. Headquarters programmes, services and functions. Increasing emphasis will be placed on performance audit of technical programmes. In general, the substance of the work focuses on progress towards achievement of the expected results. Work will also be carried out on financial and administrative functions, which is more narrowly focused and attempts to evaluate compliance with established controls. Any financial work planned will be closely coordinated with the External Auditor to ensure that there is no avoidable duplication of effort. Lastly, audit risk relating to new or modified information systems will be addressed, in addition to the work planned on existing systems.

20. Regional offices. In general, the scope of regional office audits is determined by the level of risk existing in the planning, implementation, administrative and accounting functions, and the offices’ role as accountability centres for country offices. The work will seek to provide assurance that risks in achieving the stated objectives have been recognized and mitigated. Further, the operations of each regional office will be reviewed in the context of evaluating the internal control structure for its programme of work. Because of differences in operations and specific risks, audits of the regional offices are not only high priority, but are also tailored to suit the specific local circumstances.

21. Offices of WHO Representatives. The Office continues to review country offices in the context of their significance in the collaboration between WHO and Member States. Work is adjusted for differences in risk between the various types of offices and operations. The scope of the audits will focus on assessing whether expected results set out in the plan of action have been achieved. The work in this area entails a review of all aspects of the offices’ activities and includes issues related to programme delivery, managerial process, and administration and finance. Work is also expected to centre on countries where large amounts of cash relating to programme delivery are involved.

22. Secretariats of UNAIDS, IARC, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the African Programme on Onchocerciasis Control, the International Computing Centre. All of these bodies operate administratively within the WHO control structure and are audited
by the Office on a reimbursable basis. Audit work will be coordinated with, and the results reported to, the respective heads.

23. **Evaluation.** In accordance with the Director-General’s decision, the Office has assumed responsibility for management of the Organization’s framework for programme evaluation. The work will continue under existing arrangements and the results will be reported to the Executive Board through the Programme Development Committee. It is expected that, in future, certain synergies will be realized between performance audits and evaluations conducted under the framework.

24. **Investigation and Oversight.** Resources are reserved for investigation of irregular activity which is largely addressed on an ad hoc basis as specific situations develop. Proactive investigative work may be conducted where assessment discloses high-risk situations. If necessary, regularly scheduled audit work is interrupted or deferred to provide necessary resources for response to investigative needs. Recent experience has indicated that significant resources will continue to be required for this area.

**EXTERNAL AUDITOR**

25. The change in the Organization’s External Auditor requires that the Office establish and maintain close contact with the new incumbent. As in the past, periodic meetings are planned to coordinate audit work and to avoid duplication of effort.

**MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE**

26. The Committee is invited to take note of the initial audit results and the plan of work.

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1 See document EB107/INF.DOC./3.