

Report of the Independent Expert Oversight Advisory Committee

The Director-General has the honour to transmit herewith to the Programme, Budget and Administration Committee of the Executive Board, for the Committee's consideration at its thirteenth meeting, the report submitted by the Chairman of the Independent Expert Oversight Advisory Committee (at Annex).

ANNEX

**REPORT OF THE INDEPENDENT EXPERT
OVERSIGHT ADVISORY COMMITTEE**

BACKGROUND

1. The Independent Expert Oversight Advisory Committee was established by the Executive Board in May 2009 under resolution EB125.R1, with terms of reference (see Appendix to the present report) to advise the Programme, Budget and Administration Committee and, through it, the Executive Board on matters within its mandate, which includes:

- review of the WHO's financial statements, financial reporting and accounting policies
- provision of advice on internal control and risk management
- review of the effectiveness of the Organization's internal and external audit functions, and monitoring of the implementation of audit findings and recommendations.

2. The members of the Independent Expert Oversight Advisory Committee, appointed by the Executive Board in January 2010 under decision EB126(1), are: Ms Marion Cowden, Mr John Fox, Mr Graham Miller (Chairman), Ms H el ene Ploix and Mr Veerathai Santiprabhob.

3. This report constitutes the first annual report of the Independent Expert Oversight Advisory Committee and summarizes the Committee's work in 2010, its first year of existence.

ACTIVITY DURING 2010

4. Following the appointment of the members of the Independent Expert Oversight Advisory Committee by the Executive Board in January 2010, the Secretariat organized a first two-day familiarization briefing in Geneva on 20 and 21 April 2010, as reported orally by the Secretariat to the Programme, Budget and Administration Committee at its twelfth meeting in May 2010 and subsequently by that Committee to the Executive Board at its 127th session.¹

5. The Independent Expert Oversight Advisory Committee held its second meeting from 22 to 23 November 2010, at which the Committee was able to deepen its understanding of WHO and continue its initial engagement with all the core areas of its mandate. While we believe our meetings in 2010 have been productive, we do not feel that two meetings a year are necessarily sufficient to provide the level of oversight that the Committee's mandate requires. We therefore intend to provide for three meetings a year, within our existing terms of reference.

6. Apart from direct interaction with senior management, internal audit and external audit during these meetings, we have asked to be provided on an ongoing basis with information on developments

¹ Document EB127/2, paragraphs 7 to 9.

and progress in all areas of our mandate, including outputs from both internal and external audit, and a variety of financial, budgeting, information technology, risk management and other relevant administrative and/or management reports. We discussed with the Secretariat the scope and process for the Independent Expert Oversight Advisory Committee reviewing documents related to its mandate prior to submission for consideration by the Programme, Budget and Administration Committee and the Executive Board, so as to ensure that the Committee will be properly placed to offer advice and views to WHO's governing bodies. We have also asked the Secretariat to include details of the Independent Expert Oversight Advisory Committee's role, terms of reference, membership and reports to the Programme, Budget and Administration Committee on the WHO web site, both to inform and to serve as a visible element in the Organization's governance and accountability arrangements.

7. We have begun our continuing oversight of developments and progress in key infrastructure areas such as: cash, treasury and investments management; financial reporting and the transition to International Public Sector Accounting Standards; resource budgeting and financing; the Global Management System; enterprise risk management; the adequacy of internal controls; internal oversight services; and external audit. It will be part of our role to highlight those areas or issues which merit priority attention by the Organization in the near and medium term.

ISSUES IDENTIFIED BY THE INDEPENDENT EXPERT OVERSIGHT ADVISORY COMMITTEE

8. In commencing our oversight work in accordance with the Committee's terms of reference, we reviewed organizational developments in relation to all the areas of our mandate, with a focus on the issues which we believe should be of key concern to the Executive Board and Member States, with which we will continue to engage and on which we will report in future meetings.

Financial management

9. In relation to liquidity management, WHO currently holds most of its liquid funds in cash or short-term deposits. This has the advantage of ready availability, but in our view could fail to take advantage of higher interest potentially available in the markets without sacrificing either necessary accessibility or the security of funds under existing investment policies. We advised management to improve its liquidity forecasting with a view to more accurately identifying when funds are actually needed.

10. We consider there may be scope for WHO to review its existing cash management needs for operational purposes, with a view to exploring the potential to place a higher proportion of short-term funds in instruments with ready accessibility in case of need but with a longer maturity, for example between one and two years. We look forward to examining this matter further with the Secretariat in order to identify what recommendations, if any, the Independent Expert Oversight Advisory Committee may consider appropriate.

11. Concerning the risks in relation to foreign exchange, we note that retention of the United States dollar as WHO's sole currency of budget presents a continuing misalignment between a majority of income in United States dollars and expenditure which is weighted with other currencies such as the Swiss franc and the euro, notably at headquarters and in several regional offices.

12. There may be scope for actions to address this currency exposure, which can lead to unfavourable mismatch in times of pronounced downward movements of the United States dollar. We plan to consider with the Secretariat whether there may be opportunities to be derived both from exploring a more systematic management of these exchange rate and currency exposures; and from a more strategic longer-term reflection on the most appropriate budgeting and contribution collection policies. If so, the Independent Expert Oversight Advisory Committee would formulate appropriate recommendations.

Financial reporting and the International Public Sector Accounting Standards

13. We reviewed the Secretariat's progress in moving towards the implementation of International Public Sector Accounting Standards. WHO's planned implementation of accounting and financial reporting in compliance with the Standards from 2012, in keeping with the adoption of the Standards by the wider United Nations system, will bring significant benefits from more up-to-date, reliable, transparent, consistent, comparable and complete financial reporting. This will support improved decision-making and financial management, for example through the ability to assess the true and full costs of providing services and better management of working capital requirements; and through the potential for improved stewardship of all the Organization's assets and liabilities, especially in regard to the use of results-based management.

14. The implementation of the International Public Sector Accounting Standards is a major change project which affects all parts of the Organization and involves challenging issues in relation to changes in accounting practice; recognition and valuation of assets; the consolidation of all financially-controlled entities into WHO's books and the exclusion of non-controlled entities; annual audited financial statements; and many more changes where successful implementation requires understanding and consistency of treatment. We will continue to monitor progress on the implementation of the Standards and the development by the Secretariat of policies and procedures and controls to support this enhanced accounting and financial reporting framework.

15. We have noted that the mandate of the incumbent External Auditor is due to come to an end with the biennium 2010-2011. A change of External Auditors, with consequent loss of continuity in audit oversight and support at such a crucial point of major change for the Organization (in particular the pervasive major infrastructure changes arising with the International Public Sector Accounting Standards, the Global Management System and enterprise risk management), poses a clear potential risk to the efficient and effective introduction of major new systems for 2012. In our opinion, this represents a major avoidable risk on which the Executive Board and Member States could usefully now take a view, to ensure that WHO continues to benefit from adequate continuity of external audit oversight and advice at a critical juncture for the Organization. It is our view that if the Executive Board and Member States should so decide, an extension of the current External Auditor's mandate for a further biennium would be logical and sensible in the circumstances.

Financial planning and budgeting

16. We are aware that for the last few bienniums, the Organization's budget process has altered its focus from the separate budgeting of regular and extrabudgetary sources of funds to an integration of assessed contributions and voluntary funding, to avoid compartmentalization and achieve a more strategic management and presentation of all available resources against objectives. The relative proportion of the Organization's assessed contributions (which have not experienced much growth over the last decade by comparison with voluntary contributions from a variety of sources) has fallen, and at present assessed contributions account only for around 20% of WHO's realized budget.

17. The resulting heavy reliance in budgetary and operational terms on voluntary contributions can present problems, since a high proportion of them carry conditions specified by the donors. In the light of this funding profile, and the increasing reliance on funding from voluntary sources, there will be a need to ensure the continuing provision of an adequate level of core support services.

18. Given the Organization's reliance on voluntary funding, there is increasing difficulty in the matching of WHO's funding projections for its 13 strategic objectives with the reality of uneven or erratic income, where there may be a need to assure the financing of ongoing operations by various shifts between budget centres.

19. We were informed about the "aspirational" nature of WHO's budget, in that actual revenues available often fall well below budgeted levels, which means that the WHO budget no longer serves as a basic control document in the way usually expected in a public sector organization. We are concerned that these circumstances in effect may preclude holding programme managers accountable for achieving their objectives, with unrealistic budget levels leading to a possibly reduced incentive to realize cost and other efficiency savings. Furthermore, this may encourage managers to seek and utilize resources with conditions attached, which could alter priorities. We intend to look further at the extent to which this may affect the adequacy of WHO's internal control framework. The Independent Expert Oversight Advisory Committee considers that there may be opportunity as well as a need to strengthen the existing control and accountability framework.

The Global Management System

20. We note that preparations are in hand for the roll-out of the Global Management System in the African Region from January 2011. We recognize the potential intended for the new System in terms of facilitating an environment for more strategic information management through improved availability of operational data, and faster and more relevant reporting.

21. In our view, there is need and potential for the Global Management System to have a wider positive impact on the governance processes of the Organization. The External Auditor is carrying out review work which should inform this, and the Independent Expert Oversight Advisory Committee will monitor this aspect of the System in future meetings.

Enterprise risk management

22. While management has already taken commendable steps to establish more systematic risk management processes, the arrangements have been limited to administrative risks in the general management group area, and have not yet been implemented beyond headquarters' operations or outside major WHO planning and budgeting processes. Management intend that the existing risk management arrangements will be extended next to the regions and incorporated in the planning process.

23. Given the challenges facing the Organization, we consider that there is a priority need for effective risk management arrangements to be extended earlier rather than later to cover true, organizational level strategic risk management, addressing core programmatic areas of work as well as regional and country operations, and ultimately to be integrated into WHO's main planning and budgeting processes within the Global Management System.

Internal oversight services

24. We review the reports and activity of the Office of Internal Oversight Services in the context of its present mandate and workplan. We noted that between our April and November meetings, the Office had made visible progress in a number of areas and we will continue to review the methodology for planning and prioritization of internal audit and evaluation work, and the effectiveness of the Office's follow-up of recommendations.

25. The Office of Internal Oversight Services has recently been the subject of review by the External Auditor. The Organization's extensive operations worldwide are characterized by the presence of risk and complexity from WHO's decentralized structure and the large number of country offices in regional settings that are still relatively diverse in their cultures, and technical and managerial approaches. Ensuring adequate internal oversight coverage with limited resources is clearly a challenge and, in keeping with our terms of reference, we intend to review and follow up on the approach and coverage achieved by the Office in financial and operational audits, performance audits, evaluation and investigation. We will also examine further the adequacy of internal control assurance provided by the internal audit function to the Director-General and to the Organization as a whole.

External audit

26. The review of the effectiveness of the external audit function is a core aspect of the Independent Expert Oversight Advisory Committee's mandate, to confirm that the external audit coverage is adequate and appropriate to WHO's needs and that the Secretariat's response to audit findings and recommendations is effective and appropriate.

27. We have been provided with external audit outputs for 2010 and will be monitoring the adequacy of the Secretariat's response to these and to subsequent audit recommendations raised. In our coming meetings, we will be engaging in a detailed review of the planning, scope and coverage of the external audit function's strategic approach and its interactions with management and internal audit.

THE WAY FORWARD

28. We are highly conscious of the importance of our independent role on behalf of the Programme, Budget and Administration Committee, the Executive Board and Member States. In this context, we welcome dialogue with WHO's governing bodies and their views on the Committee's work. As indicated in this report, we intend to further address what we consider to be key issues for the Organization within the terms of our mandate, in particular:

- liquidity management;
- more active management of the foreign currency issue;
- progress on implementation of the International Public Sector Accounting Standards;
- the budget management process and the need for an enhanced control and accountability framework;

- development of the Global Management System;
- the need to extend enterprise risk management as soon as possible to a strategic level, embracing the Organization as a whole;
- the adequacy of internal oversight coverage and the ability of the Office of Internal Oversight Services to provide internal controls assurance to the Director-General and governing bodies; and
- the scope and approach of the external audit function's oversight, and the responsiveness of the Secretariat to the findings and recommendations of the External Auditor.

Graham Miller, Chairman

Marion Cowden, John Fox, Hélène Ploix, Veerathai Santiprabhob

Appendix

INDEPENDENT EXPERT OVERSIGHT ADVISORY COMMITTEE

TERMS OF REFERENCE¹

PURPOSE OF THE COMMITTEE

1. As an independent advisory committee established by the Executive Board of WHO, and reporting to the Programme, Budget and Administration Committee, the purpose of the Independent Expert Oversight Advisory Committee is to advise the Programme, Budget and Administration Committee and, through it, the Executive Board, in fulfilling their oversight advisory responsibility and, upon request, to advise the Director-General on issues within its mandate.

FUNCTIONS

2. The functions of the Committee shall be:

- (a) to review the financial statements of WHO and significant financial reporting policy issues, including advice on the operational implications of the issues and trends apparent;
- (b) to advise on the adequacy of the Organization's internal controls and risk management systems, and to review management's risk assessment in the Organization and the comprehensiveness of its ongoing risk management processes;
- (c) to exchange information with, and review the effectiveness of, the Organization's internal and external audit functions, as well as to monitor the timely, effective and appropriate implementation of all audit findings and recommendations;
- (d) to advise on the appropriateness and effectiveness of accounting policies and disclosure practices and to assess changes and risks in those policies;
- (e) to provide, on request, advice to the Director-General on the matters under points (a) to (d) above;

¹ See document EB125/2009/REC/1, resolution EB125.R1, Annex.

(f) to prepare an annual report on its activities, conclusions, recommendations and, where necessary, interim reports, for submission to the Programme, Budget and Administration Committee by the Chairman of the Independent Expert Oversight Advisory Committee.

COMPOSITION

3. The composition of the Committee and the qualifications of its members shall be as follows:
- (a) The Committee shall comprise five members of integrity and objectivity and who have proven experience in senior positions in the areas covered by these terms of reference.
 - (b) Following consultations with Member States, the Director-General shall propose to the Executive Board candidates for membership of the Committee. Members of the Committee shall be appointed by the Executive Board. No two members shall be nationals of the same State.
 - (c) Members shall provide their services free.
 - (d) Members must be independent. They shall serve in their personal capacity and cannot be represented by an alternate attendee. They shall neither seek nor accept instructions in regard to their performance on the Committee from any government or other authority external to or within WHO. All members will be required to sign a declaration of interest and a confidentiality agreement in accordance with WHO practice in this respect.
 - (e) Members shall collectively possess relevant professional, financial, managerial and organizational qualifications and recent senior-level experience in accounting, auditing, risk management, internal controls, financial reporting, and other relevant and administrative matters.
 - (f) Members shall have an understanding of and, if possible, relevant experience in the inspection, investigative processes, monitoring and evaluation.
 - (g) Members should have or acquire rapidly a good understanding of WHO's objectives, governance structure and accountability, the relevant regulations and rules, and its organizational culture and control environment.
 - (h) Committee membership should have a balanced representation of public and private sector experience.
 - (i) At least one member shall be selected on the basis of his or her qualifications and experience as a senior oversight professional or senior financial manager in the United Nations system or in another international organization.
 - (j) In the selection process, due regard shall be given to geographical representation and gender balance. In order to retain the most equitable geographical representation, membership should be rotated among the WHO regions to the extent possible.

TERM OF OFFICE

4. The term of office shall be four years, non-renewable, except that the term of office for two of the initial members shall be two years, renewable once only for four years. The Chairman of the Committee shall be selected by its members. He or she shall serve in this capacity for a term of two years.

ADMINISTRATIVE ARRANGEMENTS

5. The following arrangements shall apply:

- (a) Members of the Committee not resident in the Canton of Geneva or neighbouring France shall be entitled to the reimbursement of travel expenses in accordance with WHO procedures applying to members of the Executive Board.
- (b) The Committee shall meet at least twice per year.
- (c) The quorum for meetings of the Committee shall be three members.
- (d) Except as provided for in its terms of reference, the Committee shall, *mutatis mutandis*, be guided by the rules of procedure of the Executive Board concerning the conduct of business and the adoption of decisions. The Committee may propose amendments to its terms of reference for consideration by the Executive Board, through the Programme, Budget and Administration Committee.
- (e) The Committee may decide at any time to obtain independent counsel or outside expertise if necessary and shall have full access to all WHO files and archives, which shall be treated on a confidential basis.
- (f) The WHO Secretariat will provide secretariat support to the Committee.

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