

## **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 fifteenth meeting, the report submitted by the Chairman of the Independent Expert Oversight Advisory Committee (see Annex).



ANNEX

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

**7–9 NOVEMBER 2011**

**INTRODUCTION**

1. This report covers the Fifth Session of the IEOAC (also referred to in the report as the Committee) which met from 7–9 November 2011, its third meeting during 2011. The Agenda of the meeting is attached at Appendix 1 to this report. All members of the Committee were in attendance throughout: Marion Cowden, John Fox, Graham Miller (Chairman), H el ene Ploix and Veerathai Santiprabhob.

2. In light of some other changes to the timing of WHO’s reporting to governing body level, and to ensure the availability of the most up-to-date advice to Member States for the World Health Assembly, the IEOAC will finalize its annual report for 2011 at its next meeting on 27–29 February 2012, at which time it can also consider WHO’s biennial financial statements and external and internal audit results in time for submission to the Programme, Budget and Administration Committee of the Executive Board (PBAC) before the World Health Assembly.

**ITEMS 1 AND 2 OF THE AGENDA – WELCOME AND ADMINISTRATIVE MATTERS**

3. The Committee members individually provided updates on their respective changes in personal status or assignments. There were no conflicts of interest to record. Relevant changes will be recorded in the curriculum vitae information listed on the IEOAC web site.

4. The Committee expressed the wish to be provided at each meeting with regular monitoring information on the cost of its operations. It was also informed that its report on the Fourth Session of the IEOAC in July 2011 had now been posted on its web site and that a new hyperlinked SharePoint site was soon to be implemented to contain background documents relevant to its work.

5. The Committee renewed its intention, referred to in the July 2011 meeting, to offer Member States’ representatives an open opportunity to meet with IEOAC members. This opportunity would be made available during the IEOAC’s next meeting on 27–29 February 2012, at a time and place to be confirmed and announced in advance through the Secretariat.

**ITEM 3 – UPDATE BY THE DEPARTMENT OF FINANCE (FNM)**

6. The Committee was briefed on recent steps taken to make WHO ready for IPSAS and noted the progress reported, although issues in relation to fixed assets are still to be taken forward. The IPSAS team of the new External Auditor (Philippines) were present for this discussion.

7. The Committee was informed about action taken by the Secretariat to address the issue of salary advances to staff, primarily in the African Region, that had been previously raised in correspondence by the Permanent Representative of Germany, and was given an update in relation to the action being taken to achieve a strengthening of internal controls. The Committee also received summary information on the recovery of funds. The IEOAC noted the significant decline in the number of pending cases. The Secretariat reported that they were in the process of calculating the exact amount to be written off, which is expected to be in the range of US\$ 100 000–300 000. The exact amount will be presented to the Committee at its next meeting. The Committee will consider this matter again at its next meeting in February 2012 in the light of the Secretariat's further reporting to the PBAC in January 2012 and Member States' response. The IEOAC recommends that in January the Secretariat provide the PBAC with an appropriately detailed report of progress and action taken.

8. Concerning the Comptroller function, the Committee was provided with a progress report on the new financial control framework, which has yet to be implemented; and noted that the Secretariat had begun to make a clear division of responsibilities between the Department of Finance and the Department of Programme Planning, Resource Coordination and Performance Monitoring, which has responsibility for the budget functions. The Committee will continue to monitor developments in future meetings.

#### **ITEM 4 – WHO REFORM**

9. The Committee was briefed on the outcome of the special session of the Executive Board, which was held from 1–3 November 2011. In relation to managerial reforms, the Board had asked the Director-General to further develop, for January 2012, a draft evaluation policy, including a mechanism for oversight of evaluation by the governing bodies informed by insights provided by the IEOAC; and had also requested the Director-General to identify the appropriate entity for a first-stage evaluation of WHO and to further develop, in consultation with the UN Joint Inspection Unit (JIU), the External Auditor and the IEOAC, an approach to the two-stage evaluation, in consultation with Member States, and present it to the Board for consideration at its 130th session in January 2012.

10. The Committee observed that the Director-General's reform paper (EBSS/2/2) provided a thorough and insightful diagnosis of organizational problems and issues that need to be addressed in the reform process. The Committee felt that further evaluation by an external independent entity – such as the JIU, the External Auditor or external consultants – would require substantial time and in most cases cost (which would be particularly onerous if the task were conferred on consultants). From a practical or technical perspective, the IEOAC was not convinced that such alternatives offered a necessary or preferable course of action for the Organization's needs.

11. In the Committee's view, an adequate first stage evaluation as required by Member States (with a focus on – and good understanding of – financing challenges, staffing issues and internal governance) could be delivered more efficiently and with sufficient independence by the Office of Internal Oversight Services (IOS), drawing on, inter alia, the Director-General's comprehensive reform paper and existing external evaluation reports from various sources such as MOPAN.

12. IOS has extensive existing knowledge and understanding of the entire Organization, and is independent within WHO. The IEOAC's existing oversight of IOS provides additional external assurance on the independence and integrity of an evaluation carried out by IOS for presentation to Member States.

13. In relation to the requirement for a draft formal evaluation policy and a mechanism for oversight of evaluation by the governing bodies, the IEOAC already provides oversight of evaluation and therefore can provide insights on the proposed evaluation policy and support governing body oversight.

#### **ITEM 5 – TREASURY/CURRENCY RISK MANAGEMENT/HEDGING**

14. Concerning currency and foreign exchange risk management, the IEOAC had made a number of recommendations in its previous reports and commended the Secretariat for making real progress in addressing key issues previously raised by the Committee. The Secretariat reported that WHO, like other UN agencies, was exploring ways to mitigate exchange risks for the Organization, either through an annual re-costing of the budget, or by shifting some or all of its assessments to the Swiss franc so as to lessen any unhelpful dependency on the US dollar by better aligning currencies received with currencies expended.

15. The Committee was informed that, based on the feedback received at the special session, re-costing the budget at regular intervals (to obtain compensation for any funding gaps as a result of adverse exchange fluctuations in the interim) would not be acceptable to Member States. In the IEOAC's view, changing the assessment currency to Swiss francs, together with further relocation of functions to lower-cost centres, would be a recommended solution.

16. However, this would only address a relatively small part of the problem, as voluntary contributions represent such a large share of the overall budget. Budgets funded by voluntary contributions need to contain sufficient contingency provision for absorbing the effects of currency fluctuations in order to make sure that all expenses, particularly salaries, would be covered by income over the course of a project. It would also help if the budgets of voluntary funded activities/projects contained clear indication of the amounts of the different currencies needed by WHO, so that donors could be given a more informed sense of the Organization's estimated requirements.

17. Although hedging is useful for the short term only and is not a remedy for long-term currency exposure, the IEOAC recommends that hedging should continue to be used for smoothing the effects of short-term currency movements up to 12 months forward.

#### **ITEM 6 – WHO STAFF HEALTH INSURANCE FUND (SHI) MANAGEMENT AND OVERSIGHT**

18. Against the background of a critical WHO Internal Audit report in September 2009 and a review carried out by consultants PwC in 2011, the Committee was provided with a presentation of the proposed new governance structure for the Fund, together with the major findings and conclusions of the recently-concluded Eighth Joint Meeting of the WHO SHI held on 24–28 October 2011.

19. The Committee recognized the clear improvements contained in the various proposals but felt that there were still risks arising from potential conflicts of interest, due both to the continuation of the regional surveillance committees and the preponderance of WHO staff managing all aspects of a scheme for WHO beneficiaries.

20. Furthermore, in the view of the IEOAC, the degree of involvement of independent outside experts in the SHI management and oversight committees could still be increased.

21. Finally, the IEOAC endorses the direction being taken to increase the contribution rate to improve the long-term stability of the Fund; but expressed some concern about the relatively large amount of unfunded SHI liabilities according to the latest long-term actuarial calculation conducted in 2011, noting that the extent of the liability will have to be disclosed in WHO's annual financial statements for the year ended December 2012.

## **ITEM 7 – ENTERPRISE RISK MANAGEMENT**

22. A presentation and update was provided on progress made by the Secretariat since the last IEOAC meeting in improving the arrangements for risk management in relation to the administration (which was already well advanced) and – more importantly – at strategic level for the Organization as a whole. The Committee noted the extent to which a structured approach was being advanced in relation to administrative risks for the general management cluster; however the Secretariat had still not made progress in establishing any systematic process which identifies and provides the basis to manage and mitigate strategic risks for WHO at corporate level.

23. In relation to developments to date, too many risks were being included for monitoring and mitigation and there was an insufficient focus on a limited number of strategic, high-level risks to be managed at the corporate level. The IEOAC recommends that the number of high-level strategic risks should ideally not exceed about eight to ten, and these should be reviewed at the level of the Global Policy Group (GPG) and periodically by governing bodies. The IEOAC also urges that, while continued examination of the elements of the risk management process in the administrative area has been useful, it is now time for the achievement of a concise, high-level analysis to demonstrate how enterprise-wide risk management should work for the Organization as a whole and the benefits to be gained, without further delay.

## **ITEM 8 – EXTERNAL AUDIT**

24. The Committee was informed about the ongoing external audits within WHO; future hand over arrangements with the new WHO External Auditor from the Philippines, including the pending finalization of letters of engagement; and the new external audit recommendations tracking system managed by the Department of Finance.

25. The Committee noted the progress made in preparing for letters of representation and a statement of internal control once financial statements were being prepared under IPSAS. It welcomed the new recommendations tracking system, which represented a big step forward towards improved transparency and accountability; more efficient handling; better coordination of management responses; and real-time status reporting.

26. Finally, the Committee noted that it would review the Organization's biennial financial statements for 2010–2011 at its next meeting in February 2012, prior to signature of the accounts by management.

**ITEM 9 – INTERNAL OVERSIGHT SERVICES (IOS)**

27. The Committee reviewed recent developments in internal audit, evaluation and investigation, including progress with the workplan; the recommendations status dashboard; recent reports; and relevant outcomes from the special session of the Board.

28. The Committee welcomed the Director-General's recent efforts to strengthen the capacity of IOS within WHO's existing resources; and the efforts made by IOS to prioritize audit work more effectively in the face of limited resources.

29. The Committee was given a private briefing on ongoing IOS investigations, which at present did not indicate major concerns or issues with the potential for ramifications at strategic level. The Committee discussed the desirability of making whistleblower facilities open to external parties.

30. The Committee considered that the incidence of investigation activities seemed likely to further increase workloads for the IOS; and that WHO may need to revisit its investigation policy and approach with a view to ensuring cost-effectiveness for the Organization. It would seem reasonable for respective line management at appropriate levels to take a wider role in cases arising from HR matters and staff relationships.

**ITEM 10 – MEETING WITH HEADS OF WHO COUNTRY OFFICES (HWCOs)**

31. The Committee were pleased to attend a special lunchtime session on accountability, at which the Chairman introduced the members of the Committee to the HWCOs and presented the work of the IEOAC, and its role and relevance to WHO's work in countries. The Committee very much welcomed this opportunity to learn about HWCOs' concerns and problems related to the implementation of internal controls and governance measures in the field.

**ITEM 11 – REVIEW OF PROGRESS/RESPONSE IN RELATION TO IEOAC RECOMMENDATIONS**

32. The Chairman introduced a summary of the IEOAC's recommendations and key advice from its first three reports, up to July 2011. This summary was not designed as a monitoring tool per se, for the recording of actions or responses by management. Rather it is intended to offer a useful standing, aggregate ready-reference for the Committee and the Secretariat on the IEOAC's guidance on key issues; in demonstrating the evolution of the Committee's work; and to provide Member States with a convenient and concise aide-memoir of the Committee's main outputs.

33. The Committee agreed that the summary should be appended to its report (see Appendix 2), which would be submitted to the PBAC at its fifteenth meeting in January 2012. In future, this summary record would be re-organized by main topics or themes of recommendations, rather than chronologically by date of IEOAC reports. This item should be a standing agenda item for IEOAC meetings and the log should be continually updated. The Committee would consider how in future the summary might best incorporate commentary on outcomes from recommendations already implemented and on the Committee's follow up.

**ITEM 12A – REVIEW OF IEOAC TERMS OF REFERENCE**

34. Under paragraph 5d of the IEOAC's Terms of Reference approved by the Executive Board and as a matter of good practice, the Committee carried out a review of its existing terms of reference against accepted best practice and external sources of guidance on oversight committees, such as reports of the UN Joint Inspection Unit.

35. The Committee identified the future potential for some limited clarifications or revisions to the terms of reference which would be desirable in order to: formalize more explicitly the IEOAC's existing oversight of IOS activities (covering internal audit, evaluation and investigations); have the Committee provide advice to the Board on the selection process for future External Auditor appointments (a principle which relates to a professional and technical appointment in which the IEOAC has expertise to helpfully inform PBAC and Board decisions, and which was welcomed this year at PBAC by the Chairman of the Executive Board and some others); similarly have the Committee provide advice in relation to future appointments of the Director of the Office of Internal Oversight Services (in order to guarantee the independence, qualifications and objectivity of the function); and require the Committee to periodically review and report on its performance (in order to reflect best practice in oversight committees elsewhere and principles recommended by the JIU).

36. These potential improvements could be taken forward by the Secretariat with the IEOAC's advice for submission to the PBAC and Board's consideration at a future date.

**ITEM 12B – REVIEW OF THE IEOAC'S PERFORMANCE**

37. Best practice indicates that audit and oversight committees should periodically assess their performance. The JIU also recommends this for the United Nations system. The Chairman introduced a standardized audit committee self-assessment checklist with suggested responses, which were discussed by the Committee and modified as appropriate. To support transparency of the IEOAC's activities and accountability to the governing bodies, the Committee asked the Secretariat to post the agreed version on the IEOAC area of the WHO's web site pages which deal with Governance.

**ITEM 13 – PARTNERSHIPS AND RELATED HOSTING ISSUES**

38. The Secretariat presented the Committee with a list of the main WHO partnerships and details of their functioning, governance structure and so on. The IEOAC was also briefed about the Secretariat's report on partnerships to the Sixty-third World Health Assembly (document A63/44) in May 2010; on the new WHO policy on WHO Engagement with Global Health Partnerships and Hosting Arrangements endorsed in resolution WHA63.10; and on a draft Memorandum of Understanding (MoU), which aims to standardize agreements between WHO and hosted partnerships in line with the endorsed policy.

39. The Committee noted three different categories of partnerships, depending on their degree of autonomy from and/or integration with WHO, and the potential risks associated with the hosting of partnerships, in particular financial, reputational, governance and various legal liability risks. The Committee members agreed to provide the Assistant Director-General for GMG with their comments on the draft MoU but the Committee will return to further consideration of the MoU and partnerships at its next meeting.



40. The Committee commended the Secretariat's efforts to mitigate the risks and issues arising from partnerships arrangements, and urged it to continue its efforts to ensure that these risks were better managed, in particular concerning the staffing and other financial commitments assumed by WHO.

41. The IEOAC noted that in relation to the endorsed policy on WHO Engagement with Global Health Partnerships and Hosting Arrangements (WHA63.10), the Board and Health Assembly had foreseen the use of "evaluation and sunset clauses" although, as yet, evaluations had still to be pursued. The IEOAC recommends the formal tasking of evaluations where needed. The IEOAC also recommends reviewing when possible the decision tree appended to the Policy on WHO Engagement with Global Health Partnerships and Hosting Arrangements (WHA63.10), to ensure that it has the rigour required to support the policy decisions contained in the paper. Finally, the ongoing broader WHO reform work should properly address the potential financial risks arising from partnership arrangements.

#### **ITEM 14 – ANY OTHER BUSINESS (AOB)**

42. The Committee decided on the dates of its three meetings for 2012, which would be held on 27–29 February, 2–3 July and 29–31 October. The first of these meetings would include an open opportunity for representatives of Member States to meet with the IEOAC, the details of which would be confirmed and announced by the Secretariat in advance.

**Graham Miller, Chairman**

**Marion Cowden, John Fox, H el ene Ploix, Veerathai Santiprabhob**

## Appendix 1

**INDEPENDENT EXPERT OVERSIGHT ADVISORY COMMITTEE****FIFTH SESSION, 7–9 NOVEMBER 2011****Monday 7 November 2011****Meeting room 8165 – 8th Floor**

1. 09:15–10:15 Welcome, followed by private session for IEOAC members only
2. 10:15–11:15 Administrative matters: confirmation of quorum; declarations of interest; adoption of the agenda; IEOAC pages on WHO web site; monitoring costs of the IEOAC; matters arising from the previous meeting not otherwise covered by the agenda (members' and Chairman's periods of office, arrangements for future meeting with Member States – with Comptroller FNM)  
  
11:15–11:30 Coffee break
3. 11:30–12:30 Update by FNM, to include:
  - IPSAS and related systems (including results of dry run exercise on physical inventory and discussion of options for moving to accruals-based budgeting – verbal update by Mr Hans Baritt, Chief Accountant)
  - Salary advances in WHO and AFRO (WHO correspondence with the Permanent Representative of Germany – update by the Comptroller)Document 3.1: PBAC update on personal advances to staff
  - Any developments in relation to the Comptrollership function and accountability (verbal update by ADG/GMG and presentation of the financial control framework by the Chief Accountant)

- Document 3.2: Presentation of the financial control framework
- 12:30–13:45 Lunch with Comptroller and Financial Policy & Governance Officer
4. 13:45–14:45 WHO reforms: briefing from the Secretariat on developments from the Special Session of the Executive Board 1–3 November 2011 as relevant to the IEOAC's remit.
- direct weblink to the relevant four Secretariat documents for the Special Session
- (Documents EBSS/2/1; EBSS/2/2; EBSS/2/INF.DOC./1; and EBSS/2/INF.DOC./2)
5. 14:45–15:45 Treasury/currency risk management/hedging: to cover update by the Comptroller and Coordinator TSY on the currency risk management and formulation of recommendations for the IEOAC's annual report to PBAC15 in January 2012
- Document 5.1: Note on currency risk management
- Document 5.2: Summary of progress on the 2012 payroll currency hedging programme
- 15:45–16:00 Coffee break
6. 16:00–17:00 WHO Staff Health Insurance Fund management and oversight:
- Presentation by Ms Claude Hennetier, Coordinator IPS
- Document 6.1: Overview of the SHI Fund
- Document 6.2: Report by PWC on the governance structure of the SHI Fund
7. 17:00–18:00 Enterprise Risk Management: Presentation by ADG/GMG and Ms Nicole Krueger, Management Officer
- Document 7.1: ERM Presentation
- Document 7.2: Revised WHO risk register
- Document 7.3: Terms of reference for the role of Risk Owner

## Tuesday 8 November 2011

### Meeting room India

8. 09:00–10:00 External Audit matters: Presentation by Ms Meera Swarup, Director, External Audit and Mr Hans Baritt, Chief Accountant (to include

- progress/developments and outputs since last IEOAC meeting; and status of response/implementation of current audit recommendations)
- Document 8.1: External Audit status report by Director External Audit
- Document 8.2: Demonstration by the Chief Accountant of the external audit tracking system
9. 10:00–11:30 Internal Oversight Services matters: Presentation by Mr David Webb, Director, IOS, which is to include:
- Internal audit – progress against IOS workplan and outputs since last IEOAC meeting; IOS key performance indicators; monitoring and follow-up on status of response/implementation of open audit recommendations
  - Investigations – developments since last IEOAC meeting; confidential summary briefing on new cases; outcomes for cases closed;
  - Evaluations: progress/developments since last IEOAC meeting.
- Document 9.1: Recommendations tracking dashboard
- Document 9.2: Report of the Office of Internal Oversight Services to EB130 (document EBPBAC15/3)
- 11:30–11:45 Coffee break
10. 12:00–14:00 IEOAC members will meet with WHO Heads of Country Offices (WCOs): Presentation by the Chairman IEOAC to the WCOs:
- Document 10.1: Provisional programme of the Sixth Global Meeting of Heads of WHO Country Offices
11. 14:00–14:45 Review of progress/response in relation to IEOAC recommendations: Verbal update and discussion
- 12a. 14:45–15:45 Review of IEOAC Terms of Reference (under paragraph 5d of IEOAC Terms of Reference).
- 15:45–16:00 Coffee break
- 12b. 16.00–16.30 Review of the IEOAC’s performance
13. 16:30–17:30 Partnership and related hosting issues: governance, and cost to WHO
14. 17:30–18:00 AOB

**Wednesday 9 November 2011**

**Meeting room India**

15. 09:00–10:00 Exchange with WHO Management, including topics for next IEOAC meeting, dates for 2012
16. 10:00– end of day Consideration of IEOAC annual/meeting report

## Appendix 2

### **IEOAC RECOMMENDATIONS TO DATE**

The IEOAC's reports and outputs are posted on WHO's public web site in the section on Governance.

As an aid to accountability, this schedule provides a convenient, chronological reference to recommendations that have been incorporated in the IEOAC's reports of meetings.

IEOAC reports offer specific suggestions by way of direction and advice to the Organization and the Secretariat (consistent with the Committee's mandate); and also include formal recommendations. This schedule sets out key aspects of focused suggestions and advice, as well as the formal recommendations made by the IEOAC.

The Committee periodically monitors with management the response to its formal recommendations, with a view to including appropriate commentary in IEOAC's regular reporting to the PBAC and Executive Board.

### **(FIRST) ANNUAL REPORT OF THE IEOAC, FOR 2010 (DOCUMENT EBPBAC 13/3, 29 DECEMBER 2010)**

#### **In relation to Financial management**

(Paragraph 9) WHO currently holds most of its liquid funds in cash or short-term deposits *[and]* 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.

(Paragraph 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.

#### **In relation to Enterprise risk management**

(Paragraph 23) 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.

## REPORT OF THE IEOAC FROM ITS MEETING IN APRIL 2011 (DOCUMENT EBPBAC 14/3, 12 MAY 2011)

### In relation to the selection of WHO's External Auditors

(Paragraph 8) The terms of reference of the IEOAC do not provide a role in the evaluation of candidatures for the post of External Auditor. However, oversight of the audit process is key to the Committee's responsibilities, while the Committee's independence, objectivity and expert nature place it in a good position to provide advice to Member States on this professional, technical appointment.

**Recommendation** (Paragraph 12) We therefore **recommend** that the Director-General request the new External Auditor to provide a letter of engagement for signature by both parties to confirm the terms and nature of the *[External Auditor's]* appointment.

### In relation to Investment, income and cash management

(Paragraph 16) We believe that WHO could benefit from managing its foreign currency exposure in a more flexible manner, keeping in view changes and trends in the market, and hedging over a shorter period. We consider that WHO might usefully look to hedge its mismatched operational expenses over the forward three to six months.

(Paragraph 17) We suggest that WHO consider (i) extending its present activity in addressing foreign exchange issues, to engage the Investment Advisory Committee regularly on foreign exchange management, and (ii) preparing the Organization to accept a certain degree of potential foreign exchange loss as a cost for insuring against current mismatching.

### In relation to Financial planning, budgeting and budget control

(Paragraph 21) The Committee believes that there is a need to move away from budgeting essentially for what WHO already does and to move towards the concept of budgeting for what WHO will need to do in the future, which might be quite different in many areas of its mandate.

(Paragraph 23) The Committee considers that the current control relationship between regional, country-level and programme finance officers on the one hand, and the Department of Finance on the other, needs to be better defined in favour of securing an improved and more effective corporate financial control framework. The Department of Finance needs to be even more involved in tackling common financial compliance problems at the country, regional and programme levels, in partnership with the respective line management.

(Paragraph 24) We support the recommendation made by the External Auditor of revising the authority of the Comptroller to establish a more influential relationship for headquarters with the regional, country-level and programme finance officers.

### In relation to Enterprise risk management

(Paragraph 25) *[WHO's implementation of enterprise risk management]* remains extremely limited in corporate governance and operational terms *[and]* WHO's strategic risks are not yet being identified and managed in a corporate fashion.

(Paragraph 26) It would be helpful for the Director-General, perhaps with the assistance of the Office of Internal Oversight Services, to arrange briefing seminars on risk management, especially for senior-level staff, so that there is a shared understanding throughout the Secretariat on how to implement the concept of risk management.

**Recommendation** (Paragraph 27) We **recommend** that the risk management arrangements be extended to the strategic and corporate level with the minimum delay. We would like to stress that the risk identification process, while it should obviously be led and driven forward by the Director-General, also needs to be shared with WHO's membership and main stakeholders, in particular its governing bodies, so that the latter can take ownership of it and thus arrive at a consensus on the main risks the Organization is facing, which alone can guarantee stability for implementation of enterprise risk management.

### **In relation to External Audit**

(Paragraph 29) We have noted that a stronger system for the management tracking of recommendations would be welcome and increase both accountability and impact.

### **In relation to Financial reporting and the transition to IPSAS**

(Paragraph 30) An improved internal control framework still needs to be set up in a more formal manner in WHO.

(Paragraph 34) We are of the opinion that it would be beneficial if WHO stepped up its communication efforts concerning IPSAS adoption with regard to its membership and major donors, so as to obtain their proactive support and make clearer the related costs and risks.

(Paragraph 36) We consider that the annual financial reporting against budget required under IPSAS and the establishment of a new Statement on Internal Control to accompany the annual financial statements (with its accompanying supporting procedures and certification at different levels of the management structure) would be beneficial.

### **In relation to Internal oversight**

(Paragraph 39) We consider that *[a formal evaluation policy]* should cover all parts of the Organization, including hosted partnerships and programmes with a special governance structure. It should emanate from the top and be issued by the Director-General.

(Paragraph 41) The IEOAC shares the perception that at current resource levels, coverage by the Office of Internal Oversight Services of WHO's field offices is not broad enough.

### **In relation to The Global Management System and related information and communication technology issues**

(Paragraph 46) There is a lack of alignment between the business process and the current organizational entities *[and]* the organizational "silos" in charge of a particular functionality tend to take precedence over the end-to-end workflow aspects of the System, which can give rise to business



process inefficiencies and control issues at a corporate level. Structural changes need to be considered to better align management processes, in particular to enhance the effectiveness of controls.

(Paragraph 49) We agree that it is important to refrain from further customization or enhancement [*of the basic Oracle functionality*] and that the level of customization should be reduced as much as possible to facilitate the opportunity to migrate in due course to an upgraded platform (or an alternative solution) without excessive costs.

(Paragraph 51) [*While the Department of Information Technology and Telecommunications is responsible for System hosting, it does not have ownership of the GSM which is the responsibility of the whole Organization, and*] we suggest that a revised governance structure might be considered for the future development of the Global Management System.

**Recommendation** (Paragraph 52) We **recommend** that WHO consider including in its reform agenda a project to review and focus its internal control processes and procedures on critical issues, in order to deliver the increased transparency and harmonized business processes envisaged under the Global Management System within what we see as a still-needed enhancement of accountability in structures and practice. This might be crucial for the coming upgrade of the System as well as for the medium-term reform of the Organization.

### **In relation to the Director-General's reform agenda for WHO**

(Paragraph 61) We wonder whether – in keeping with the reform agenda – WHO would do well to better articulate its role in line with its unique mandate in the normative areas of standard setting and coordination in public health. WHO's communication function appears to be in need of recentralization to some degree, towards a more corporate communications approach.

### **In relation to internal control and accountability generally**

(Paragraph 62) We consider that WHO has progress to make in delineating a sufficiently clear and fully integrated internal control framework that encompasses the definition of essential key controls; with effective, standard operating procedures to ensure this; and with a corporate hierarchy of control responsibilities. We consider that this is one of the most important aspects for the Organization to address, and have made a number of suggestions to this end. There may also be benefit in setting up a working party to create this framework, with participation from the Comptroller's office, the Office of Internal Oversight Services and the External Auditor.

(Paragraph 63) In order to make accountability effective, the Organization needs to define effective measures and indicators at the operational level beyond simply monitoring expenditure against budget. Annual work planning and reporting may help in this respect.

## **REPORT OF THE IEOAC FROM ITS MEETING IN JULY 2011**

### **In relation to Treasury management**

(Paragraph 9) The Committee supported the management proposal to make use of hedging for the next biennium using forward currency purchase contracts, to be phased in during the remainder of 2011.

The IEOAC suggested that management consider hedging no more than 12 months in advance at any time; and *[that management should]* investigate introducing an annual budgetary adjustment mechanism to protect against longer-dated currency exposures.

**Recommendation** (Paragraph 9) The IEOAC **recommended** that the Organization might also consider hedging some of its larger exotic currency exposures (the Malaysian ringgit, Egyptian pound, Indian rupee and Philippine peso) which together comprise an estimated 13% of regular budget currency exposures.

**Recommendation** (Paragraph 9) The Committee **also recommended** that the Organization should now consider purchasing forward its remaining 2011 Swiss franc requirements, to protect against the risk of a further fall in the value of the US\$ dollar.

### **In relation to IPSAS**

(Paragraph 15) The IEOAC questioned whether, once WHO was operating under IPSAS, the Organization intended a transition to accrual-based budgeting. This would enable WHO to realize the full benefits of IPSAS-based accounting and financial reporting, for example to ensure the provision of adequate reserves for major capital investments such as building renovation, which had not been addressed under UNSAS arrangements.

### **In relation to Audit tracking**

(Paragraph 22) The Committee advised management that professional auditing standards provided for the process of an engagement letter as a matter of good practice, including confirmation that the external audit would be carried out in accordance with international standards and requirements.

(Paragraph 22) The Committee also advised the Secretariat on the standard audit practice requirement for a Letter of Representation to the External Auditor signed by the Director-General.

**Recommendation** (Paragraph 22) The Committee **recommended** that consideration be given at an appropriate point to issuing an annual, published statement on internal control by the Director-General, to accompany the Organization's financial statements, once compliance with IPSAS was achieved.

### **In relation to Internal Oversight matters and IOS resources**

(Paragraphs 27 and 28) In the IEOAC's view, an underlying factor in the persistence of funding challenges lies in the difficulty of adapting the level of a politically-established programme support cost arrangement which has become inadequate to fund the related overheads that it is intended to cover: perhaps exacerbated by the way in which WHO structures its budget for strategic objectives 12 and 13. WHO may need to recognize that its existing funding model was no longer viable, and view the financing of overheads as less of a funding issue and more *[a matter]* of redistribution of income.

(Paragraph 29) WHO might distribute the budgetary provision for support functions to the remaining core objectives of the Organization, which would then be funded through deduction of a corresponding percentage from incoming donor contributions, on the model of the present Post Occupancy Charge.

### **In relationship to WHO's Comptrollership function and spending control**

(Paragraphs 33 and 34) Some IEOAC members felt that there appeared to be a lack of matching between income and budget, arising from a lack of adequate, structured income planning, since cash flow is not being managed at the right level. Arrangements in WHO are still not consistent with the authority and control exercised by a typical chief financial officer in many other organizations.

(Paragraph 35) The IEOAC considered that corporate cost-cutting decisions were normally taken at too high a level and often in an across-the-board manner, so that potentially adverse implications on programme management are difficult to ascertain. Reporting to Member States on results omitted the most important aspect of the costs required to achieve them, since cost reporting was only carried out at the very high level of WHO's Strategic Objectives. The Comptroller does not have adequate cash flow forecasting information on how expenditure and income are matched and will be matched at the operational level. This analysis should be carried out on a monthly basis at the minimum.

**Recommendation** (Paragraph 36) Noting that income forecasting may not be robust enough to ensure that expected income will prove to be sufficient in the face of currency fluctuations and cost increases, The IEOAC **recommended** that consideration be given to requesting individual budget centre managers to submit regular monthly forecasts of expenditure and income, for review by FNM and/or PRP, with subsequent aggregation for review and decision making by the Director-General's Office.

= = =