

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

ANNEX

**THIRD ANNUAL REPORT  
OF THE INDEPENDENT EXPERT OVERSIGHT ADVISORY COMMITTEE  
(IEOAC) TO THE EIGHTEENTH SESSION OF THE PROGRAMME, BUDGET AND  
ADMINISTRATION COMMITTEE (PBAC) OF THE WHO EXECUTIVE BOARD**

**MAY 2013**

**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 (appended to this report) to advise the Programme, Budget and Administration Committee, and through it the Executive Board, on matters within its mandate which include:

- review of WHO's financial statements, financial reporting and accounting policies
- provision of advice on the adequacy of 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 current members of the Independent Expert Oversight Advisory Committee, appointed by the Executive Board in January 2010 under decision EB126(1), are: Ms Marion Cowden (Chairman, IEOAC), Mr John Fox, and Mr Veerathai Santiprabhob. They were joined by Ms Mary N'Cube, appointed by the Executive Board in May 2012 under decision EB131(4) and Mr Farid Lahoud, appointed by the Executive Board in January 2013 under decision EB132(2).

3. This report is the third annual report of the Independent Expert Oversight Advisory Committee to the Programme, Budget and Administration Committee (PBAC), and summarizes progress achieved in the Committee's work during 2012 and the first few months of 2013.

**IEOAC MEETINGS DURING 2012 AND 2013 SINCE THE LAST ANNUAL REPORT**

4. The IEOAC held its seventh, eighth and ninth sessions on 2–4 July 2012, 5–7 November 2012, and 18–20 March 2013, respectively, with an agenda covering all areas of the Committee's mandate, including, budgeting and budgetary control, enterprise risk management, internal control, external audit matters, accountability issues, International Public Sector Accounting Standards (IPSAS) and the annual financial statements of WHO, the Global Management System (GSM), internal oversight matters (including internal audit, investigation and evaluation), partnerships, management and administration cost recovery, leadership training and development, and WHO reform. In accordance with good practice, the Committee at each session met privately with the representative of the External Auditor and the Director of Internal Oversight Services (IOS).

5. The IEOAC is scheduled to hold two further meetings in 2013, on July 3–5 and October 14–16.

6. Our report to the seventeenth session of the PBAC<sup>1</sup> covered the items considered during the July and November 2012 meetings and contained our recommendations relating thereto. This report highlights our observations relating to those matters which are ongoing or where the item was a key consideration during the March 2013 meeting.

7. We met with Member State representatives during our meetings in November 2012 and March 2013, providing opportunities for those representatives to raise issues of interest to them with the Committee.

### **WHO reform**

8. The Committee received briefings on the progress with the WHO reform process and was pleased to note that there is now evidence of more formal planning and that this information is accessible. Planning information and the implementation plan are now available on a dedicated web site. Target dates (year only) are now included and we expect that further refinement will become apparent as the process proceeds. However, the Committee observed that reform initiatives in some areas (e.g., financing and human resources) have focused on processes rather than expected outcomes. The Committee urges the Secretariat to develop a detailed view of the desired outcomes of the reform (e.g., structure of the new financing model, new human resources model) and ensure that the reform initiatives progress in the desired direction. The Committee also encourages the Secretariat to explore possibilities to introduce tangible rewards and punishments to the extent possible, into its work culture and incentive structure with a view to enhancing managerial accountability for results and efficient on-the-ground controls thus developing WHO as a results-based organization.

9. The Committee noted that a role has been assigned to it in the process, namely to review the reform implementation. We are appreciative of this inclusion but note, with caution, that with only three meetings per annum, the timing of reviews may be problematic if they are to be meaningful and not slow down the reform process. In instances when Committee review of reform proposals is not possible prior to action on them by PBAC and/or the Executive Board, the Committee still might have a useful role to play by reviewing implementation of the proposals for the purpose of making recommendations as appropriate.

10. We received a briefing on preparation for the financing dialogue and noted the importance of this exercise for the reform implementation. The IEOAC plans to meet in July shortly after the first dialogue and examine the outcome to consider possible advice that could be of assistance in making arrangements for the second dialogue in October. The Committee's planned meeting in October will overlap with the second dialogue meeting, which will allow the Committee to have first-hand observation of the dialogue on which to base further advice as may be appropriate.

11. In the wider context of reform our comments elsewhere in this report on enterprise risk management and the review of administration and management costs are relevant.

### **WHO programme budget and general programme of work**

12. The Committee is pleased to note the significant advances that have been made in the budget process over the past two or three years including setting priorities and assigning realistic budgets. We noted evidence of an intent to have a real budget (as distinct from the aspirational document presented

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<sup>1</sup> Document EBPBAC17/5.

in the past). This means that the budget document has greater potential to serve the important role of a budget as an effective control over the operations and expenditure of the Organization. In this regard, the Committee may examine the extent to which the budget, as formulated, could serve as a more effective control instrument if it were to contain more information. Recognizing that WHO budgets for Country and Regional Offices are still estimates and that detail from those offices is developed in the operational plan, it is recommended that input from that level be included at an earlier stage in the process to enhance the reality of the numbers.

13. In addition, the Committee was pleased to see the plan to cap the level of voluntary contributions, which goes a long way towards promoting budgetary discipline, recognizing the limits to capacity within the Secretariat and stemming the practice of introducing ever-increasing long-term liabilities from burgeoning staff numbers employed with short-duration voluntary contributions.

### Changes to the WHO Financial Regulations and Rules

14. We reviewed the proposed changes to the Financial Regulations and Rules, provided advice on those changes and noted that the proposal being put in front of PBAC is for minimal change to support the changes to the budget process. We recommend that when these changes have been approved and are in place and experience is gained, WHO undertakes a more thorough review from first principles taking account of the impact of IPSAS, budget changes and the financing dialogue.

### PriceWaterhouseCoopers Review of Management and Administration Costs

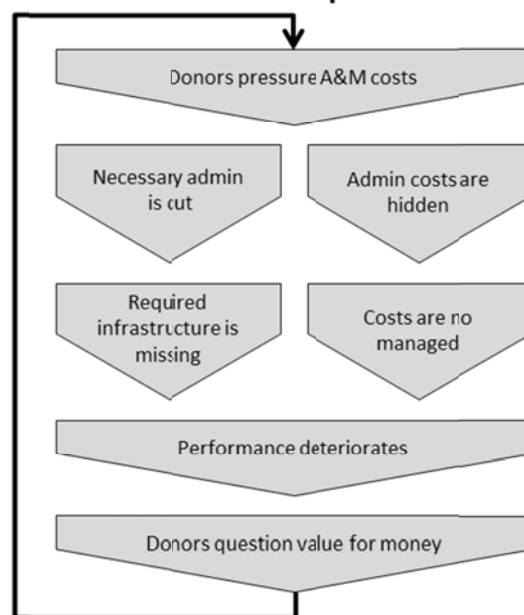
15. The Committee received briefings on the work done by PriceWaterhouseCoopers at its November meeting and again when it met in March. The report produced for the Governing Bodies identifies options for addressing the cross-subsidization issues and for cost-recovery.

16. PWC have identified a total of around US\$ 812 million in management and administration costs and illustrated the spread of that among headquarters and the regions in the diagram on page 27 of their report. This is a useful identification of the scale and nature of management and administration costs and in particular we noted the graphs that show the decline in such costs within headquarters versus a much smaller scale of change elsewhere in the Organization (refer pages 28 to 31 of the PWC report).

17. We commend the findings to Member States and recommend your engagement, as soon as possible, in the debate to provide direction on selection of the appropriate option on which to base future cost recovery. The warning contained in the “Death Spiral” diagram on slide 8 of the presentation made to PBAC in January 2013 should be heeded (reproduced herein).

18. There are several pertinent observations in the presentation and the final report and we recommend follow-up and investigation of these.

**Fact: the A&M death spiral**



19. In particular we stress the need for an action plan that will address the weaknesses in cost control practices (slide 17 of the January presentation) and that will lead to the selection of a preferred cost recovery option, a detailed cost-cutting action plan, and recognition of the inherent extra management and administration costs that come with the country, regional and headquarters structure.

### **Financial statements and External Audit**

20. The Committee reviewed the draft financial statements prepared for the year ended 31 December 2012 and discussed them with the External Auditor though the External Auditor had not at that stage provided an opinion thereon. We were pleased to note that these are the first financial statements prepared under International Public Sector Accounting Standards (IPSAS), which appear better adapted to organizations such as WHO. Accordingly there are significant changes in presentation of certain classes of assets and liabilities and of revenue and expenditure items.

21. In particular we draw attention to the fact that the financial statements now reflect all the assets owned and used by the Organization in carrying out its work and unfunded liabilities are recorded to show the financial health of WHO.

22. Unfunded liabilities arising from previous hiring decisions (staff health insurance liabilities) are now explicitly reflected in the financial statements, highlighting the long-term liability implications of taking on extra staff when voluntary contributions were made available.

23. We noted the net assets position and the fact that unspent funds arising from voluntary contributions are earmarked and are therefore not fungible, which limits their consideration as Net Assets or Equity. We intend to review this item and any implications at our next meeting.

24. In our discussions with the External Auditor and with the Financial Controller we established that all points of difference had been resolved. We had not seen a draft of the Auditor's report at the time of our preparation of this report so are unable to comment on matters that may be raised therein other than to agree with the point raised with us on the need for a global inventory system. We support this recommendation.

25. We will review the financial statements again after their adoption by the Health Assembly when we meet in July and provide comment and advice on the policies and presentation if necessary. We will also look further then at the gap between the staff health insurance funding and the associated liability.

### **Internal oversight**

26. The Committee met with the Director of the Office Internal Oversight Services and noted that progress has been made in closing long-outstanding audit recommendations at WHO country offices. In this context it is of concern to note that while a recommendation may be closed in one country office it is highly likely to recur in the same or in another location in a subsequent audit report and that certain topics recur frequently in recommendations. We are concerned that significant weaknesses exist and that some may be becoming systemic. In 2010 the External Auditor recommended increasing the financial resources available to Internal Oversight. We recognize that increased resources have been made available but are not sure that the Internal Oversight function has a sufficient size and stature to effectively carry out, timely and Organization-wide audits. This matter will be further examined in our upcoming meeting.

27. We recommend that analysis be undertaken by the Secretariat to identify the significant recurring themes and assess what interventions might prove useful to remedy the underlying causes of

this situation. In this context, the analysis carried out by the Office of Internal Oversight Services to identify the best and worst performing offices by control area, may prove useful. Interventions might include training, recruiting for specific capability, increased use of the Global Service Centre, automation of controls in the Global Management System (GSM) and strengthened oversight from regional offices including sharing of best practices among country offices. A risk-based approach to intervention would target the country offices where the risks of control breakdown are highest. This is particularly important when we take account of the fact that the time between audit visits to any given office with current resources averages 17 years. We recommend that Regional Directors be more involved in reporting on progress as well as in strengthening back-office functions of country offices.

28. We regret that the External Auditor's Management Letters and the accompanying management replies thereon were not ready at the time of our meeting. They might have shed light on internal weaknesses, or provided us with adequate comfort, in time to be able to report to the PBAC before the Health Assembly.

### **Global Management System**

29. The Committee received an update on the progress of the software upgrade to the core system and noted that the upgraded system is expected to move into production in May 2013.

30. We further noted the increase in organizational capability arising from the investment in this system including increased productivity of Internal Oversight through desk audits and pre-field visit preparation. The wealth of accessible data within a single system made the PWC cost analysis possible. The system capabilities have not yet been fully exploited and we urge the Secretariat to continue to invest in improved capability.

31. The GSM is a global facility which appears to be appreciated by staff in regional and country offices. We recommend that it be further explored as a tool to reduce costs through elimination of duplication of effort in headquarters, regional and country offices and to deliver further benefits through increased internal control and reduction of risk. It is our view that further investment will enable inbuilt controls within the system to be used, thus improving compliance and management accountability.

32. The GSM is a good example of how interregional cooperation has enabled the development of a key management system that is benefiting the entire Organization at all three levels. We believe that this provides a model for other support areas such as information technology where fragmented systems and disparate equipment driven by regional investment decisions rather than Organization-wide solutions increase the probability of system breakdown, old and outdated equipment, poor performing e-mail services and poor response times. In addition, they lead to overall increased operating costs.

### **Enterprise risk management**

33. The Committee received an update on the development of the Enterprise Risk Management (ERM) System. This was followed by a presentation from the Assistant Director-General responsible for the pandemic programme illustrating risk management in action in a key area of WHO work. The ERM presentation indicated significant positive progress in the development of a top-level risk register implying vastly improved understanding of ERM and real commitment to moving this work forward. The Committee recommends that the Secretariat establish a timeline for developing the risk register as well as an action plan to roll out the ERM structure across the Organization.

**Marion Cowden (Chair), John Fox,  
Farid Lahoud, Mary N'Cube,  
Veerathai Santiprahbob**

## **APPENDICES**

### Appendix 1

#### **PROPOSED TOPICS FOR THE AGENDA OF THE MEETING OF THE IEOAC IN JULY 2013**

Outcome of the financing dialogue

Review of Financial statements, auditor's long form report and accounting policies

Review the External Auditor's "Management Letters" and the Management answers thereon

IEOAC self-evaluation

Reform implementation plan

Net assets and their link to voluntary contributions

Review of treasury operations

Progress on implementing previous IEOAC recommendations

Leadership development programme

Follow-up actions from the PWC study

Office of Internal Oversight Services remit, stature, and annual plan of work

External Auditor matters (remit and annual plan of work)

## Appendix 2

**REVISED TERMS OF REFERENCE OF THE INDEPENDENT EXPERT  
OVERSIGHT ADVISORY COMMITTEE<sup>1</sup>****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 audit, evaluation and investigation work as currently vested in its Office of Internal Oversight Services; its external audit function; and 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;
- (f) to review and report periodically on its own performance according to best professional practice in oversight committees and as per the principles recommended by the Joint Inspection Unit of the United Nations system; and
- (g) to prepare an annual report on its activities, conclusions, recommendations and, where necessary, interim reports, for submission to the Programme, Budget and Administration Committee of the Executive Board by the Chairman of the Independent Expert Oversight Advisory Committee.

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<sup>1</sup> Revised by the Executive Board at its 132nd session in resolution EB132.R12 and set out in the Annex thereto. See document EB132/2013/REC/1.



## 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.

(Twelfth meeting, 26 January 2013)

Appendix 3

**PREVIOUS REPORTS OF THE COMMITTEE TO PBAC**

January 2011 document EBPBAC13/3, dated 28 December 2010

May 2011 document EBPBAC14/3, dated 12 May 2011

January 2012 document EBPBAC15/4, dated 8 December 2011

May 2012 document EBPBAC16/3, dated 20 April 2012

January 2013 document EPBAC17/5, dated 7 December 2012

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