



WORLD HEALTH ORGANIZATION

**AUDIT COMMITTEE OF THE
EXECUTIVE BOARD**

**Seventh meeting
Provisional agenda item 2.2**

**EBAC7/3
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External audit strategic plan of work for the financial period 2002-2003

Report by the External Auditor

1. The External Auditor is pleased to present to the Audit Committee of the Executive Board salient facets of the external audit strategic plan of work for the financial period 2002-2003.
2. The Auditor-General of the Republic of South Africa was appointed as the External Auditor of WHO for the financial periods 2000-2001 and 2002-2003. The audit is performed in accordance with Regulation XIV of the Financial Regulations of WHO and the Additional terms of reference governing the External Audit, which are set out in the appendix thereto.
3. At the sixth meeting of the Audit Committee, the Report of the External Auditor on the financial operations of WHO for the financial period 2000-2001 was tabled. In the ensuing discussions several issues were highlighted that the Audit Committee wished to be considered in the strategic plan of work of the External Auditor in the current biennium. The purpose of this document is to inform the Audit Committee of the overall audit plans and strategic focus of the external audit for the financial period 2002-2003, including the specific added-value areas to be covered. It also forms the basis for any further input that the Audit Committee may have in respect of the external audit plans for the current financial period.

OVERALL AUDIT APPROACH FOR THE FINANCIAL PERIOD 2002-2003

4. In the external audit for the financial period 2002-2003, a comprehensive approach will be followed which integrates financial, compliance and value-added aspects. Furthermore, computer auditing will be included as an integral part of the process, providing support to, *inter alia*, the financial and compliance audit through reviews of general and application controls, as appropriate, and the performance of computer-assisted audit techniques.
5. A risk-based approach will be adopted to address the financial and compliance aspects of the audit. In this regard, the potential risks were evaluated during the strategic-planning phase of the audit and will continue to be so reviewed during the audit. The extent of testing to be performed will be based on the level of risk identified and on how reliable the internal control environment is felt to be.

6. In view of the Organization's intention to replace the Administration and Finance Information Support system, it is not considered effective to perform significant further testing of both the general and the application controls related to this system at present, and a transaction-oriented or substantive approach will therefore again be adopted. Through the independent process of systems development audit reviews, constructive inputs will be provided, as appropriate, on the audit and control requirements of the new system.

7. High priority is given to adding value through the external audit process. In this regard, specific areas where it would be appropriate and cost-effective for external audit to perform added-value reviews have been identified. Areas where external audit can make a positive contribution to the Organization will, however, be considered throughout the financial period in the light of developments in the Organization, the priorities of stakeholders, and international trends and best practices.

8. The audit is performed in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency.

AUDIT ACTIVITIES FOR THE FINANCIAL PERIOD 2002-2003

Strategic planning phase

9. The strategic planning phase of the audit is substantially complete, with this report to the Audit Committee being the final step. Several strategic decisions have been taken regarding the overall direction and focus of the audit. Such decisions draw considerably upon past audit experience and knowledge of the Organization. In addition, account was taken of the comments made by the members of the Audit Committee at its sixth meeting and by the Member States in their discussions on the Report of the External Auditor for the financial period 2000-2001.

10. While the External Auditor makes the final decisions on the nature, scope and extent of his audit work, it is important that the Secretariat's inputs also be considered during the strategic-planning phase. In this regard, the Auditor-General met the Director-General in July to discuss, *inter alia*, the overall direction of the audit and in particular those areas that might benefit from an added-value review. Furthermore, the Audit Steering Committee, at its meeting in July 2002, discussed elements of the strategic audit plan and the related scheduling in detail.

Executing the audit strategy

11. In the ensuing phases of the audit, the strategy will be executed. Decisions taken during the strategic-planning process will be continually reassessed and fine-tuned to ensure that the audit remains focused. Initial procedures performed will include documentation of the systems and/or updating of the existing system documentation, identification and evaluation of key controls and analytical review procedures aimed at gaining knowledge of accounts and balances. The performance of these procedures provides the opportunity to comment on the system processes and internal controls instituted, and on whether the Organization has efficiently and effectively managed its available resources.

12. Following these initial procedures, detailed tests of transactions in respect of both compliance and financial aspects will be performed. In selecting samples for testing, several factors are taken into account such as the assessed inherent risk, the genuineness of the transactions being tested, and how

reliable the controls are considered. Extensive use will be made of computer-assisted audit techniques and statistical sampling to ensure an efficient audit process.

13. The required timetable for completion of the financial report and the external audit thereon is arguably the heaviest in the United Nations system. In order to complete the audit within the required time limits and to reduce external audit activity during the Secretariat's busiest times, three audit visits to headquarters are scheduled during the financial period.

14. At the final audit, which is performed once the general ledger is closed at financial period end, detailed testing will be performed on the closing balances and the disclosures made in the financial statements. Once completed, the consolidated audit results will be evaluated to form the audit opinion on the financial statements.

Regional and country offices

15. All the regional offices, with the exception of the Regional Office for the Americas, will be visited at least once during the audit of the financial period under review. These audit visits are scheduled for 2003. In addition, some country offices will be visited during the financial period to provide further perspective to the audit process.

16. Owing to the integrated nature of the operation of the Regional Office for the Americas with those of PAHO and to avoid duplication, it is envisaged that reliance will continue to be placed on the audit work performed by the External Auditor of PAHO.

17. During the visits to regional and country offices, the adequacy and effectiveness of the system of internal controls will be reviewed and substantive testing will be performed on transactions for key areas of financial activity. The purpose is to ensure that budgetary and financial systems, together with the related transactions, comply with the Financial Regulations and the Financial Rules of WHO, are in line with the policies and guidelines, and provide reliable information in order to ensure the completeness and accuracy of the financial records.

Added-value work and focus areas

18. It is considered important to follow up the implementation of recommendations arising from added-value reviews done in prior financial periods in order to ensure a complete audit process. Follow-up reviews have therefore been planned in respect of:

- the general controls surrounding the Administration and Finance Information Support system at headquarters;
- the general information technology control environment at the Regional Office for Europe;
- treasury and cash management at headquarters;
- the internal audit function.

These follow-up reviews have already been scheduled and the results are expected to be available for the interim reporting period.

19. New areas for potential added-value reviews have also been identified after taking into account, *inter alia*, the priorities of the Member States and the Director-General, together with an assessment of risks facing the Organization. Specifically, these include:

- a computer audit on network security performed in the last quarter of 2002;
- an Organization-wide evaluation of the fellowship programme planned for early in the audit cycle;
- a review of progress in implementing the country focus initiative, to be performed later in the biennium to coincide with the visits to the regional and country offices;
- a review of extrabudgetary funds, including but not confined to the aspects of resource mobilization, the budgetary process, programming of extrabudgetary funds and related accountability. The scope and timing of this review will take into account the work Internal Audit intends to do in this area.

20. In the previous audit, some issues surrounding the internal control and management of local cost subsidies were highlighted, and the Secretariat is in the process of reviewing this area with a view to introducing improvements. The implementation of these revised procedures will be carefully considered in the course of the regularity audit to determine whether any further added-value work in this area is appropriate.

21. Human resources management has for some time now been identified as a potential area for added-value work. In view of the extensive reform in this area, it is considered appropriate that any such work only be done once the process of implementing the revised procedures has been completed. During the performance of audit procedures throughout the financial period, specific attention will be given to various human resources matters, although it is likely that an added-value review in this area will only be performed in the longer term.

Follow-up of audit findings from prior periods

22. The implementation of external audit recommendations made in prior periods will be tracked and reported to the Audit Committee. The actions will be verified at an appropriate time during the audit.

Reporting phase

23. On completion of each audit visit, the findings and recommendations arising from the audit will be raised in a management letter issued to the relevant Executive Director or Regional Director.

24. In the interests of timely and full reporting, an interim external audit report will be issued to the Fifty-sixth World Health Assembly on the audit work completed in respect of the first year of the biennium. However, no audit opinion will be expressed on the interim financial statements.

25. At financial period end, an audit opinion will be expressed on the biennial consolidated financial statements of WHO in the format approved by the United Nations Panel of External Auditors. A consolidated long-form report informing the Fifty-seventh World Health Assembly of the important matters arising from the audit will also be issued.

Additional auditing and reporting requirements

26. As in prior financial periods, separate management letters and audit opinions will be issued in respect of IARC, UNAIDS, the Trust Fund for the Special Programme for Research and Training in Tropical Diseases and the International Computing Centre, and on the annual accounts of the Onchocerciasis Control Programme in West Africa and the African Programme for Onchocerciasis Control.

27. At the request of the Secretariat, additional audit work will be performed during this financial period in order that a separate opinion may be expressed on the Trust Fund of the Iraq Programme. The cost of this additional work will be recovered from the Trust Fund.

28. It is envisaged that the External Auditor of UNDP and UNFPA will, as in prior periods, request letters of comfort in respect of the balances of these funds held in the accounts of WHO.

COMMUNICATION AND LIAISON

29. In order to ensure continuous and effective communication with WHO, an External Audit Manager is stationed at WHO headquarters. More formal communication with the Secretariat takes place through the Audit Steering Committee, which meets several times a year.

30. Contact with the Office of Internal Audit and Oversight has already been made to ensure that any duplication of work is avoided and that scheduling clashes are kept to a minimum. In addition, the plan of work of the Internal Auditor will be continually reviewed to identify those areas of work that relate to the objective and focus of the external audit mandate with a view to placing reliance thereon. As previously mentioned, a follow-up review of the internal audit function is also scheduled for this biennium.

EXTERNAL AUDIT RESOURCES

31. About 12 800 audit hours are planned for the audit of the 2002-2003 biennium (excluding IARC, UNAIDS and the International Computing Centre), some 80% of which are devoted to the comprehensive audit, 15% to the added-value and specialist reviews, and 5% to governing bodies and liaison. About 25% of the total hours are allocated to *in loco* visits to regional and country offices. In determining the hours allocated to such visits, a balance is sought between ensuring appropriate audit coverage with the cost-effectiveness of the audit as a whole.

32. The audit is personally supervised by the Auditor-General and his Deputy. The core audit team consists of senior managers and audit staff from a dedicated international auditing component. The core team is supplemented by staff drawn from a pool of auditors selected from across the Office of the Auditor-General of South Africa. If considered necessary, specialist skills are contracted in. It is therefore possible to ensure that the audit teams comprise the appropriate mix of skills, competences and experience.

CONCLUDING REMARKS

33. Members of the Audit Committee are invited to take note of and comment on the external audit plans for the financial period 2002-2003.

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